



Climate change policy

Nest's climate change policy

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About this document

This document sets out Nest Corporation's policy for considering and integrating climate change-related risks and opportunities in the way we manage assets on behalf of scheme members.

The policy sets out how Nest addresses the climate change risks and opportunities across our investment portfolio and how we will meet our climate targets. Nest's climate change policy was last reviewed and approved by the Trustee's investment committee in July 2024. It will be reviewed and updated at least every three years.

Nest has also developed a [climate change roadmap](#), that supports the policy and sets out how we plan to transition our portfolio towards a net-zero economy. We will report on our progress against this policy and the transition plan in our annual [responsible investment report](#) and our [annual reporting](#) against the Task Force on Climate-related Financial Disclosures (TCFD).¹

¹ fsb-tcfd.org



Policy overview

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.

Scientists agree that the world faces an existential threat if global warming continues on its current trajectory. If we do not change course, humanity risks missing the point where we can avoid runaway climate change, with disastrous consequences for the world's people and economies as well as all the natural systems that sustain us. We also recognise the strong links between nature and climate systems. Tackling climate change will have positive impacts on halting nature loss, and protecting natural ecosystems will enhance our resilience to the impacts of climate change. We therefore consider climate change and nature & biodiversity loss as twin issues and seek to address them in tandem.

Nest Corporation recognises the risks and threat of climate change and believes that limiting global warming to 1.5C could help curb the catastrophic consequences of climate change. Even as the world takes action to reduce emissions and limit global warming, Greenhouse Gas (GHG) emissions currently in the atmosphere and the associated warming mean that our climate and weather patterns will be changing for decades to come. As extreme weather events are becoming both more frequent and more extreme, we will see increasing levels of damage and losses across economies and societies globally.

The objective of our climate change policy is to protect our members from the risks of climate change to their savings and their quality of life in retirement. Climate change is a systemic risk, that has the potential to affect the entire global economy. It causes externalities that are not currently priced in by financial markets. We expect that these externalities will be financially material over the next years and decades. We also seek to take advantage of the investment opportunities of the transition and help to drive the development of climate change solutions.

Based on the latest scientific evidence and our own research, 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 1.5C above pre-industrial levels by reaching net zero carbon emissions by 2050 or earlier.**

At the same time, we recognise that we cannot do it alone. Whether we reach net zero emissions globally by 2050 will primarily depend on governments developing the policies necessary to transition the global economy. As asset owners, we are reliant on other stakeholders, including our external fund managers, the companies we invest in, and policymakers to also align their activities with the goals of the Paris Agreement. Decarbonising our portfolio more quickly than the wider economy would not protect our members against the systemic risks of climate change. Our climate change policy therefore also focuses on the role we can play in reducing real-world emissions.

Our strategy and commitments

We have developed a strategy for managing climate change risks and opportunities that focuses on four key levers that are available to Nest as an asset owner: Asset allocation and risk management; fund manager selection and monitoring; stewardship; and public policy and advocacy. These levers seek to reduce both the financed emissions in our portfolio and real-world emissions whilst helping us allocate to investment opportunities.

Asset allocation and risk management

We integrate both transition and physical climate change considerations in the way we allocate to asset classes. We also work with our fund managers to ensure we're able to assess and manage climate change issues across the different asset classes we invest in. We also aim to take advantage of the investment opportunities of the transition by investing more money in climate change solutions such as renewable energy infrastructure and low-carbon technologies.



Stewardship

We believe that stewardship is one of the most powerful tools investors can use to influence companies to decarbonise and build resilience to the physical impacts of climate change. It provides a means for protecting our members' pension pots against transition and physical risks. We engage with companies to understand how they manage climate change risks. We also use stewardship to hold companies to account to deliver their net zero commitments.



Fund manager selection and monitoring

We expect all our current and prospective fund managers to work towards aligning the portfolio they manage for Nest with the 1.5C global warming limit. We set expectations for all managers to assess and manage transition and physical risks from climate change. We also set more specific expectations of managers based on the type of mandate they manage.



Public policy and advocacy

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.



By taking a forward-looking and dynamic approach to managing climate-related risks and opportunities, we can better protect and enhance the saving outcomes for our millions of members at retirement.

