The 2022 Canadian Pension Climate Report Card analyzes, assesses and ranks the progress made by Canada's largest pension managers and four international pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. The international funds examined are AP2 (Sweden), National Employment Savings Trust (Nest) (United Kingdom), NGS Super (Australia) and New York State Common Retirement Fund (NYSCRF) (United States). View the full report at shiftaction.ca/reportcard2022.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

NATIONAL EMPLOYMENT SAVINGS TRUST (NEST)

Nest is the largest workplace pension scheme in the UK, with more than 10 million members. Nest Corporation is the Trustee for the Nest scheme, and is accountable to the UK Parliament.

Assets Under Management (AUM): £24.4 billion (March 31, 2022)

	OVERALL SCORE	Paris-Aligned Target	Interim Targets	Climate Urgency	Climate Engagement	Climate Integration	Fossil Fuel Exclusions
Nest	A–	B–	C+	A+	A	A–	B

OVERALL CLIMATE SCORE — A–

Nest communicates about climate urgency prominently and extensively, and acknowledges the role it must play to help achieve the Paris goal of limiting global heating to 1.5°C. Nest's proxy voting guidelines are the strongest on climate of any of those analyzed in this report. The fund sets high expectations for its external managers to align with its net-zero emissions commitment. Nest has divested from companies with more than 20% of revenues from thermal coal, oil sands and Arctic drilling, and will progressively restrict investment in companies with any involvement in these activities.

Nest's interim targets could be more comprehensive and stated more clearly. To date these targets account only for emissions intensity rather than absolute emissions reductions.

SCORING DETAILS

Paris-Aligned Target — B–

Nest has committed to achieve net-zero emissions across its portfolio by 2050. It is reporting scope 1 and 2 emissions within its individual portfolios, and scope 3 emissions where available. Nest is a member of the Paris Aligned Investment Initiative (PAII).

Interim Targets — C+

Nest is in the process of setting short- and mid-term interim targets but already states it "expect[s] that emissions in our fund will need to be halved by 2030 from reported and estimated levels as at 31 March 2020" (*2021 TCFD Report*, p.32).

As described in Nest's *2021 TCFD Report* (p.32), existing targets include:

- Developed market equities: targets to reduce emissions intensity by 50% for scope 1, 20% for scope 2 and 10% for scope 3 GHG emissions relative to the benchmark index, by 2050 at the latest; increase exposure to renewable energy by 30%; decrease exposure to fossil fuel reserves and coal by 30% relative to the benchmark.
- Investment-grade bonds: target to maintain carbon intensity at least 30% below the carbon intensity of the benchmark, and to decrease fund carbon intensity by 7% per year starting from its 2020 baseline level.
- Property: net-zero by 2050 or sooner, including a 60% reduction in scope 1 and 2 emissions by 2030, with scope 3 targets to be developed.

Climate Urgency	A+

Nest recognizes the climate crisis as a significant threat to social and economic stability, acknowledges its agency as an investor to influence the trajectory of the climate crisis, and has aligned its strategy to the goal of limiting global heating to 1.5°C.

Sample language (*Climate Change Risk Policy*, p.4):

"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 now, 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. Nest Corporation supports this view of the risks and threat of climate change and believes that limiting global warming to 1.5°C could help curb the catastrophic consequences of climate change. