



Task Force on Climate-Related Financial Disclosures (TCFD) Report for Nest's investments 2025/26

October 2026





The data and modelling presented in this report have been obtained from third parties including external providers and the investment managers of each portfolio. The draft report was shared with them for verification prior to publication. Nest Corporation assumes no responsibility for the accuracy of the data.

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Foreword from the Chair



Nest Corporation, as Trustee of the Nest Scheme, believes that climate change is one of the world's biggest challenges, posing a significant threat not just to the environment but to social and economic stability. Both the physical impacts of rising global temperatures, such as more frequent extreme weather events, and the economic impacts of transitioning to a low-carbon economy will affect the investments we make on behalf of our members. Climate change risks could impact our members through lower returns on their retirement savings and a lower quality of life in retirement. If we do not take these risks into account in our investment strategy, they could threaten our goal to build financial peace of mind for all.

It is important that Scheme members and other stakeholders have transparency around how we are considering climate-related risks and opportunities within the investments we make on behalf of our members.

In this report, we share our progress during the 2025/26 financial year, which ran from 1 April 2025 to 31 March 2026. This report supplements the summary in our [Scheme annual report and accounts](#) for 2025/26. It details how the Board considers climate change in its governance and investment decision-making, as well as the metrics and targets we use to track progress.

Our objectives

In 2020, we set an ambition to align our investment portfolio with limiting global warming to 1.5°C by achieving net zero emissions across our portfolio by 2050 at the latest. This is aligned with the commitment made by governments across the world through the Paris Agreement and is consistent with the UK's legislated target of net zero emissions by 2050.

In the last year, we have seen further backtracking on net zero commitments from international governments and companies. Our approach to climate change, including our [Climate change policy](#), therefore recognises the role of investors like Nest in the transition, and the importance of asset owners focusing on achieving real-world outcomes through stewardship and policy engagement. To this end, we updated our [voting and engagement guidelines](#) this year to reflect that we may vote against the Board chair where a company has weakened its climate commitments.

We manage climate-related risks and opportunities through five distinct areas of the investment process:



We believe that these are all crucial elements of our toolkit. Some levers may be better suited to addressing particular issues, and which levers we use may also change over time. For example, data on physical climate risk is still developing, and we do not believe it is yet sufficiently robust to inform asset allocation decisions across our portfolio. In the short- to medium term, we will therefore primarily aim to address physical climate risks through stewardship and policy engagement.

Our progress

Throughout the year, we have made progress on managing climate change risk. This includes the following milestones:

- › Since March 2025, the Scope 1 and 2 carbon footprint of our listed equity and fixed income funds, in scope of our decarbonisation objective, has fallen by 6%. This means that we have achieved a 74% reduction for these funds since 2019. Around 53% of our portfolio has a decarbonisation target.
- › Over the past year, the Scope 1 and 2 carbon footprint of our climate aware equity allocation, which makes up around half of our default fund and has a target annual decarbonisation rate of 7%, has reduced by 1%. The pace of decarbonisation has slowed as the strategy has matured and the make-up of the portfolio has increasingly tilted towards lower-emitting companies for which incremental reductions become more challenging. Over the longer term, the portfolio has made good progress with a 51% reduction in its carbon intensity since 2019, ahead of its target for a 50% reduction by 2030, though we are cognisant that these outcomes remain dependent on the underlying manager data, methodologies, and third-party climate modelling assumptions.
- › Alongside emissions reductions, we report on portfolio alignment by measuring the percentage of holdings that have [Science Based Targets Initiative](#) (SBTi)¹ approved decarbonisation targets. 30% of assets in our default Retirement Date Funds now have an SBTi-approved target, up from 25% last year.
- › This year, we achieved our ambition to invest £1.4bn in renewable energy infrastructure, ahead of the target year of 2030.
- › We [committed](#) £200m to a next-generation climate technologies strategy through a partnership with global infrastructure specialist IFM Investors. Through this mandate, Nest will support innovative projects and companies that are believed to be well positioned to benefit from the transition to a low-carbon economy.

¹ The SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). Companies submit their decarbonisation targets to SBTi for validation based on sector-specific science-based criteria.

- › We [appointed](#) BTG Pactual Timberland Investment Group to manage our second investment in timberland. Well-managed commercial forests make an important contribution to carbon sequestration, and we will start reporting on this in future years.
- › Alongside one of our fund managers, we worked on a project to identify exposure to climate solutions in our existing private equity mandate. More details can be found in [this case study](#).
- › We published a [position paper](#) outlining our approach to mitigating nature risk in our portfolio. We are cognisant of the relationship between reducing risks to nature and climate change mitigation. Deforestation, for example, is a priority for our nature work and we know that reducing forest loss is a critical step to conserving carbon sequestration capacity globally.
- › We continued our stewardship activities. We have embedded our nature stewardship programme, having joined the Institutional Investors Group on Climate Change's (IIGCC) Deforestation Investor Group and ShareAction's Pesticides Working Group. We have also continued our engagements with banks – encouraging the upkeep of ambitious climate and transition lending targets – and the energy sectors. You can read more about our stewardship activities in our [Responsible investment report](#).
- › We continued our work with industry and policymakers. In the UK, we [responded](#) to government consultations on corporate reporting standards, supporting the adoption of mandatory transition plan requirements and the alignment of UK Sustainability Reporting Standards with the international frameworks. In Europe, we co-signed [a letter](#) to the European Commission, urging the preservation of the EU Methane Emissions Regulation. We have also [supported](#) an initiative of the United Nations Environmental Programme, which advocates for higher standards on methane emissions management across the steel value chain.

Looking ahead

This was another challenging year for global climate action. The past three years (2023-2025) have been the warmest on record and we continue to see the ramifications of a warming world in the tragic loss of life and billions of pounds' worth of damage from extreme weather events. In the UK, a succession of heatwaves contributed to the warmest summer on record in 2025, disrupting infrastructure, increasing health risks and illustrating the growing vulnerability of communities to climate-related extremes. Geopolitical tensions and fiscal pressures have led to some governments and corporates walking away from their net zero commitments. Despite these headwinds, there were some positive developments, with global energy transition investment reaching \$2.3tn, an 8% increase year over year.²

For pension funds like Nest, these developments demonstrate the risks and opportunities presented by climate change. We believe our approach remains appropriate and proportionate in light of current information, market practice and available data. While we are comfortable with the progress that we have made so far, we are cognisant of the external pressures that are beyond our control but may nonetheless increase the climate risk to which our portfolio is exposed. We will continue to use our voice in the market to advocate for practices – both in the real economy and amongst financial market actors – that could help to mitigate the risks that climate change poses to our portfolio and the returns we generate for our members.

We look forward to continuing to report on our progress in next year's report.



Brendan McCafferty
Chair, Nest Corporation

9 September 2026

² [BloombergNEF Finds Global Energy Transition Investment Reached Record \\$2.3 Trillion in 2025, Up 8% from 2024 | BloombergNEF](#)

Introduction

The warming of the planet caused by greenhouse gas (GHG) emissions poses serious risks to the global economy and is likely to impact many of the sectors in which the Nest Scheme invests. Most of our members will be invested in the Scheme for decades. Over that time, climate-related risks and opportunities are likely to increase and have an increasing impact on members' pension savings. As Trustee of the Scheme, Nest Corporation considers climate change as a key part of our fiduciary duty to members. For this reason, we have embedded climate-related risks and opportunities into our investment strategy.

It is important to the Trustee that Scheme members and other stakeholders have transparency around how we are considering climate-related risks and opportunities. To support this, we report annually on our progress against our [Climate change policy](#) in line with the recommendations of the [Task Force on Climate-related Financial Disclosures \(TCFD\)](#) framework.

The TCFD was set up by the Financial Stability Board to improve and increase reporting of climate-related financial information. It recommends that all organisations, including those in the financial sector, provide climate-related financial disclosures in their mainstream annual report and accounts. Although the TCFD fulfilled its remit and was disbanded in 2023, its recommendations have been incorporated into the International Financial Reporting Standards (IFRS) Foundation's climate-related disclosure standards (the IFRS S2 Standard on Climate-related disclosures).

In line with these recommendations, this accompanying document to the [Scheme annual report and accounts](#) is structured into four sections corresponding to the four thematic areas of the TCFD framework:

- Section 1: Governance - 'Governance' describes the governance of climate-related risks and opportunities, including the oversight by the Trustee and the day-to-day management of these risks.
- Section 2: Strategy - 'Strategy', covers the climate-related risks and opportunities that we have identified over different time horizons and the impact they could have on the Scheme.
- Section 3: Risk management - 'Risk management' discusses how we identify, assess, and manage climate-related risks and opportunities.
- Section 4: Metrics and targets - 'Metrics and targets', discloses the metrics and targets we use to manage and monitor climate-related risks and opportunities across the Scheme's portfolios.

This report covers our activities during the 2025/26 financial year, which ran from 1 April 2025 to 31 March 2026, to address and manage climate-related risks and opportunities in our investment strategy. Further information on our broader responsible investment activities can be found in our [2025/26 Responsible investment report](#) and on [our website](#). Further information on our operational carbon footprint and environmental activities can be found in the [Corporation annual report and accounts](#) for 2025/26.

Section 1: Governance



Governance

The Board's oversight of relevant climate-related risks and opportunities

Nest Corporation Governing Board

Nest, the National Employment Savings Trust, was established by the UK government in 2010 to support the introduction of auto enrolment into workplace pensions. The Nest Scheme is run as a master trust by Nest Corporation with the purpose of providing pensions and other benefits to Scheme members.

The Scheme has one Trustee: Nest Corporation. The Trustee is a public corporation. The Nest Corporation Governing Board, or the Nest Board, is responsible for setting and overseeing the strategic direction of Nest. The Nest Board meets approximately 8 times a year and comprises 15 Board members: 13 non-executive members and two executive members, Nest Corporation's Chief Executive Officer, Ian Cornelius, and Chief Financial Officer, Louise Fitzgerald.

The Nest Board maintains oversight of climate-related risks and opportunities through its responsibility for the Scheme's investment policy and strategy. Our duty to serve every employer with auto enrolment duties, and their workers, is set out in the [Nest Order and Rules](#) as a public service obligation. The Nest Order gives the Nest Board the sole power to invest the Scheme's assets. In addition, the Nest Rules confirm that the composition of the underlying investments attributed to each investment fund shall be determined by the Nest Board. The Nest Board cannot delegate responsibility for setting the investment strategy. However, it does delegate certain investment decisions to the Nest Invest Board (NIB), as outlined further below.

Time, resources and reporting

The Nest Board receives regular updates from Nest Invest, including on the management of climate-related risks and opportunities. The Nest Board also undertakes periodic training in relation to Scheme governance and Board members' knowledge and understanding. New members receive training on our responsible investment activities, including our approach to climate change, as part of their induction. The Nest Board's most recent training session on climate-related risks took place in October 2025.

The allocation of time and resources reflects the Board's broader remit and NIB's specific role in overseeing certain investment matters. These allocations are kept under review as our understanding of the nature, likelihood and potential impact of climate-related risks and opportunities continues to evolve, informed also by the activities described in this report.

Oversight of those undertaking or assisting with governance of relevant climate-related risks and opportunities

Nest Invest Governance Framework

Nest Invest Ltd, a wholly owned subsidiary of Nest Corporation, was authorised by the Financial Conduct Authority (FCA) as an Occupational Pension Scheme firm in January 2020.

Nest Invest's relationship with Nest Corporation is governed by an investment management agreement (IMA), under which Nest Invest provides investment management and other investment services to Nest Corporation.

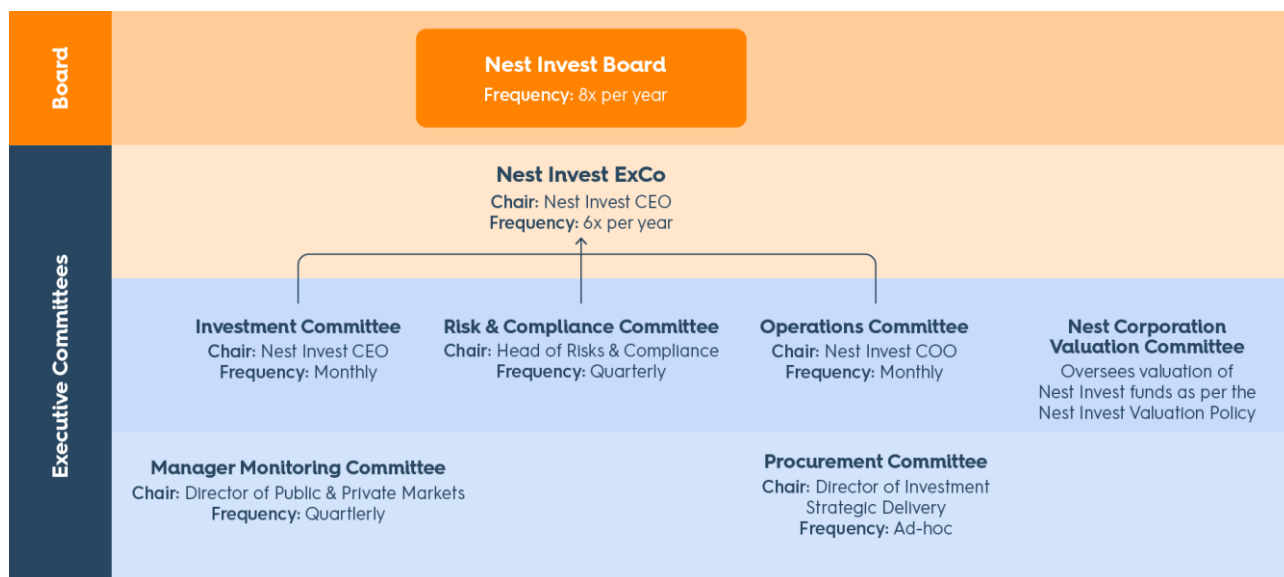
Under the schedules to the IMA, Nest Invest undertakes to:

- › Provide advice, recommendations, and assistance to Nest in relation to environmental, social, and governance (ESG) issues, responsible investment, and active ownership. This includes advice, recommendations, and assistance around the management of climate-related risks and opportunities.
- › Comply with and seek to give effect to our policies on responsible investment and other similar policies, including our climate change risk policy.

- › Focus on the objective of maintaining the Trustee's reputation with stakeholders and the media as a high-quality responsible investor.

During the 2025/26 scheme year, the Nest Invest governance model was updated. The governance framework described below came into effect on 1 October 2025. Details of the previous governance model can be found in the [2024/25 TCFD report](#).

Figure 1: Nest Invest Governance Framework (effective from October 2025)



Nest Invest Board (NIB)

The NIB is the governing body of Nest Invest Ltd. Its primary function is to oversee the running of Nest Invest and ensure its delivery of the investment management services outlined in the IMA and its regulatory obligations.

The NIB has nine members, two of whom are Nest executives, and seven are non-executive members who are subject matter experts. The NIB retains the powers relating to, and responsibility for the approval of Nest Invest's strategic investment policies, including the Strategic Responsible Investment policy.

The NIB also reviews and makes recommendations to the Nest Board on topics including:

- › Our investment objectives, beliefs and related investment strategy, and any proposed changes.
- › The approval of the [Statement of investment principles](#) (SIP).
- › Any additions to, changes to objectives, or deletions of fund choices.
- › Any required changes to the body of the investment management agreement with Nest Invest Ltd (see page 9).
- › Our statutory reporting on responsible investment, including the annual [Statement of investment principles implementation statement](#) and the TCFD report.

Time, resources and reporting

Informing the NIB about responsible investment-related activity undertaken is a standing agenda item for board meetings through information provided by the Chief Executive Officer (CEO) and Chief Investment Officer (CIO) of Nest Invest. Board members are given opportunities to check their understanding of this information and, where appropriate, critically challenge the information. The Board is also provided with detailed papers on all the above matters as required throughout the year.

During the 2025/26 scheme year, after the new governance framework was instituted in October 2025, the NIB met five times.

Nest Invest Executive Committees

The Investment Committee is an executive committee within Nest Invest. Its primary purpose is to consider investment ideas, opportunities and proposals in the context of Nest's overall investment beliefs, investment strategy, risk considerations and cost budget. It also reviews and approves technical investment policies. The committee is chaired by the CEO of Nest Invest and its members include senior representatives from the relevant teams in Nest Invest, including the Director of Responsible Investment.

In addition, the Investment Committee has responsibility for:

- › Approval of our [Climate change policy](#).
- › Approval of our annual [responsible investment report](#).
- › Oversight of the implementation of our [responsible investment objectives and policies](#), including our [voting and engagement guidelines](#).

The Risk & Compliance committee is an executive committee responsible for Nest Invest's compliance framework, enterprise risk management, and adherence to regulatory requirements (see Section 3 for more details). The committee has responsibility for reviewing the TCFD report and recommending it to the NIB for review and onward recommendation to the Nest Board.

Time, resources and reporting

During the 2025/26 scheme year the Investment Committee met 16 times. In addition to the responsibilities set out above, the Committee's work during the year included but was not limited to:

- › Approving the updates to our [fossil fuel exclusions](#).
- › Approving the commitment to the new climate technologies mandate with IFM.

In line with our internal investment governance processes, information about the Scheme's assets relevant to the identification, assessment and management of climate-related risks and opportunities is shared between persons tasked with these responsibilities. There are clear lines of communication between our responsible investment team and the manager monitoring committee, which meets quarterly, as well as with Nest Invest's asset allocation forum, which meets every six weeks.

Together, the processes described above enable the executive committees, the NIB and the Nest Board, to check that the Scheme's investment strategy adequately prioritises climate-related risks and opportunities.

Training

FCA-certified staff of Nest Invest must complete a minimum of 30 hours of continuing professional development annually. All Nest Invest staff are encouraged to aim for this level of professional development to ensure continued competency in their role. Where appropriate, this includes training on climate change issues. The members of our responsible investment team also provide scheduled and on-demand updates on climate-related risks and opportunities to the various internal committees on which they sit, including the asset allocation, risk and compliance, and manager monitoring committees. They also do this quarterly for all staff of Nest Invest as well as annually during Nest's Responsible Investment month during which responsible investment team members and expert guest speakers present responsible investment and climate change-related updates. This year, this included a presentation from one of our external fund managers, Lombard Odier Investment Managers, on the thematic portfolio they manage for Nest.

Section 2: Strategy



Strategy

Climate-related risks will affect the financial stability of companies and other assets in our portfolio, thereby potentially limiting risk-adjusted returns on the Scheme's investments and the value of the pension pots available to Scheme members at retirement. If we do not take these risks into account in the investment strategy, our goal to build financial peace of mind for our members could be adversely impacted. So too could our reputation as a good-quality pension provider among employers choosing workplace pension schemes for their workers.

In addition, if members have less trust and confidence in our investment approach, they might choose to opt out of pension saving altogether. We are mindful of the broader impact, beyond the effect on their retirement savings, that climate change will have on our members' lives. Changes in the climatic system and the economic cost of adapting to a warmer planet will shape our members' lives in the coming years. We also consider the impact of transition to a low-carbon economy and its potential disruptive effects on workers and communities.

Identifying climate-related risks and opportunities

We consider both transition and physical climate risks resulting from climate change to be financially material.

Transition risks



Risks anticipated to arise from the transition to a low-carbon economy. For example, the introduction of new carbon pricing regulations by governments could increase companies' costs of production.

Physical climate risks



Acute risks of more frequent or severe weather events, such as flooding or droughts, as well as chronic risks of permanent environmental change, such as rising sea levels.

Transition risks occur as the economy decarbonises towards net zero. They can arise from government policies such as carbon taxes, which raise costs for carbon-intensive companies and could negatively impact their financial value. Transition risks may also arise from new technologies, such as electric vehicles, and changing consumer preferences.

Physical climate risks could directly impact some of the Scheme's assets, for example, by reducing the ability of some of the companies in which the Scheme is invested to continue to deliver value in all their business activities. They may directly affect the real assets that we invest in, like property and infrastructure, by causing damage to buildings, disrupting operations, and increasing repair and maintenance costs. Physical climate risks can also create wider socioeconomic problems like food insecurity.

Climate change and nature and biodiversity loss are closely interlinked. Natural ecosystems including vegetation, soils and oceans absorb around half of the carbon emissions generated by human activities. Preserving these natural carbon sinks will be crucial to limit warming. Nature can also act as a buffer for physical climate risks, and preserving biodiversity will help maintain the stability of ecosystems and their ability to adapt to changing temperatures. While we recognise the close relationship between climate and nature, we have developed specific priority nature themes, more details of which can be found in our [Nature position paper](#).

The financial risks of climate change do not stem solely from environmental considerations. Climate change will also have socioeconomic impacts which are themselves financially material risks for the Scheme. For example, the transition to a low-carbon economy will lead to the decline of highly carbon-

intensive industries, affecting jobs and local communities. Failure to address these impacts could also undermine public support and delay climate action.

At the same time, we see potential investment opportunities from the transition, which include low-carbon technologies such as renewable energy. Increasingly, we are also seeing opportunities to invest in adaptation finance, which supports communities to reduce the risks from climate change and the damages from the physical impacts of climate change.

Short-, medium-, and long-term risks and opportunities

For the purposes of identifying the climate-related risks and opportunities which we believe will have an effect on the Scheme's investment strategy, we consider three time horizons:

- › **Short term:** 1 to 5 years
- › **Medium term:** 6 to 10 years
- › **Long term:** 10 years or more

We have defined these time horizons based on how we expect climate-related risks will vary in type and intensity over time.

We expect transition risks to be greatest over the short and medium term and highly dependent on the timing of the transition to a low-carbon economy. Some governments have stepped away from their climate commitments, while others have reaffirmed them. The global policy landscape is therefore quite fragmented, making it difficult for companies to navigate with certainty and creating climate-related policy risks that could affect the valuation of companies and assets. Another key element of the transition is technological development, particularly in energy and transport sectors. The market for clean energy technologies such as solar PV, wind, electric vehicles, batteries, electrolyzers and heat pumps grew by more than six times between 2015 and 2025. These competitor technologies create risks for incumbents, but also many opportunities for new entrants and those who adapt. As we progress through this decade with a persisting gap between policies currently in place and those needed to limit warming to well below 2°C, we believe abrupt changes in response to climate-related events are now more likely than a gradual transition to 1.5°C.

We are already seeing the impacts of physical climate change in many regions, with extreme weather events increasing in frequency and severity and causing wider disruption to economic activity. We expect the physical impact of climate change to increase in the medium and long term.

In the long term we also believe negative emissions technologies such as carbon capture and storage will need to be developed to counteract residual emissions, manage temperature overshoot and ensure a net zero global economy. Such technologies are not a focus of our approach currently, but we are aware that they may present investment opportunities in the future. We are currently engaging with investee companies to understand how they are transitioning to a low-carbon future, including what research and development they are conducting around low-carbon manufacturing processes. We have also started engaging with companies to better understand their resilience to the physical impacts of climate change and how they are adapting to a changing climate.

How we have managed climate-related risks and opportunities

We have developed a scheme-wide [Climate change policy](#) that sets out why climate change matters to Nest, our view of the key risks and opportunities, and how we are taking action. The objective of the policy is to reduce the impact on our members from the risks of climate change, both from the perspective of their pension savings and their quality of life in retirement. An orderly transition to net zero emissions by 2050 is likely to be in the best financial interests of our members. Our ambition therefore is to align our whole investment portfolio with limiting global warming to 1.5°C above pre-industrial levels by reaching net zero carbon emissions by 2050 or earlier.

The Climate change policy is intended as a high-level, principles-based document that guides our activities. The policy was first published in 2020 and is reviewed at least triennially. It was last updated in May 2025. It sets out our long-term ambition but allows us to move in line with market developments,

reflecting that the transition to net zero is not linear. The policy is complemented by a shorter roadmap document, which sets out some specific actions for the medium- and long-term.

There are five key levers that allow us to tackle the risks and opportunities from climate change from a top-down and bottom-up perspective:



We have not assigned weights to the different levers we may use as we expect this could change over time, but we have added further information on how we use the different levers and which may be most appropriate to manage different risks and opportunities.

We review our risk monitoring, asset allocation and manager selection and monitoring **Error! Reference source not found.** Stewardship and public policy are covered on pages 25 to 26.

Risk monitoring

We believe that climate change poses a financially material risk to our portfolio, and that it could impact our ability to achieve good risk-adjusted returns for our members. We seek to identify, prioritise and manage climate risks across the different asset classes we invest in.

In line with statutory guidance, we test the resilience of the Scheme's investment strategy under different climate scenarios every three years. We outline the other risk monitoring and management activities we undertake further in Section 3: Risk Management.

Resilience of the Scheme's investment strategy under different climate scenarios



The inclusion of the Aladdin Climate analytics, provided by BlackRock, contained in this report on pages 16 to 20 should not be construed as a characterisation regarding the materiality or financial impact of that information. The Aladdin Climate analytics include non-financial metrics that are subject to measurement uncertainties resulting from limitations inherent in the nature and the methods used for determining such data.

The Aladdin Climate Analytics are not fixed and are likely to change and evolve over time. The Aladdin Climate analytics rely on comparatively new analysis and there is limited peer review or comparable data available. BlackRock and Nest Corporation do not guarantee and shall not be responsible for the content, accuracy, timeliness, non-infringement, or completeness of Aladdin Climate analytics contained herein or have any liability resulting from the use of the Aladdin Climate analytics in this report or any actions taken in reliance on any information herein.

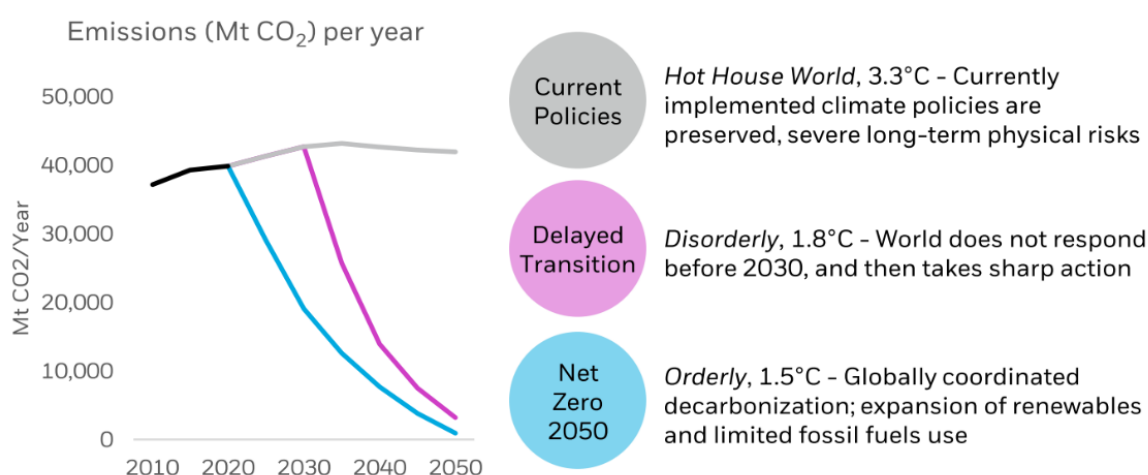
In 2024, we onboarded Aladdin as our investment risk management system. This includes access to Aladdin's climate change scenarios, which we are using to assess the Scheme's portfolio. This is the

second time that we have included this data in our TCFD report. This analysis should be read in light of a number of important limitations. The results rely on third-party climate analytics, externally developed scenarios and complex modelling assumptions, and are constrained by the availability and quality of underlying climate, revenue and location data. Coverage is therefore limited to asset classes where sufficient data is available, and the outputs should be interpreted as directional indicators of relative climate risk rather than forecasts or precise estimates of future financial outcomes.

Aladdin's transition risk assessment uses three scenarios developed by the Network on Greening the Financial System (NGFS), a network of central banks and supervisory bodies that develops climate scenarios for financial risk assessment. The scenarios, shown in Figure 2, are: 'Net Zero by 2050', which assumes an orderly and coordinated transition to a low-carbon economy; 'Delayed Transition', which assumes climate action is postponed before accelerating later; and 'Hot House World', which assumes no additional policies are implemented beyond those currently legislated for. The model focuses on transition risk factors, including those arising from policy, legal, technology and market changes, such as higher carbon prices. It considers both economy-wide impacts, including effects on economic growth and productivity, as well as sector-specific impacts for sectors most exposed to the low-carbon transition, such as energy and transport.

Revenue and location data are sourced from third-party vendors, while some other input variables are modelled (including, for example, assumptions about the future growth of the automotives sector and the share of power generation capacity from renewables).

Figure 2: Climate transition scenarios from NGFS

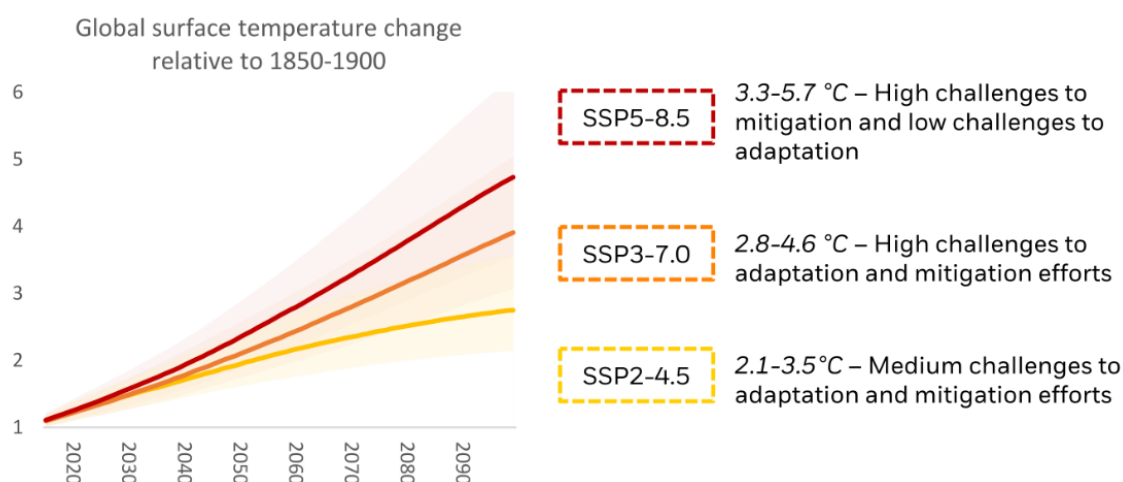


Source: Aladdin Climate, 2024

The physical climate risk assessment uses the Intergovernmental Panel on Climate Change (IPCC) scenarios, which show different pathways and temperature rises to 2100 (Figure 3). The IPCC produces multiple shared socioeconomic pathways (SSPs) which model different assumptions on socioeconomic factors including population, economic growth, urbanisation and the rate of technological development in the face of climate change. SSP2 describes a "middle of the road" world where trends broadly follow their historical patterns, SSP3 a fragmented world with high challenges to mitigation and adaptation, and SSP5 world of fossil fuel-led rapid and unconstrained growth in economic output and energy use.

The model covers a number of key hazards including temperature, tropical cyclones, sea level rise, inland flooding and wildfires, and assesses these hazards' impacts on macro (such as GDP, employment and mortality) as well as micro variables (such as energy expenditures and crop yields). Both revenue and operational risk are evaluated for corporate operations. For sovereigns, climate risk is assessed at territory (geographic area) level and aggregated to country level.

Figure 3: Physical climate risk scenarios from IPCC



Source: Aladdin Climate, 2024

Aladdin uses these inputs to determine the impact on financial performance, based on company characteristics, and calculates adjusted valuations and probability of default based on the financial impact. For companies this is based on discounted cash flow analysis. For sovereigns it includes bond prices and probability of default.

Assets can only be measured for climate reporting where relevant and sufficient climate data is available to do so. According to data availability, the asset classes included in the analysis are listed equities, corporate bonds, sovereign bonds and listed real estate assets (Real Estate Investment Trusts or REITS).³

Impact of these risks on our assets

The results are quite similar to the analysis we carried out in 2022 which showed that in the long-term our portfolios perform best in a net zero scenario due to the increasing impact of physical climate risks.

We've included a selection of the results for the total portfolio, default fund and fund choices in Table 1 below. The large majority of our members will be invested in the default fund, whereas the fund choices offer members a choice to invest with different objectives and will contain different asset allocations. For more details on the fund choices, please see page 33.

Table 1 shows the estimated percentage change in value for selected portfolios and fund choices under different climate scenarios. The figures compare each scenario with a baseline case and show the modelled impact of climate-related risks only; they do not represent expected investment returns or take account of other market, economic or manager-specific factors. Negative figures indicate a reduction in climate-adjusted value relative to the relevant baseline. The final column shows the proportion of each portfolio or fund for which sufficient data was available to calculate a climate-adjusted value.

For transition risks, the base case is the NGFS Current Policies scenario, which assumes that current implemented policies play out, but no new climate policies are added. For this reason, the climate adjusted value for this scenario shown in the table is 0. In this scenario, emissions rise until 2080 leading to c. 3C of warming and severe physical climate risk – a “hot house world”. For physical climate risk, the base case is no further physical climate risk.

³ Further information on the methodology can be found here: <https://www.blackrock.com/aladdin/products/aladdin-climate>

The percentage impact figures presented in the table are illustrative in nature and do not represent forecasts or precise predictions of future outcomes. These figures are based on a set of assumptions, methodologies, and externally developed scenarios that are inherently uncertain and subject to change.

Table 1: Climate-adjusted values across different climate scenarios

Portfolio	Physical climate risk adjusted value			Transition risk climate adjusted value			Data coverage
	SSP2-4.5: 2.7°C by 2100	SSP3-7.0: 3.6°C by 2100	SSP5-8.5: 4.4°C by 2100	Orderly: Net Zero 2050	Disorderly: Delayed Transition	Hot House World: Current Policies	
Total portfolio	-4%	-5%	-6%	-4%	-3%	0%	77%
Default fund (2046 Retirement Date Fund)	-4%	-5%	-7%	-4%	-3%	0%	76%
Ethical Fund (Growth Stage)	-4%	-6%	-7%	-2%	-2%	0%	80%
Sharia Fund	-5%	-6%	-7%	-3%	-4%	0%	92%
Higher Risk Fund	-5%	-7%	-9%	-6%	-4%	0%	87%
Lower Growth Fund	0%	0%	0%	0%	0%	0%	93%

Source: Climate values provided by Aladdin, fund values provided by Nest. Analysis as at 31 March 2026. Data coverage refers to % of assets with climate adjusted value

The results suggest that climate-related risks could reduce the value of the Scheme's portfolios over time, with physical climate risks generally showing larger impacts than transition risks. Across the portfolios shown, the estimated impact is greatest under the higher-warming physical climate risk scenarios, reflecting the increasing damage expected from more severe climate outcomes. Transition-risk impacts are smaller in this analysis, although they remain material for funds with higher exposure to equities and sectors more exposed to policy, technology and market changes.

Key insights from the analysis include:

- › The analysis shows that equities are most at risk from both transition and physical climate risks. Fixed income assets are less exposed, though our high-yield portfolio has a bigger potential value at risk in an orderly transition scenario than other fixed income assets, due to the relatively high allocation to US energy companies.
- › Due to their high allocation to equities, the Ethical, Higher Risk and Sharia fund choices present with a higher exposure to climate risks than the default fund.
- › Equities are most exposed to transition risks such as policy interventions and technological developments impacting valuations. Decomposing this further, the key drivers for this are lower GDP due to the costs of implementing the transition and specific transition impacts in the transport sector.

- › Equities are also most exposed to physical climate risks, with emerging market equities more exposed to physical climate risks than developed market equities. The main impacts from physical climate risks are revenue impacts from rising temperatures followed by tropical cyclones.
- › The biggest sectoral physical climate risk exposures are in consumer discretionary, industrials and information technology.
- › Regional exposures also vary. We see the biggest adjustments from physical climate change risks for assets based in China, the United States and Australia.
- › Relative to last year, we have seen a slight increase in the impact of physical climate risks on our portfolio.

How we have used this analysis

We include two scenarios (the disorderly transition scenario and the 4.4C physical climate risk scenario) in our asset class dashboard and update the analysis annually. The asset allocation committee reviews this data and can factor it into its decision-making process.

As the data also allows us to look through to underlying portfolio holdings, we can identify risk hotspots and use the data to better engage with our portfolio managers and prioritise companies for engagement.

We have already implemented steps to manage transition risks in our portfolio starting with equities as the asset class most vulnerable to valuation changes. This includes moving our entire equity allocation into climate-aware and thematic mandates. Physical climate risks have been more challenging to manage and are currently primarily addressed through stewardship in public markets. The analysis supports our continued focus on physical climate risk.

We are also further diversifying our portfolio and increasing our investment in private markets, where we have an ambition to reach a 30% allocation. While private markets include a diverse set of sub-asset classes, such as infrastructure and forestry, they are generally less exposed to transition risk and can also give us exposure to transition opportunities. These assets can however be quite exposed to physical climate risk. We expect managers of real assets (including property, infrastructure, and forestry) to assess the physical climate risk exposure of their assets and take measures to improve the resilience of assets to key impacts such as flood risk.

Limitations and next steps

We currently only have this analysis for corporate and sovereign issuers and are unable to run it on our private market assets due to a lack of granular information about the location of these assets. We supplement it with more qualitative assessments of the physical and transition risk exposure for these asset classes, or with scenario analysis carried out by our investment managers where this is available.

The analysis relies on complex models with a lot of assumptions and it's difficult to predict the future, as the effects of climate change are not likely to be linear. Climate tipping points in particular are difficult to model. These limitations are particularly relevant for NGFS-based scenarios. Publicly available research, including the Institute and Faculty of Actuaries' [The Emperor's New Climate Scenarios](#) report and subsequent IFoA risk alerts, has highlighted that commonly used climate-scenario models may understate climate risk because they can omit or simplify severe physical impacts, non-linear effects, tipping points, second-order societal impacts and uncertainty around carbon budgets. NGFS has also noted that climate impacts could be more severe than its scenarios anticipate, particularly if tipping points are reached. We therefore treat the NGFS outputs as one input into our assessment, rather than a complete view of climate-related financial risk.

These figures may therefore underestimate the risk of climate change to our portfolio, and we recognise that we should not anchor ourselves to specific numbers. Instead, we use the scenarios to help us understand relative risk across asset classes.

We have a project in train to procure more decision-useful climate scenarios which, once acquired, will then be used for future iterations of this scenario analysis, as well as integrated into our long-term capital markets assumptions and shorter term (3-5 year) asset class views.

1.1.1 Asset allocation

Nest's investment team is responsible for developing the Scheme's investment strategy. This includes determining which asset classes we invest in. We are committed to managing the climate-related risks, opportunities and impacts as part of this process. We are mindful that in some asset classes there are still significant data and methodology gaps, especially when it comes to physical climate risks. We therefore complement this analysis with portfolio-level assessments of the underlying assets.

Our asset allocation workstream includes the following activities:

- › We look for opportunities to invest in the transition. This year, we achieved our ambition to invest £1.4bn in renewable infrastructure, ahead of our 2030 target. This year, we also committed £200m to a new infrastructure debt strategy focused on climate technologies.
- › We are also assessing existing mandates to identify any exposure to climate solution technologies. Last year, we analysed our private equity portfolio with the fund manager using the GIIN Climate Solutions Investing Framework. This is detailed in a case study [here](#).
- › Since 2024, we have made investments in timberland with two different managers (Campbell Global and BTG Pactual Investment Group). Well-managed commercial forests make an important contribution to carbon sequestration, and we will start reporting on this in future years. We consider timberland investments to contribute towards Nest's objective of increasing investment in climate solutions and work with managers to assess the carbon sequestration properties of assets, but we do not offset these carbon sequestration benefits against our financed emissions.
- › We exclude companies that make more than 10% of their revenues from thermal coal, metallurgical coal, oil sands or arctic oil and gas across the default fund. We believe these activities are not compatible with the goals of the Paris Agreement, and that business models that are overly reliant on them are exposed to significant transition risk.
- › We keep abreast of research on the impact of climate change on asset-class risks and returns. This includes assessing the impact of different climate change scenarios on our portfolio – described in the Risk Monitoring section above - which we have now included in our Asset Class Dashboard.
- › We set out key short-, medium- and long-term targets for our portfolio. We have also set an interim goal of reducing the Scope 1+2 carbon footprint in our public equity and fixed income portfolios by 30% by 2025, from a 2019 baseline. Progress against all of our portfolio targets is outlined in section 4.

Manager selection and monitoring

Asset allocation, manager selection and ongoing monitoring are closely linked. The Scheme's total portfolio is made up of different asset classes and individual portfolios managed by external investment managers.

To align the Scheme's whole portfolio with the goals of the Paris Agreement, we need to work towards aligning all of the underlying investment funds which are the building blocks of the portfolio.

In 2024, as part of the wider update of our Climate change policy, we refreshed our manager expectations to reflect developments in the market. All managers are expected to:

- › Identify, assess and manage the climate-related physical and transition risks, as well as the key impacts and dependencies relating to other environmental and social issues
- › Where feasible, set portfolio-level decarbonisation and alignment targets
- › Use their stewardship resources to manage climate change risks and encourage companies to set net zero targets and robust transition plans
- › Take a consistent approach to managing the risks of climate change and not undermine progress made on climate-aware strategies by counteraction elsewhere in the business
- › Disclose key climate-related information to clients

- › Work with clients and peers to stay informed on the latest scientific, policy and industry developments.

In addition to these high-level objectives, we also set more targeted objectives and benchmarks for each manager. These vary according to the asset class and the extent to which managers have already progressed in evolving their investment approach towards a low-carbon economy. At the end of the 2025/26 financial year 14% of objectives had been met, 3% were on track, 39% in progress and 14% not started.

We will report on progress against these objectives annually. Where managers do not meet agreed climate objectives or reporting expectations, this may result in enhanced monitoring, formal engagement, action plans, mandate review, or replacement, where appropriate.

Section 3: Risk management



Risk management

Our responsible investment objectives explain that we seek to identify and manage ESG-related risks and opportunities across the Scheme's investment portfolio where we believe doing so leads to lower risk or enhanced returns.

Processes for identifying, assessing, and managing climate-related risks

Governance of climate-related risk management

Nest Invest operates within a Board-approved risk appetite framework that defines the level and type of risk it is willing to accept in pursuit of its strategic and investment objectives.

The Investment Committee is responsible for implementing this through investment decision-making, including the integration of climate-related risks and opportunities into investment strategy.

The Risk and Compliance Committee (RCC), which meets quarterly, provides independent oversight and challenge. Its purpose is to assist the Nest Invest CEO with oversight of the systems and controls in place to identify, control and manage risks in Nest Invest and to provide oversight of Nest Invest's compliance framework and adherence to applicable regulatory requirements. The committee reports to the Nest Corporation Risk Committee, the Nest Invest Board, and the CEO of Nest Invest.

The RCC is responsible for:

- › Monitoring exposures against defined limits and recommending adjustments where required
- › Reviewing the effectiveness of the risk management framework and associated processes
- › Challenging the adequacy of risk mitigation actions and issue resolution
- › Providing oversight and challenge on proposed changes to risk limits, targets, and controls prior to approval through appropriate governance (e.g. Investment Committee/Nest Invest Board)
- › Monitoring risk management activities across the investment governance structure to ensure effective checks and balances
- › In accordance with its Terms of Reference, the RCC has specific responsibility for reviewing and challenging climate-related risks, providing assurance that these are appropriately identified, measured, managed, and embedded across the investment process.
- › The RCC also reviews the TCFD report, providing oversight and challenge on the completeness, accuracy, and appropriateness of climate-related disclosures prior to approval through governance processes.
- › Climate-related risks are integrated within the overall risk appetite framework, with defined metrics and key risk indicators (KRIs) used to monitor exposures, inform decision-making, and assess alignment with climate-related objectives.

Identification of climate-related risks

We identify climate-related risks using a range of tools and approaches, including:

- › Regular reporting from external investment managers on key climate metrics including total portfolio emissions, fossil fuel reserves, top carbon emitters, the proportion of assets that have set net zero targets and those subject to engagement activity.
- › Climate change scenario analysis using the Aladdin risk system.
- › Research and market developments identified by external investment managers, analysis provided by external data providers, and engagement with a range of industry groups.

Assessment and management of climate-related risks

Nest Invest applies a proportionate approach to the assessment and management of climate-related risks through its broader risk management framework. As part of this, an Active Risk & Opportunities (ARO) assessment is conducted regularly to:

- › Assess relevant risks
- › Evaluate control effectiveness
- › Identify gaps and required actions

Climate-related risks are assessed using a consistent impact and likelihood methodology aligned to other risks, taking into account:

- › The materiality of exposure
- › Potential impacts on investment strategy and member outcomes
- › Short, medium, and long-term risk horizons

Key climate-related risks identified include:

- › **Transition risk:** Policy and regulatory changes (e.g. carbon taxes, fossil fuel restrictions, removal of subsidies, or bans on high-emission products) leading to asset repricing and potential portfolio misalignment with net zero objectives. The timing and pace of such changes may be uncertain, creating a risk that investors and businesses are unprepared or that market sentiment shifts rapidly away from higher-emitting sectors.
- › **Implementation risk:** Failure to effectively deliver decarbonisation objectives within investment processes or by external managers
- › **Physical climate risk:** Climate-related events impacting underlying assets and company performance

Without appropriate mitigation, these risks could have a significant impact on the Scheme. Accordingly, a range of controls and mitigations are in place to manage these exposures.

Day-to-day activities

- › Investing the Scheme's equity and public fixed-income allocations in climate-aware funds, allowing us to decrease exposure to those companies most likely to be financially impacted by policy changes and the transition to the low-carbon economy.
- › Increasing the Scheme's exposure to investments in line with the low-carbon economy.
- › Increasing the Scheme's investment in alternative asset classes, particularly in renewable energy, to take advantage of investment opportunities in the low-carbon transition.
- › Excluding the most environmentally damaging business activities, particularly those like thermal coal, metallurgical coal, oil sands, and arctic drilling and exploration, which are likely to be phased out first in the low-carbon transition.
- › Voting and engaging with companies on climate change including participation in industry climate initiatives such as the Institutional Investors' Group on Climate Change and Climate Action 100+.
- › Engaging with the highest risk companies in the economy to encourage them to transition towards the low-carbon economy and net zero emissions. This engagement is covered in more detail in our [responsible investment report](#).
- › Setting short- and medium-term targets to help us measure and assess our progress towards our net zero goals for the Scheme's portfolio. These are covered in Section 4: Metrics and targets.

Quarterly activities

- › The RCC reviews climate-related risks and mitigations through the ARO register.
- › Climate risk exposures are monitored against risk appetite, with regular reassessment of risk levels and controls.

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- › The RCC oversees climate risk reporting, escalating risks nearing or breaching appetite with recommended actions and approvals as required.
 - › Material risks and events are escalated to the NIB, including on an ad hoc basis where necessary.

Annual activities

- › The executive investment committee reviews our Climate change policy and whether it remains fit for purpose. This sets out our approach to managing climate change risk across the Scheme's portfolio through asset allocation, exclusions and, where necessary and after voting and engagement, divestment from companies ill-prepared for the transition to a low-carbon economy. All changes are clearly communicated to our external investment managers.

Our assessment of climate-related risks

We believe that climate change is a systemic risk that will impact the entire economy and our ability to influence the likelihood of these risks manifesting is limited, though we can take steps to reduce our exposure to these risks. In the past year, given geopolitical and regulatory changes, we increased the likelihood of the risk of climate change impacting investment returns from 'possible' to 'very likely'.

Integrating processes into overall risk management

Integration is currently supported through key areas and associated metrics, including carbon emissions of bond and equity portfolios; investment in climate solutions; fund manager delivery against climate-related investment, stewardship, and reporting objectives; and developments in the market and regulatory environment. These are monitored through defined Key Risk Indicators and inform ongoing risk assessment and oversight.

Climate-related risks are incorporated within the existing risk management framework and active risks and opportunities register, applying the same processes for identifying, assessing, and managing risks as for other strategic, investment, financial, legal and regulatory and operational risks. These climate-related risks are also treated as drivers of existing risks and are reflected across investment performance, ESG integration, climate risk, and stewardship, as well as related areas such as ESG objectives, reporting, and, more indirectly, reputational and regulatory risks, rather than as a standalone category. ESG risks, including climate risks, are included in the investment risk report that is produced monthly.

The framework also ensures there is both individual and collective accountability for risk management, risk oversight and risk assurance through the three lines of defence model:

1. **First line:** Investment, Responsible Investment and manager oversight teams identify and manage climate risks
2. **Second line:** Risk and compliance functions providing independent oversight, challenge, and assurance to senior management and governance committees
3. **Third line:** Internal and external audit providing independent assurance to the NIB and the Nest Board on the effectiveness of the risk management framework

Stewardship

We actively employ stewardship as a mechanism to manage climate-related risks, both to reduce the impact on the Scheme of abrupt policy responses leading to a disorderly transition, or the likelihood of a shock to the financial system from catastrophic climate change. We believe that all companies have a role to play in the low-carbon transition and building resilience against the physical impacts of climate change. They can do this through:

- › **Managing direct emissions** generated by their operations.
- › **Managing indirect emissions**, for example, the emissions generated through their supply chains and financing decisions.

-
- › **Directing capital expenditure** towards developing low carbon technologies and investing in adaptation and resilience.
 - › **Aligning their public policy and lobbying activities** with their net zero commitments.

Engaging with companies is usually a first step in understanding how they are managing climate change risks. This is particularly important for issues where data is poor, such as resilience to physical climate change risks. We also use stewardship to hold companies accountable on their net zero commitments and push them to transition their business model in line with the goals of the Paris Agreement. In our experience, collaborating with other investors, and taking targeted action with a select number of companies is more likely to lead to positive outcomes than engaging individually with a broad range of companies. We seek to focus our engagement on the most systemically important companies within key climate sectors, such as oil & gas companies and banks.

Stewardship activities are primarily carried out by our external fund managers. Nest's responsible investment team also engages directly and through collaborative initiatives such as Climate Action 100+.

Our stewardship activities are described in more detail in our annual [responsible investment report](#).

Public policy and advocacy

Policy and regulation are essential to correct the externalities of climate change and achieve the goals of the Paris Agreement. Policymakers also play a role in creating an environment for investors to make investments in the transition, for example by subsidising climate solutions (or removing subsidies encouraging the use of fossil fuels).

We believe that investors have a role to play in encouraging policymakers to create a regulatory environment that facilitates the transition to net zero emissions. We will contribute actively to the public discourse on climate change risks and opportunities as one of the UK's largest pension schemes by membership. This includes addressing how climate change will affect the pensions industry and the global economy and what policymakers can do to help mitigate the risks for the pensions industry.

We continue to exchange views and work with our peers in the financial sector on climate change issues, both directly and through industry groups such as the IIGCC and the UK Sustainable Investment and Finance Association (UKSIF). Our public policy and advocacy work focuses on the following areas:

- › **Disclosure:** We are supportive of developing consistent global disclosure frameworks, such as the International Sustainability Standards Board ([ISSB](#)) disclosure standards and the work of the [Transition Plan Taskforce](#), and advocate for transposing them into regulation.
- › **Real economy policy:** We engage with policymakers to design policy instruments, regulation and standards to support the transition to net zero and to address regulatory barriers to investing directly in climate solutions, such as reforms to planning and permitting regimes to support renewable energy infrastructure.
- › **Raising awareness:** As the pension provider for millions of people in the UK, we will use our voice to raise awareness publicly about the climate crisis and what we are doing to manage climate change risks for members. This includes highlighting the impacts of climate change on workers, communities, supply chains and customers. We will also encourage policymakers to consider the twin crises of climate change and nature and biodiversity loss when developing policy.

Section 4: Metrics and targets



Metrics and targets



The data reported in the metrics and targets section has been obtained from the investment managers of each portfolio. The draft report was shared with the investment managers for verification prior to publication. While Nest reviews the data provided, it does not independently verify the data and assumes no responsibility for its accuracy.

Our chosen metrics

Absolute financed emissions and emissions intensity metrics

Our primary reported metrics are financed carbon emissions, which represent the greenhouse gas emissions associated with our investments. Measuring financed emissions is a key metric for understanding our contribution to climate change, as well as understanding our exposure to climate-related risks across the Scheme's portfolios. We also use this data as a starting point for setting mandate-level decarbonisation targets that support our long-term ambition of net zero emissions by 2050 or sooner. These targets will be regularly reviewed and updated over time as net zero pathways for different asset classes become clearer.

We report on financed Scope 1, 2, and 3 greenhouse gas (GHG) emissions in tonnes of carbon dioxide equivalent (tCO₂e) emissions – that is, absolute emissions – across our building block funds. Absolute financed emissions reflect the total emissions of the assets in our portfolio, adjusted for the share that Nest holds in each asset. As the Scheme's total assets under management continue to grow and we increase our holdings in each underlying asset, total financed emissions are likely to increase.

We also measure an emissions intensity metric, known as the carbon footprint, which calculates the emissions per million pounds (tCO₂e /£m). Assessing emissions per million pounds invested helps us to better understand whether the Scheme's exposure to climate-related risks has changed by identifying whether the assets we are investing in are reducing their emissions.

Scope 1

Direct emissions from the reporting company's owned or controlled sources.

Scope 2

Indirect emissions from the generation of purchased electricity, steam, heating and cooling that has been consumed by the reporting company.

Scope 3

All other indirect emissions that occur in the reporting company's value chain.

Source: [Greenhouse Gas Protocol](#)

Our methodology and its limitations

Wherever possible we have followed the GHG emissions accounting and reporting standard developed by the [Partnership for Carbon Accounting Financials](#) (PCAF) when calculating the emissions attributed to the Scheme's investments.⁴ This means calculating our share of the emissions of the financed asset using a ratio between the amount we have invested in the asset (such as the market value for equity investments and the book value for debt investments) and the value of the financed asset (for listed assets this is enterprise value including cash, or EVIC). EVIC is also used in the

⁴ carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf

regulatory methodology for calculating greenhouse gas intensity under the EU Climate Transition Benchmark (CTB) and EU Paris-Aligned Benchmark (PAB).⁵

This attribution factor is not suitable for all asset classes. Governments, for example, do not have an enterprise value. Our emerging market debt manager uses consumption-based emissions to attribute emissions from sovereign debt holdings, which considers emissions resulting from the final use of goods and services in a national economy, including imported emissions. Another approach is to only measure emissions from goods and services produced within the country. This approach is used by some of our other fixed income fund managers. Measuring consumption emissions gives a more holistic assessment of a government's role as a regulator than production emissions, but it can lead to double counting. This is because emissions are attributed both to the sovereign as well as the companies operating in the economy, in which we may have investments in other parts of the portfolio. It is also difficult to categorise sovereign emissions as Scopes 1, 2, or 3. We have therefore chosen not to include the sovereign debt emissions in the table.

In private markets (private credit, private equity, and private infrastructure equity), there are few data providers that can estimate emissions, so where data is not reported directly there can be significant gaps in reporting. It can also be challenging to obtain EVIC data for private issuers. As a result, some of our managers instead report on Weighted Average Carbon Intensity (WACI), which uses revenues as an attribution factor, as this data point is more readily available. This methodology gives slightly different emissions figures to the metrics using EVIC. As a result, we have not included portfolios in the data tables where we were only able to obtain WACI data. We are working with our investment managers to improve the quality and comprehensiveness of data in this area.

Finally, while EVIC is a more useful metric than WACI (because it is based on market capitalisation) in establishing investors' ownership of emissions through their portfolio holdings, it is sensitive to stock price fluctuations and changes in valuations can result in variances in carbon intensity year-on-year without changes in the underlying carbon emissions performance.

Portfolio alignment metric

Portfolio alignment metrics are forward-looking metrics that can provide an indication of the exposure of a scheme to climate-related transition risks and opportunities. Methodologies and approaches are still evolving. The percentage of portfolio with net zero targets is the simplest and most transparent approach and allows for a basic assessment of the extent to which a portfolio is committed to net zero. We are only including targets that have received third-party validation through the [SBTi](#)⁶ to ensure that targets are scientifically robust. The SBTi methodology only applies to companies, so we are not currently able to measure alignment for other asset classes such as sovereign debt and commodity futures. A key drawback of the binary target approach is that only the alignment of investments with validated targets is known, which is currently a relatively small proportion of the total portfolio. The speed at which coverage increases is dependent on the resources of SBTi. The approach also does not differentiate between companies that have identical targets, but a different distance to achieving them.

Neither financed emissions nor portfolio alignment metrics are perfect, but combining these metrics gives a more holistic picture of Nest's progress in meeting its net zero ambition.

Data quality metric

We are also reporting on data quality as an optional metric. Our investment managers receive carbon emissions information from a range of sources including directly from companies or assets, from external data providers such as MSCI or Trucost, or estimate them internally using proprietary modelling. We have asked our managers to disclose the proportion of assets for which data was reported, estimated or unavailable and have reported this as a data quality metric in the data tables below. Where data is unavailable, this is because the companies or projects in which the Scheme is

⁵ [ESMA – Climate benchmarks and ESG disclosure](#)

⁶ The SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). Companies submit their decarbonisation targets to SBTi for validation based on sector-specific science-based criteria.

invested are not reporting it, and estimates have not been produced by our investment managers or their contracted data providers to fill those gaps.

Where data has been estimated, these estimates have been made by our investment managers or contracted data providers using company energy consumption, output and revenue, combined with relevant emissions' factors for that energy source, product or sector, as well as other assumptions.

We have found that the proportion of reported emissions data from companies varies significantly across asset classes. Gaps in reporting are generally filled by estimates carried out by data providers using proprietary methodologies. This means that the emissions figures for the same company could be different depending on which data provider was used, which can be challenging when aggregating data across portfolios. This is a particular issue for Scope 3 where the majority of available data has been estimated by third-party data providers, **so this data should be treated with caution.**

Nest works closely with its managers and other industry groups to improve disclosure of high-quality data. We also engage directly with investee companies on their own TCFD disclosures through the Climate Action100+ collaborative investor initiative.

Default strategy

The below tables show the selected metrics for the Scheme's default strategy, by asset class. The majority of members (currently over 98%) will be invested in Nest's default strategy, made up of around 48 tailored retirement date funds. Nest's flagship default strategy provides a fund for each year in which we expect a member to retire. The actual asset allocation will vary depending on the year of retirement. As at 31 March 2026, total assets under management were £61.6 bn, of which 93% was in the default strategy; Figure 4 shows the asset allocation of the default strategy on 31 March 2026, compared with 31 March 2025.

Figure 4: Asset allocation in the default strategy

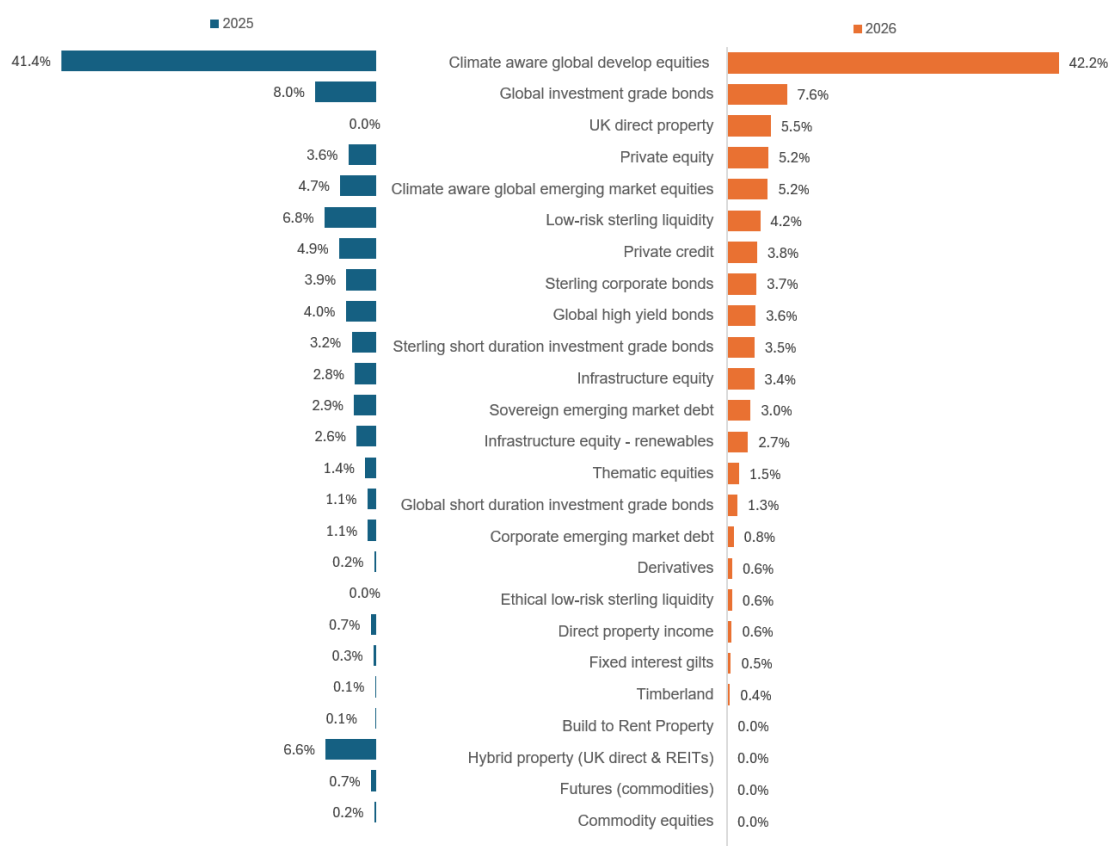


Table 2 below aggregates the relevant metrics for each underlying portfolio within an asset class to give an overall metric. It does not include sovereign debt, liquid assets, or private credit, cash or derivatives, due to the challenges of collecting robust and comparable data, particularly in private markets. These omitted asset classes make up c.15% of the portfolio. If our allocations to private markets strategies increase in the coming years, the percentage of the overall portfolio for which there is a lack of reportable data may increase, particularly in the absence of market progress for private asset climate reporting.

Default strategy metrics by asset class

Table 2A: Default strategy carbon emissions metrics by asset class

Asset type	% of total portfolio	Absolute emissions (tCO ₂ e)		Carbon footprint (tCO ₂ e/£m)		Year-on-year change in carbon footprint (%)	
		Scope 1+2	Scope 3	Scope 1+2	Scope 3	Scope 1+2	Scope 3
Equities	47%	1,930,517,275*	35,120,024,170*	36	90	-8%	-14%
Corporate Bonds	22%	992,734	5,064,198	86	437	+40%	+8%
Property	6%	2,703	24,236	1	11	-22%**	-4%
Infrastructure Equity	5%	86,723	257,269	20	47	-22%	-50%
Private Equity	5%	162,665	317,551	5	27	+3%	-15%
Timberland	1%	84,753	605,724	0	0	n/a	n/a
Total	85%	1,931,846,861	35,125,293,286	37	605	+12%	-6%

Table 2B: Default strategy data quality and portfolio alignment metrics by asset class

Asset type	Data quality – % of holdings for which						Portfolio alignment (% of assets with SBTi target)
	Scope 1+2 data			Scope 3 data			
	Reported	Estimated	Unavail-able	Reported	Estimated	Unavail-able	
Equities	54%	43%	3%	47%	50%	3%	51%
Corporate Bonds ⁷	82%		18%	81%		19%	26%
Property	100%	0%	0%	55%	45%	0%	0%
Infrastruct-ure Equity	90%	10%	0%	56%	33%	11%	n/a
Private Equity	25%	73%	3%	15%	77%	8%	n/a
Timberland	94%	6%	0%	80%	20%	0%	n/a

n/d: denotes no data; n/a: denotes not applicable for the asset class. Notes: one of our corporate bond managers has switched to a new data provider which provides more granular emissions data; year-on-year figures in the table are based on 2024 figures for those funds which have been restated using the new data source.

*Our fund manager has changed the calculation approach for the absolute emissions metrics for our primary equity fund. As a result, the absolute emissions figure is materially higher this year than it was in last year's report.

⁷ We were unable to obtain a breakdown of reported versus estimated emissions for all portfolios in this asset class. The figures are therefore aggregated to show the proportion of assets for which data was available.

Restated with the revised methodology, the 2024/25 absolute emissions for the equity allocation in the default fund would be 1,502,682,786 and 36,122,066,391 for scope 1+2 and scope 3 respectively. **We have revised the 2024/2025 scope 1 and 2 footprint figure for one of our property funds; the restated 2024/25 aggregate figure would be 2.

What the data shows

There are several reasons why the carbon footprint may vary from year to year, including:

- › Changes in the carbon emissions reported by the underlying assets
- › Changes in asset allocation, for example by allocating more money to less carbon-intensive asset classes, or changes in the composition of the fund's underlying holdings
- › Changes in the methodology used to estimate emissions that are not directly reported by the assets
- › Changes in data providers, which may lead to changes in estimated emissions where emissions are not reported
- › Changes in the attribution factor. The carbon footprint metric based on EVIC is quite sensitive to market volatility and can lead to fluctuations in the metric that are not driven by changes in the actual emissions of the underlying asset. For example, if a company's market capitalisation falls while total debt remains the same, a bigger proportion of the company's emissions will be attributed to bondholders.

We expect that in the next few years, the carbon footprint may still fluctuate as more companies report data directly and we become less reliant on data estimation. Our fund managers also engage with companies throughout the year on emissions reductions and better reporting.

In the longer term, we expect that asset allocation and decarbonisation of the underlying assets will become the main drivers of the carbon footprint.

Below we give more detail on the changes in the carbon footprint from last year for each asset class:

- › **Equities:** 86% of our total equities allocation in the default strategy is in our climate-aware developed market equities fund. This fund has a lower carbon footprint than our other equity funds (emerging markets and thematic equities), and its footprint stayed broadly stable year-on-year. Our thematic equities fund saw an increase in its scope 3 footprint, largely due to the inclusion of updated downstream data for two investee companies, Daikin and Prysmian. Carbon footprints of our overall equities allocation declined since last year, by 8% for scope 1 and 2 and 14% for scope 3. These moves were primarily due to the fact that, during 2025/26, we exited our commodities equity fund which had a materially higher footprint than the other equity funds due its exposure to extractive mining companies. The coverage of SBTi targets increased across our equity funds from 41% to 51% this year, driven by the addition of almost 100 companies with SBTi targets to our climate-aware fund, as well as our exit from the commodities fund in which only a fifth of companies had set SBTi targets.
- › **Corporate bonds:** Our corporate bonds allocation includes investment grade (global and sterling), high yield, and emerging market bonds. The increase in the carbon footprint of the bond portfolio was largely driven by a large increase in the emissions from our emerging markets debt fund, which itself was due to a material year-on-year increase in the underlying emissions metric for one oil and gas company, Sinopec. Emissions in our high yield bond fund declined year-on-year, as the manager reduced exposure to higher carbon emitters in the energy and utility sectors. Two of our investment grade funds saw an increase year-on-year, driven firstly by an improvement in data coverage and secondly by a restatement by a third-party provider in the enterprise value of one underlying issuer, which materially impacted the metrics when corrected. The scope 1 and 2 footprint of one of our short-dated credit funds increased after an increase in the footprint of some gas and utilities companies, which are among the funds' top emissions contributors.
- › **Property:** the property allocation in the default fund is held primarily across two funds – one comprising managed properties in the UK, and one property income fund. We have also made an allocation to a build-to-rent fund, but because that strategy does not yet have any assets it has not been included here. Our largest allocation to property is via a managed fund. The fund's absolute scope 1 and 2 emissions increased following the acquisition of a new portfolio of assets, but the

manager is continuing to work to drive down emissions across the portfolio (including phasing out gas across the fund's assets); the fund's scope 3 emissions fell by c.25% year-on-year.

- › **Infrastructure equity:** The infrastructure allocation is mostly invested in global core infrastructure and renewable infrastructure, with a smaller allocation to UK infrastructure. Our larger renewable infrastructure fund saw a material decline in its absolute emissions year-on-year, a reduction which is primarily attributable to changes in the emissions factors applied by their new carbon accounting platform, rather than a significant change in the emissions profile of the underlying assets.
- › **Private equity:** Our private equity funds invest across a range of industries, including healthcare, industrials, and technology. This is the second year we are reporting data for this asset class, and we have added to the two previously reported funds our ownership stake in IFM Investors. This addition of a new investment contributed to a slight increase in the overall scope 1 and 2 footprint of our private equity holdings. One of our private equity fund managers updated their carbon accounting methodology and expanded their data coverage to include four additional portfolio companies. The fund's reported scope 3 emissions decreased despite the broader coverage, indicating positive progress in reducing portfolio emissions, although the impact of methodological changes on the reported decrease over the period cannot be ruled out. Our second private equity fund saw an increase in its absolute emissions as it made new investments and increased the size of existing positions, however the carbon footprints of the fund fell indicating improved carbon efficiency and lower emissions intensity across the fund.
- › **Timberland:** This is the first year we are reporting figures for timberland as an asset class. Our two timberland strategies invest in sustainably managed forestry across North America, Australasia, and Chile. One fund is in its investment period, with portfolio construction ongoing. The fund currently exhibits a very low carbon footprint, and we expect emissions reporting to evolve and become more representative of the strategy as the portfolio matures. We have reported financed emissions for the asset class on a gross basis, without any netting of carbon removals. During the reporting period, our two timberland funds removed approximately 330,000 tCO₂e from the atmosphere.
- › **Total default fund strategy:** Across the default strategy, the scope 1 and 2 carbon footprint of the asset classes we report increased by 12%. The large increase in the footprint of our corporate bond holdings – itself driven by a material increase in emissions from one issuer, outlined above - was a key contributor to this overall portfolio increase. Other asset classes, like infrastructure equity, and equities saw a decline in their carbon footprints.
- › **Alignment metric:** The proportion of assets with a validated SBTi target increased from 25% last year to 30% this year. This was due to a higher proportion of issuers with accredited targets in the climate aware equity, investment grade bond, and UK corporate bond funds.

Fund choices

In addition to the default fund, we offer a number of other fund choices for our members. These are:

- › **Ethical Fund:** The Nest Ethical Fund is for people who want to invest in line with specific ethical or moral concerns, for example in areas such as human rights and fair trade. It doesn't just exclude companies that can harm the world, its people, or the environment, it also proactively invests in organisations that make a positive contribution to society. The fund invests in a range of asset classes to manage risk appropriately at different stages of members' lives. It follows a dynamically managed, three-stage glide path which is similar to our flagship Nest Retirement Date Funds. We have chosen to display the ethical growth stage fund as most of our members will be in the growth phase fund for a long time. About 60% of this fund is invested in equities, with the remainder in corporate bonds, property, renewable equity infrastructure and liquid assets.
- › **Sharia Fund:** The investments in this fund are screened by Islamic scholars to meet Sharia standards. Lifestyling at the asset allocation level is not currently possible for this fund as it invests entirely in two asset classes – equities and bonds.
- › **Higher Risk Fund:** The Higher Risk Fund is for members who are more confident about taking investment risk in the expectation that their pot will grow faster. 70% of this fund is invested in equities, with a higher proportion in emerging markets than the default fund. We have not included emissions from sovereign debt – which makes up c. 1.5% of the fund - in the aggregate for this fund due to the issues around aggregation outlined above.

- › **Lower Growth Fund:** This fund is provided for members who are very cautious about investing and are prepared to accept their pot will not grow very much. The aim of the fund is to maintain the value of members' savings after all scheme charges over the long term. It may not keep up with the rising cost of living. All of this fund is invested in bonds.

You can read more about the asset allocation of our retirement date funds in our [quarterly investment report](#). We are not reporting separately on Nest's post-retirement option, the Nest Guided Retirement Fund.

The relevant metrics for each fund choice are presented in Table 3 below. See appendix for the asset class breakdown of each fund.

Metrics by fund choice

Table 3A: Carbon emissions metrics by fund choice

Fund choice	Absolute emissions (tCO2e)		Carbon footprint (tCO2e/£m)		Year-on-year change in carbon footprint (%)	
	Scope 1+2	Scope 3	Scope 1+2	Scope 3	Scope 1+2	Scope 3
Ethical Fund	8,775	94,611	16	177	-25%	-23%
Sharia Fund	42,271	23,433	325	33	-22%**	+28%**
Higher Risk Fund	106,172,388*	1,930,742,924*	48	127	+13%	-10%
Lower Growth Fund	577	8,399	21	302	+21%	-2%

Table 3B: Data quality and portfolio alignment metrics by fund choice

Fund choice	Data quality – % of holdings for which						Portfolio alignment (% of assets with SBTi target)
	Scope 1+2 data			Scope 3 data			
	Reported	Estimated	Unavail-able	Reported	Estimated	Unavail-able	
Ethical Fund	94%	5%	1%	22%	76%	1%	49%
Sharia Fund	9%	76%	15%	0%	78%	22%	46%
Higher Risk Fund	98%		2%	98%		2%	39%
Lower Growth Fund	77%	2%	21%	38%	41%	21%	23%

n/d: denotes no data; n/a: denotes not applicable for the asset class

*Our fund manager has changed the calculation approach for the absolute emissions metrics for our primary equity fund. As a result, the absolute emissions figure for the Higher Risk Fund is materially higher this year than it was in last year's report. Restated with the revised methodology, the 2024/25 absolute emissions for the Higher Risk Fund would be 106,938,969 and 1,911,967,572 for scope 1+2 and scope 3 respectively **Our fund manager has restated the carbon footprint for the Sukuk bond fund in the Sharia fund. The restated Scope 1+2 carbon footprint is 439 and the restated Scope 3 carbon footprint is 29 for 2024/25 for the Sharia fund.

What the data shows

- › **Ethical fund:** The majority of the ethical fund is invested in ethical equities and corporate bond funds, with a small proportion in property, gilts, and renewable infrastructure assets. The equities portion of the fund saw a small increase in its Scope 1 and 2 footprint which was primarily driven by a rise in the emissions of two investments – one industrial manufacturer and one utility company. The footprint of the bond portfolio saw a significant decrease, as positions in three high emitters

were exited and two other high carbon portfolio companies (one utility and one manufacturing company) saw material reductions in their emissions footprints.

- › **Sharia fund:** Higher coverage of SBTi targets in the equity fund drove a 7 percentage point increase in the overall Sharia portfolio alignment; coverage in the Sharia bond fund (Sukuk) remains low at 3%, explained by the prevalence of out-of-scope issuers (including sovereigns and government entities). The decrease in the Scope 1+2 of the Sharia fund was driven by a reduction in the emissions of the Sukuk bond fund. This was due to a lower carbon emissions profile of one holding which makes up the majority of the fund's carbon footprint, Saudi Electricity Company. The increase in the Scope 3 carbon footprint of the Sharia fund was driven by a higher carbon footprint of the Sharia equity portfolio because of an increased allocation to the high emitting industrial sector from 4% ('25) to 11% ('26) in the index benchmark.
- › **Higher risk fund:** The higher risk fund has a higher allocation to emerging market equities and high-yield corporate bonds than the default fund. The fund's scope 1 and 2 footprint increased significantly over the year due to the increase in one of our bond funds – itself due to a material rise in emissions from one company. The reduction in the fund's scope 3 footprint is largely due to our divestment from our commodity equity portfolio. The proportion of investments covered by SBTi aligned targets increased from 34% to 39% year on year, largely driven by an increase of companies with targets within our primary equities portfolio.
- › **Lower growth fund:** The lower growth fund only invests in investment grade corporate bonds, and so the scope 1+2 emissions footprint of the fund increased in line with the moves in our corporate bond holdings which are described above. The scope 3 footprint stayed broadly flat year-on-year.

Targets

We aim to align the Scheme's whole investment portfolio with limiting global warming to 1.5°C above pre-industrial levels by reaching net zero carbon emissions – across Scopes 1 to 3 – by 2050 or sooner.

To set a course for this ambition, we have set a 2025 target of a 30% reduction in Scope 1 and Scope 2 carbon footprint in our listed equity and corporate bonds portfolios from a December 2019 baseline. We have set a 2030 emissions reduction target of 50% on the same basis, which is in line with the need for global emissions to roughly halve by 2030 from a 2019 baseline to be on track for net zero emissions by 2050. This target translates to a decarbonisation rate of around 7% per year, in line with the self-decarbonisation guideline of the EU Climate Transition Benchmark (EU CTB). We have communicated these targets to our investment managers and reflected them in our governance, strategy and risk management processes.

As a result of the challenges around data availability, we have not yet set decarbonisation targets for alternative asset classes, although we are tracking emissions performance where possible and have set specific objectives for managers for all asset classes. We take account of our performance, as well as improving data quality and progress in the wider economy, including updates to decarbonisation pathways, when reviewing these targets. We will consider extending these targets to include Scope 3 emissions and a wider range of asset classes in due course. 54% of total assets in the default fund have specific portfolio-level decarbonisation targets for 2026. These are shown in table 4 below.

We are also mindful of the strategies available to us to reduce financed emissions, and the real-world impacts of doing this. For example, it is possible to reduce financed emissions through large-scale exclusions of carbon-intensive assets. However, such an approach is unlikely to have a significant impact on real-world emissions. In turn, it is unlikely to significantly contribute to meeting the goals of the Paris Agreement. By engaging with investee companies and encouraging them to decarbonise, we have a better chance of achieving real-world emissions reductions. We are working with our fund managers to assess the alignment of companies and assets in our portfolio with net zero, looking at their forward-looking commitments and targets in addition to their current emissions performance in line with the IIGCC's **Net Zero Investment Framework**. These targets are helpful for individual portfolios but can be difficult to aggregate across asset classes as there is some subjectivity in assessing the alignment of companies' plans with the goals of the Paris Agreement. We will continue to explore setting targets using this methodology during 2026.

For our private markets portfolio, we have also set an ambition to invest at least £1.4bn in renewable energy infrastructure by 2030. As at March 2026, we have met this allocation.