Our view on climate change on pages **8 to 12** explains in more detail why we consider climate change to be a central consideration when making investment decisions.

How we are taking action on pages **14 to 18** explains in more detail how we intend to implement the strategy to achieve our ambition.

We conclude with how we will report and monitor our progress on page **20**.



Our view on climate change

At Nest we accept the scientific evidence that climate change presents one of the biggest financial, environmental and societal challenges of our time.

The evidence of climate change

The scientific evidence clearly shows that human activities have contributed to around 1.1C of global warming since the modern industrial era, based on comparison with the average temperature for the period 1850 to 1900.² If warming continues to increase at the current rate, we may reach an average increase in global temperatures of 1.5C before 2040.³

The impact of this amount of warming is already being felt through extreme weather events. Economic losses from global natural disasters including earthquakes, droughts and heatwaves in 2023 were estimated at \$380 billion, above long-term and short-term averages.⁴ Further increases in emissions from human activities will cause long-term changes to the climatic system. This in turn will irreversibly affect the planet and all life on it, including human society. Research on the consequences of climate change continues to develop. However, there is a growing body of evidence of the physical and transition risks resulting from climate change on the environment, economic activity, human health and the productivity and functioning of financial markets⁵. Research has also identified several key opportunities.

In response to this evidence, during the United Nations Climate Change Conference 2015 (COP21), held in Paris, governments from around the world reached an agreement to combat climate change and accelerate and intensify the actions and investments needed for a sustainable, low-carbon future. The aim of the Paris Agreement, as it is now known, is to keep 'global temperature rises in this century to well below 2C above pre-industrial levels and to pursue efforts to limit the temperature increase further to 1.5C'⁶. To date, 193 Parties (192 countries plus the European Union) have ratified it. Research by the Intergovernmental Panel on Climate Change (IPCC) suggests that there would be significant differences in the impact of global warming of 2C versus 1.5C. Keeping global warming below 1.5C would limit damage to ecosystems and human health and wellbeing. To limit warming to 1.5C, the IPCC projects that global carbon emissions need to halve by 2030 and reach net zero by around 2050⁷.

More recently, governments and policymakers have also recognised the need to focus on adapting to the current and future impacts of climate change, and build resilience against climate shocks. The Sharm-El-Sheik Adaptation Agenda launched at COP27 in 2022 sets out 30 global adaptation outcome targets by 2023 for both state and non-state actors across key systems including food and agriculture and water nature.⁸

² IPCC, [AR6: Synthesis Report](#) (2023)

³ Ibid

⁴ Aon, [Climate and Catastrophe Insights Report](#) (2024)

⁵ Bank of England, [Financial stability report](#) (2022)

⁶ UNFCCC, [The Paris Agreement](#) (2015)

⁷ IPCC, [Special report: global warming of 1.5C](#) (2019)

⁸ UNFCCC, [Sharm-El-Sheik Adaptation Agenda](#) (2022)

Why climate change matters to Nest

With over 13 million members and £40bn in assets under management as at March 2024, Nest is one of the UK's biggest workplace pension schemes. We have a fiduciary duty to put the interest of our members first, and give due consideration to relevant matters when making investment decisions. Millions of Nest's members will be invested with us for decades. We believe that climate change is a systemic risk. It creates externalities that are not currently priced in by financial markets. Over the time horizon that we invest on behalf of our members, we believe these externalities will become increasingly financially material to our members' pension pots and managing the risks and opportunities of climate change is therefore firmly in line with our fiduciary duty.⁹

This is articulated in our investment beliefs that guide our approach to investing our members' money. These are published in our [Statement of investment principles](#).

Two of these beliefs relate to our responsible investment activities:

Incorporating and acting upon climate risk and other environmental, social and governance (ESG) factors is a significant driver of investment outcomes.

- › Integrating sustainability factors into our investment process, from asset allocation and benchmark construction to manager selection and risk management, supports the identification and ultimately the pricing of ESG risk and opportunity.
- › Capital allocation by investors and corporations can make a difference in how ESG risks play out and is particularly effective when aligned with policy and regulation.

Acting as responsible long term stewards has a positive and broad impact on member outcomes.

- › Where portfolios are well diversified, performance is broadly determined by the global economic systems in which investees operate – engaging with companies, fund managers, and policy makers to improve financial markets and influence the long-term health of these systems is in our members' best interests and part of our fiduciary duty.
- › We consider the impact of our investments as an economic actor in our own right and as part of a wider investor community. We believe we can deliver on our investment objectives and have a net positive impact on externalities that affect members' investments and retirement outcomes.

We also believe that managing climate change risks and opportunities is important for us to retain our members' trust and confidence in their long-term savings.

In the next section, we describe the key risks and opportunities of climate change that we seek to manage.

⁹ In 2024, the UK Financial Markets Law Committee published a [report](#) explaining the legal duties of pensions fund trustees with regards to climate change.

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.



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.

- › Litigation risks may also arise as a result of an increasing number of climate lawsuits brought by individuals and communities to hold companies and governments to account for their contribution to climate change, and the impact this has had on their livelihoods. Litigation can be costly for companies and impact firm value.¹⁰ The number of climate change court cases is growing globally, and has more than doubled since 2017.¹¹

The transition to a low-carbon economy may also have disruptive effects on workers, communities, supply chains and consumers in the UK and around the world. The shift away from carbon-intensive activities has the potential to negatively impact workers and communities dependent on those sectors, exacerbate inequality and have other negative impacts on people, sectors and markets.

On the other side of the coin, the shift *towards a low carbon economy* brings many opportunities and sectors such as renewable energy and mining (particularly of commodities vital to the clean

energy transition) and companies operating along their value chain are of growing importance. Many of these sectors, however, are exposed to social risks such as forced labour, community conflicts and land rights; and if not sufficiently addressed, risk exacerbating the negative impacts of the transition to people even further.

Failure to address these impacts could also undermine public support and delay climate action. We believe that the social dimension of the transition should be central to our work to ensure that the transition is fair and inclusive – also referred to as a ‘Just Transition’.

We support the work of the [Just Transition Finance Lab](#) and use its three-step approach for financing a Just Transition: anticipate, assess and manage the social risks and opportunities of the transition to net zero and a climate-resilient economy, identify and enable the social opportunities of the transition, and ensure meaningful dialogue and participation for impacted groups.¹²

We believe that Nest has a social responsibility to contribute to the transition to a low-carbon economy in ways that will not only enhance the value of their pension pots for their life after work but also bring positive impact to their lives along the journey to retirement.

Data on transition risk has progressed significantly over the last few years. We are therefore already able to integrate transition risk metrics in our asset allocation decisions. We also use stewardship to manage transition risks in our portfolio. We talk about the levers we use to manage climate change risks in more detail in the next section.

¹⁰ Sato et al (2023), “Impacts of climate change litigation on firm value”. Available at: [Impacts of climate litigation on firm value - Grantham Research Institute on climate change and the environment \(lse.ac.uk\)](#)

¹¹ UN Environment Programme and Sabin Center for Climate Change Law at Columbia University, [Global Climate Litigation Report: 2023 Status Review](#)

¹² Just Transition Finance Lab, [The Just Transition: Transforming the Financial System to Deliver Action](#) (2024)

Physical risks and nature

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.



Physical risks arise from the changes in weather and climate that impact economies and the financial sector. Physical climate risks are subdivided into two categories:

- › Chronic risks result from gradual shifts in biophysical and climate characteristics over time due to climate change. This includes, for example, changes in labour productivity due to gradually warming temperatures or reductions in agricultural output due to shifting rainfall patterns
- › Acute risks refer to changing frequencies or severity of shocks, such as natural catastrophes, including flooding, tropical cyclones, wildfire, heat waves or droughts.

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.¹³ 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. Addressing deforestation and land degradation will be essential to meet the goals of the Paris Agreement. Agriculture, forestry and land use (AFOLU) activities account for around 28% of global emissions.¹⁴ At the same time, climate change is a key driver of nature and biodiversity loss.¹⁵

We are also mindful of the broader impacts of climate change on our members, beyond the effect on their retirement savings. The physical impact of changes to the climatic system and the economic cost of adapting to a warmer planet will impact their lives in the coming years.