Progress to date

Table 4 sets out the decarbonisation targets for each relevant mandate and the progress to date. We work closely with our investment managers to translate our high-level targets into fund objectives. We develop these targets on a fair share basis, reflecting the different starting point for different regions and asset classes. In aggregate, we have achieved a 74% reduction since 2019 in the carbon footprint for the scheme. The reduction reflects a combination of asset allocation decisions, tilts, and exclusions in specific portfolios. All portfolios are ahead of their targets, though we are mindful that these outcomes remain dependent on underlying manager data, methodologies and third-party climate modelling assumptions.

Table 4: Targets and progress across portfolios

Portfolio	Decarbonisation rate and baseline year	2026 target implied by decarbonisation rate ⁸	2026 actual performance
Developed market equities	-7% per annum, 2019 baseline	-36%	-51%
Investment grade bonds ⁹	-7% per annum, 2019 baseline	-36%	-90%
Investment grade bonds short duration ⁹	-7% per annum, 2019 baseline	-36%	-85%
Ethical equities ¹⁰	-50% by end-2029, 2019 baseline	-36%	-55%
Ethical sterling corporate bonds ¹³	-50% by end-2029, 2019 baseline	-36%	-67%
High-yield bonds ⁹	-7% per annum, 2020 baseline	-30%	-45%

⁸ The implied target is as at March 2026 assuming a 7% decrease per annum relative to the previous year's residual emissions figure.

⁹ Target is based on WACI rather than EVIC. WACI normalises by revenues and is therefore often preferred by investment managers for comparing potential holdings and making investment decisions, while the EVIC is generally the preferred approach for assessing the emissions financed by investors.

¹⁰ Only held in the Ethical fund choice.

Appendix

Table 5: Breakdown of funds by sub-asset class allocation as at 31 March 2026

Sub-asset class	2046 Retirement Date Fund	Ethical Growth Fund	Sharia Fund	Higher Risk Fund	Lower Growth Fund
Climate aware global developed equities	42.2%	-	-	64.8%	-
Ethical global equities	-	58.3%	-	-	-
Sharia compliant equities	-	-	68.9%	-	-
Sharia compliant sukuk	-	-	31.1%	-	-
Global investment grade bonds	7.6%	-	-	-	-
Ethical sterling corporate bonds	-	20.7%	-	-	-
Low-risk sterling liquidity	4.2%	-	-	1.4%	24.9%
Sterling corporate bonds	3.7%	-	-	-	0.5%
Climate aware global emerging market equities	5.2%	-	-	8.0%	-
Global high yield bonds	3.6%	-	-	5.6%	-
Private equity	5.2%	-	-	8.0%	-
Sovereign emerging market debt	3.0%	-	-	4.6%	-
Sterling short duration investment grade bonds	3.5%	-	-	-	45.6%
Infrastructure equity - renewables	2.7%	7.7%	-	-	-
Infrastructure equity	3.4%	-	-	-	-
Global short duration investment grade bonds	1.3%	-	-	-	19.8%
Thematic equities	1.5%	-	-	2.3%	-
Private credit	3.8%	-	-	1.3%	-
Corporate emerging market debt	0.8%	-	-	1.3%	-
Direct property income	0.6%	-	-	-	-
Fixed interest gilts	0.5%	2.6%	-	-	9.3%
Derivatives	0.6%	-	-	1.0%	-
Ethical low-risk sterling liquidity	0.6%	0.2%	-	0.0%	-
Timberland	0.4%	-	-	-	-
Build to rent property	0.0%	-	-	1.0%	-
UK direct property	5.5%	10.6%	-	1.6%	-

Notes: figures may not sum to 100% due to rounding.

Glossary

absolute emissions

The total GHG emissions of an asset class or portfolio

asset

Something of economic value that an individual, an organisation, a corporation or a government owns, for example, a piece of property, a share in a company or a building or machinery.

asset class

A group of assets that have the same characteristics, for example, real estate, equities or bonds.

benchmark

A standard used to judge the investment performance of an asset or asset class. Stock and bond indices which track the average performance of a broad selection of assets are often used as benchmarks.

bonds

Loans, issued as tradeable securities, made between an investor and a borrower. Bonds are usually issued in the investment markets by corporations or governments.

carbon footprint

A measure of the emissions per million pounds (tCO₂e /£m) invested or financed.

carbon offset

Compensating for emissions by funding an equivalent unit of carbon dioxide saving elsewhere.

carbon pricing

Attempts to capture the external and often indirect cost of CO₂ emissions to society and shift this cost to the actual emitters based on their emissions. Carbon pricing forms the basis for regulatory instruments such as carbon taxes.

Climate Action 100+

Global investor initiative with more than 600 investors that are engaging companies on improving climate change governance, cutting emissions and strengthening climate-related financial disclosures, in order to mitigate financial risk and to maximise long-term value of assets.

climateaction100.org

climate-aware fund

A fund invested in equities and based on a market index, but with overweighting and underweighting of company shares in certain sectors based on the companies' exposure to climate-related opportunities (when overweighted) or risks (when underweighted).

The methodology for 'tilting' our developed and emerging markets equities climate-aware fund was developed by us in partnership with UBS Asset Management and Northern Trust Asset Management, our investment managers for developed and emerging markets equities respectively.

commodities

Raw materials, such as coffee, wheat, cotton, gold and oil, which can be bought and sold.

default fund

A pension fund set up for members into which they are automatically enrolled.

The Scheme's default investment strategy, the Nest Retirement Date Funds, are target-date funds, where the investment objectives follow a glide path based on how far away the member is from their expected retirement date, year by year.

divestment

When an investor sells assets. This can be based on poor performance, ethical or governance concerns or social or political goals.

environmental, social and governance (ESG) factors

These are investment risks that investors consider when evaluating investments.

We believe that well-run organisations with sound ESG practices have a better chance of long-term success and profitability. This is set out among our investment beliefs.

equities

Shares in a company or other entity which can be bought or sold.

EVIC

Enterprise value including cash. The sum of the market capitalisation of ordinary shares at fiscal year end, the market capitalisation of preferred shares at fiscal year-end, and the book values of total debt and minorities' interests. No deductions of cash or cash equivalents are made to avoid the possibility of negative enterprise values.

financed emissions

Emissions that investors finance through their loans and investments.

green bond

A fixed-income instrument issued by companies or governments to raise money for environmental and renewable energy projects.

greenhouse gases (GHGs)

There are four GHGs that are linked to global warming: carbon dioxide (CO₂), methane, nitrous oxide and fluorinated gases. Over three quarters of global GHGs are CO₂.

The Greenhouse Gas Protocol, an international accounting tool, categorises GHG emissions into three groups or 'scopes':

- › **Scope 1** covers direct emissions from the reporting company's owned or controlled sources.
- › **Scope 2** covers indirect emissions from the generation of purchased electricity, steam, heating and cooling that has been consumed by the reporting company.
- › **Scope 3** includes all other indirect emissions that occur in the reporting company's value chain.

ghgprotocol.org

Institutional Investors Group on Climate Change (IIGCC)

European membership body for institutional investor action on climate change. Its work focuses on corporate governance, investor practices and public policy. IIGCC runs the European secretariat for Climate Action 100+.

www.iigcc.org

Intergovernmental Panel on Climate Change (IPCC)

United Nations intergovernmental body for assessing the science of climate change. The IPCC's assessment reports supported the creation of the UNFCCC and the Paris Agreement.

ipcc.ch

investment beliefs

A set of values used to guide day-to-day investment decisions and strategy. Our investment beliefs are set out in our 'Statement of investment principles' (SIP).

nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/statement-of-investment-principles.html

investment committee

A group that oversees the overall investment strategy and approach of an organisation as well as the investment team. The Nest Invest Board (NIB) delegates these powers to our investment committee, whose membership includes members of the NIB and independent investment specialists.

investment manager

A third party that is responsible for implementing an investment strategy in an asset class or classes and for managing the portfolio of assets in which members' money is invested on their behalf.

investment return

The amount gained or lost on money invested in assets, usually expressed as a percentage. Annualised investment returns over several years help to demonstrate the longer-term performance of an investment.

investment risk

The probability, or likelihood of occurrence, of the actual returns from an investment deviating from the returns originally anticipated.

investment strategy

The guidelines that lay out future investment goals and the rules and procedures to be used when making investment decisions. Investment strategy evolves in response to changes in the economy and investors' needs. We also prioritise members' needs when evolving our investment strategy.

market index

A hypothetical portfolio of investments used to judge the performance of types of assets or asset classes. An example is the FTSE 100 Index which calculates the value of shares in the 100 most highly capitalised companies on the London Stock Exchange. Some indices focus on particular sectors or geographic regions.

Network on Greening the Financial System (NGFS)

An international group of central banks and supervisors that works to help the financial system manage climate- and environment-related risks. NGFS develops scenarios for central banks, supervisors and financial institutions to use in risk assessments and stress tests.

overweighting

When an investor purposefully increases holdings of a certain stock or group of stocks above the investor's normal target or above a designated benchmark.

In the case of our developed market equities climate-aware fund with UBS, we are overweighting companies who are having a positive impact on climate change relative to their peers – for example, investing more in renewable energy companies compared to pure fossil fuel companies.

Paris Agreement

The Paris Agreement was reached at COP21 in 2015, the 21st meeting of the decision-making body of the UNFCCC. Its central aim is to ensure global warming in the twenty-first century remains well below 2°C above the average level recorded for the period 1850 to 1900 and to pursue efforts to limit global warming to 1.5°C.

As of 31 March 2026, 194 of the 198 Parties to the Paris Agreement had ratified or acceded to it. The countries outside the agreement were Libya, Iran, and Yemen, while the United States had withdrawn and was therefore not a party.

unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement

Partnership for Carbon Accounting Financials (PCAF)

A global partnership of financial institutions that work together to develop and implement a harmonized approach to assess and disclose the greenhouse gas (GHG) emissions associated with their loans and investments.

carbonaccountingfinancials.com/

purchasing power parity

The rate at which the currency of one country would have to be converted into that of another country to buy the same amount of goods and services in that country.

science-based targets

Targets adopted by companies to reduce GHG emissions are considered science-based if they are in line with what the latest climate science says is necessary to meet the goals of the Paris Agreement—to limit global warming to well-below 2°C above preindustrial levels and pursue efforts to limit warming to 1.5°C.

Task Force on Climate-related Financial Disclosures (TCFD)

Provides a framework for consistent climate-related financial risk disclosures for use by companies in communicating information to investors, lenders, insurers and other stakeholders.

fsb-tcfd.org

underweighting

When an investor purposefully reduces holdings of a certain asset or asset class in relation to the investor's normal target or a designated benchmark.

United Nations Framework Convention on Climate Change (UNFCCC)

United Nations entity to address the threats of climate change. Adopted in 1992, it is the parent treaty to the 2015 Paris Agreement and the 1997 Kyoto Protocol.

unfccc.int

voting versus engagement

Most shares in publicly traded companies give their owners a right to vote on some company decisions, including things such as whether to take over another company or approve the amount senior executives are paid. Voting usually takes place at each company's annual general meeting (AGM).

Engagement can be done by voting at AGMs or separately by engaging with companies directly or through investor groups. An individual or organisation with shareholder ownership has more opportunities for engagement.

WACI

Weighted Average Carbon Intensity. Measures a portfolio's emissions intensity by calculating the weighted average emissions of the portfolio normalised by revenues.



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