- › Physical climate change risks are complex to assess and measure. Currently, the models available to use are not robust enough to systematically manage the risk across the entire portfolio. In the short- to medium-term, we will therefore continue to build an understanding of our exposure to different hazards across the portfolio and primarily address physical climate change risks with companies in our stewardship and public policy workstreams. We talk about these in more detail in the next section.

¹³ IPCC, [AR6: Working Group I Chapter 5](#) (2021)

¹⁴ IPCC, [Special Report: Climate Change and Land](#) (2019)

¹⁵ IPBES, [Models of drivers of biodiversity and ecosystem change](#) (2024)

Investment opportunities

To enable the transition to net zero and build resilience to climate shocks, financing is required from a range of sources. One of the key pledges agreed at COP28 in 2023 was to triple renewable energy capacity globally and double energy efficiency improvements by 2030.¹⁶ Climate finance flows have been increasing, but it is estimated that a total of almost \$200tn in climate finance is required to deliver net zero emissions by 2050. This brings investment opportunities, which we wish to access for our members. They include low-carbon technologies such as renewable energy and electric vehicles. 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.



We aim to access investment opportunities primarily through asset allocation, for example by investing directly in renewable energy infrastructure. We also consider which companies are developing climate change solutions and ask our managers to take this into consideration in portfolio construction. We also use stewardship to encourage company to develop and use climate change solutions, and engage with policymakers to remove regulatory barriers.

Investment implications

The financial impacts of climate change are an evolving area of research. Most backward-looking studies confirm that climate change impacts asset prices.¹⁷ However, these studies cannot give insight into what might happen if we reach unprecedented levels of warming.



Our research suggests that in the long term (more than 10 years), our portfolio performs worst in a disorderly transition, where limited action is taken to address climate change. This is driven primarily by increasing physical impacts of climate change over time. Our portfolio performs best in the long-term in an orderly transition scenario, where immediate and coordinated action is taken to tackle climate change.¹⁸

¹⁶ UNFCCC, [COP28 Agreement](#) (2023)

¹⁷ Such as Campiglio et al (2023), "Climate-related risks in financial assets" in *Journal of Economic Surveys*, 37, pp.950-992. <https://doi.org/10.1111/joes.12525>

¹⁸ In 2022 we commissioned Aon plc to help us test the performance of the Scheme's portfolio under different climate scenarios. Aon tested our current and projected asset allocation under five different transition scenarios. Each scenario makes a number of assumptions about variables including government policy, technological developments, socio-demographic changes and transition timeframes.



How we are taking action

The objective of our climate change policy is to protect our members' savings from the financial risks of climate change, and take advantage of the investment opportunities of the transition.

Based on the latest scientific evidence and our own research, 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 1.5C above pre-industrial levels by reaching net zero carbon emissions by 2050 or earlier.

At the same time, we recognise that we cannot do it alone. Whether we reach net zero emissions globally by 2050 will primarily depend on governments developing the policies necessary to transition the global economy. As asset owners, we are reliant on other stakeholders, including our external fund managers, the companies we invest in, and policymakers to also align their activities with the goals of the Paris Agreement. Decarbonising our portfolio more quickly than the wider economy would not protect us against the systemic risks of climate change. Our climate change policy therefore also focuses on the role we can play in reducing real-world emissions.

We have developed a strategy for realising our climate change ambition by 2050 that focuses on four key levers that are available to Nest as an asset owner: Asset allocation and risk management, fund manager selection and monitoring, stewardship and public policy and advocacy.

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

We describe these levers in more detail in the following section.

Asset allocation and risk management

Nest's in-house investment team is responsible for developing the scheme's investment strategy. This includes deciding which asset classes we invest in. We are committed to managing the risks, opportunities and impacts of climate change 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 risks. We therefore also consider climate change considerations at the portfolio level by looking at the underlying assets.



Specifically, we will:

- › Identify, assess and manage the transition and physical risks and opportunities from climate change across the asset classes we invest in. This includes identifying and managing key impacts and dependencies, such as nature and social considerations.
- › Research the impact of climate change on asset-class risks and returns. This includes assessing the impact of different climate change scenarios on capital markets assumptions.
- › Set out key short-, medium- and long-term targets for our portfolio. This includes setting targets to reduce financed emissions. However, we believe that portfolio decarbonisation targets alone are not a good measure of alignment and could incentivise investors to divest from all carbon-intensive companies to achieve “paper decarbonisation”, without any change to real-world emissions. We will therefore complement decarbonisation targets by also setting targets for alignment of our investments with the Paris Agreement, using the [Net Zero Investment Framework](#). We expect to set differentiated targets for different asset classes to reflect their different starting points and the relevant sectoral and regional pathways to net zero. For example, we do not invest in portfolios investing only in emerging

markets companies to decarbonise at the same rate as portfolios investing in developed markets companies.

- › Research, identify and allocate capital to climate solutions, such as renewable energy infrastructure. This includes investing in new asset classes including direct investment in natural capital assets, such as forests. However, we are not currently using carbon offsets to meet our climate change objectives, due to the challenges around the quality of the carbon credit market. We are also focussed in the medium-term on achieving portfolio decarbonisation through real world emission reductions.
- › Use divestment selectively, focusing on companies that are heavily involved in activities that are not aligned with the goals of the Paris Agreement, and therefore expose the scheme to stranded asset risk, such as thermal coal. Companies that we do not consider to be making progress in the transition, or in building climate resilience across their operations, may also be excluded from our portfolios. We may also divest from companies that are not responsive to engagement or that are very heavily exposed to physical risk and are not showing progress in building climate resilience.

Fund manager selection and monitoring

In order for the scheme to be aligned with the goals of the Paris Agreement, we need to work towards alignment of all the building blocks of our portfolios. We work closely with external fund managers to implement our investment strategy. To meet our climate change objectives, it is crucial that all of our fund managers are aligned with our views on climate change and have the right capabilities to manage climate change risks and opportunities.



We expect all of our fund managers to work towards aligning the portfolio they manage for Nest with the 1.5C global warming limit. For all managers, irrespective of the strategy they manage for Nest, we have set out the following baseline expectations:

- › Identify, assess and manage the physical and transition risks of climate change based on robust scientific methodologies, and key impacts and dependencies with other environmental and social issues and report them to investors. We acknowledge that the science especially on modelling physical climate change risk is still evolving. We expect our managers to keep track of latest developments and communicate assumptions and uncertainties.
- › Where feasible, set portfolio-level decarbonisation and portfolio alignment targets following science-based sectoral and regional pathways towards achieving net zero emissions by 2050. We are mindful that methodologies are still being developed to assess portfolio alignment all asset classes.
- › Use their stewardship resources to manage climate change risks in their portfolios and increase the proportion of investments that have net zero targets and robust transition plans in place. This includes engaging through collaborative initiatives such as Climate Action 100+. We expect to see a clear link between

risk management, engagement and portfolio construction.

- › Take a consistent approach to managing the risks of climate change and not undermine progress made in climate-aware strategies developed for us by counter action taken elsewhere in their business.
- › Disclose key climate-related information to clients, including data on climate change risk exposure, portfolio emissions, investment in climate solutions, and stewardship activities.
- › Work with their clients and peers to stay abreast of the latest scientific, policy and industry developments.

These expectations have become a requirement of our standard tender process for new mandates, and managers that cannot demonstrate their commitment to meeting these expectations will not be selected.

In addition, we will set mandate-specific objectives for each asset class and manager. For example, our equity fund managers will be subject to additional expectations on voting.

We will also work with external managers to develop new types of mandates that will help us meet our climate change objectives, such as new vehicles that allow us to invest in climate solutions.

We regularly review our managers' progress and will select several managers each year to conduct a deep dive into their approach to climate change. Where we have concerns about a managers' commitment or resources they will be placed on a watchlist with specific objectives they will need to meet over a pre-agreed timeframe, usually three years. If limited progress has been made over that time period, we may withdraw our members' assets.

Stewardship

We believe that stewardship is one of the most powerful tools investors can use to influence companies to change to low-carbon approaches. It also provides a means for protecting our members' pension pots against transition and physical risks.



We use stewardship both as a tool to manage risk and to create real-world change. 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+.

In particular, we are taking the following actions:

- › We have developed our own [voting and engagement policy](#), which sets out our expectations for companies on climate change. We have and will continue to vote against companies' management resolutions if they do not make adequate disclosures on climate change risks and opportunities. There are also further expectations for carbon-intensive companies such as mining, the oil and gas industry and banks, where we expect companies to commit to stop developing and funding new oil and gas infrastructure.
 - › Our fund managers exercise the voting rights with regards to the shares Nest owns on behalf
- of our members. We have developed a subset of companies including the biggest emitters in our portfolio and monitor our managers' voting intentions at these companies closely. Where we disagree with the voting intentions of one of our managers, we have the ability to override their vote for our portfolio.
- › We will prioritise our engagement based on where we feel that we can have the most influence. We will engage across a number of issues and sectors, including fossil fuel supply and demand, banks and fossil fuel financing and deforestation. We also plan to add future engagement workstreams on physical risks and the Just Transition.
 - › We believe that investors engaging collectively sends a strong signal to companies about the importance of addressing climate change. It also allows investors to pool resources and engage with a wider range of companies. We will therefore engage primarily through collaborative engagement initiatives such as [Climate Action 100+](#), the [Net Zero Engagement Initiative](#), [Nature Action 100](#) and the [IIGCC Banks Engagement and Research Initiative](#). We will also monitor and set expectations on key social risks at companies important to the transition to net zero, such as through our participation in initiatives run by the [Investor Alliance for Human Rights \(IAHR\)](#). In addition, we expect our external fund managers to support and engage through collaborative initiatives.
 - › For every stewardship activity we will set time-bound milestones on which we expect the company to deliver over the short or medium term. Where our engagement is unsuccessful, in that we consider a company to be progressing insufficiently or too slowly towards alignment with the goals of the Paris Agreement, or are being unresponsive, we will consider escalating our engagement. This includes voting against management, speaking at the annual general meeting (AGM) or co-filing shareholder resolutions, and to a lesser extent, litigation. Where we see a persistent lack of response to our engagement and escalations, we may consider divestment as a last resort.

Public policy and advocacy

Policy and regulation is essential to correct the externalities of climate change and achieve the goals of the Paris Agreement. As part of the Agreement, countries are expected to prepare plans to achieve their share of emissions reductions, called in Nationally Determined Contributions (NDCs). While many governments have published such plans, there remains an implementation gap between current policies and pledges and the emissions reductions needed to stay on track for net zero emissions by 2050.¹⁹



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 policy makers can do to help mitigate the risks for the pensions industry.

Specifically, we will take the following actions:

- › We will continue to exchange views and work with our peers on climate change issues, both directly and through industry groups such as the [Paris Aligned Asset Owners](#) initiative. We will focus our work on key challenges for the industry, such as the lack of consistent and robust data on scope 3 emissions, physical and nature risk.
- › We will support policies to develop consistent and 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. We also support the development of green taxonomies to address greenwashing and direct more capital to climate solutions.

- › We will work with academia to stay abreast of the latest developments in climate science and how they can be applied to investment portfolios.
- › At the same time, we will publicly support the development of policy instruments, regulation and standards that supports the transition to net zero across the financial sector and the wider economy.
- › We will use our voice to encourage policymakers to implement their net zero emissions targets and adaptation plans, and develop credible strategies to reach them, such as carbon pricing.
- › We will ask policymakers to consider the impacts on workers, communities, supply chains and customers when developing climate change policies. We will also encourage policymakers to consider the twin crises of climate change and nature and biodiversity loss when developing policy.
- › We will engage with policymakers to address regulatory barriers that may prevent investors some directly investing in climate solutions, such as reforms to planning and permitting regimes to encourage the development of renewable energy infrastructure.
- › 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 and how we are holding companies and our fund managers to account.

¹⁹ UNEP, [Emissions Gap Report 2023](#)



How we will report and monitor our progress

Nest's climate change policy is overseen by the Trustee's investment committee and implemented by Nest Corporation's internal investment team.

This policy is intended to set out a pathway for change. We expect approaches to implementation will be adjusted and developed over time, with different actions taken at the right time. Our short-term targets and commitments are set out in our transition plan and [roadmap](#).

We will publicly report on the implementation and progress of our ambition and commitments on an annual basis in our Responsible Investment report and in our TCFD report. We will also report it to members on our [climate change member page](#).

Each year the investment team will review how we are implementing this climate change policy and will report these findings to the Trustee's investment committee.

We will hold our fund managers to account on how they implement their own climate policies and annually assess their progress towards our expectations as well as the objectives we set with them for the management of Nest's portfolios. We may share information across our fund managers in order to promote consistency and alignment of approaches across our whole investment portfolio.

Glossary

Adaptation

The process for human and natural ecosystems to adjust to actual or expected climate change and its effects.

Anthropogenic emissions

Polluting emissions that are released during human activities.

Biodiversity

The variety of living species on Earth, including plants, animals, bacteria, and fungi.

Carbon capture utilisation and storage (CCUS)

Process of capturing and storing CO₂ before it is released into the atmosphere. The technology can capture up to 90% of CO₂ released by burning fossil fuels. It is not currently commercially viable.

Climate Action 100+ (CA100+)

Global investor initiative with more than 450 signatories and USD\$40 trillion AUM engaging with the 100 biggest emitters globally and 60 "plus" companies considered instrumental to the low carbon transition.

Committee on Climate Change (CCC)

Independent, statutory body advising the UK and devolved governments on emissions targets and monitoring the progress in reducing emissions and meeting carbon budgets.

Conference of Parties (COP)

Decision-making body for the UNFCCC that has met every year since 1995. Also sometimes referred to as UN Climate Change Conference

Greenhouse Gas emissions (GHG emissions)

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

GHG emissions are categorised into three groups or 'scopes' by the international accounting tool, the Greenhouse Gas Protocol. Scope 1 covers direct emissions from owned or controlled sources. Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company. Scope 3 includes all other indirect emissions that occur in a company's value chain.

Externalities

A cost (negative) or benefit (positive) impacting a third party not directly involved in the transaction

International Energy Agency (IEA)

Autonomous intergovernmental organisation established in the framework of the OECD. It provides analysis, data and energy policy advice to member states.

Intergovernmental Panel on Climate Change (IPCC)

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

International Investor Group on Climate Change (IIGCC)

European membership body for institutional investor action on climate change. Its work focuses on corporates, investor practices and public policy. IIGCC runs the European secretariat for CA100+.

Just Transition

A framework developed by the trade union movement to encompass a range of social interventions needed to secure workers' rights and livelihoods when economies are shifting to sustainable production, primarily combating climate change and protecting biodiversity

Nationally Determined Contribution (NDC)

All parties to the Paris Agreement were required to outline their best efforts to meet the agreements aims through their nationally determined contributions and strengthen these over time.

Paris Agreement

The Paris Agreement was reached at COP21. Its central aim is to keep global temperature rise this century well below 2C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5C.

Runaway climate change

Situation caused by positive (bad) feedback cycles in which global warming accelerates the rate of global warming totally beyond any capacity of human control.

Taskforce on Climate-related Financial Disclosures (TCFD)

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

Transition Pathway Initiative (TPI)

Global asset owner-led initiative assessing companies' preparedness for the transition to a low carbon economy.

Transition Plan

A time-bound action plan that clearly outlines how an organisation will pivot its business model towards a trajectory that aligns with the latest and most ambitious climate science recommendations.

Transition Plan Taskforce (TPT)

A cross-sector initiative announced at COP26 in Glasgow and launched in April 2022 to establish the gold standard for transition plans. The TPT has engaged globally with financial institutions, real economy corporates, policymakers, regulators and civil society to develop its materials.

United Nations Framework Convention on Climate Change (UNFCCC)

United Nations' entity to address the threats of climate change. It is the parent treaty to the Paris Agreement and the Kyoto Protocol.

Version	Change	Date
1	Document created	07/2020
2	Update to reflect key developments in first year of the policy	09/08/2021
3	Updated following internal review	07/2022
4	Updated following internal and external stakeholder review	07/2024
5	Updated following internal review	05/2025



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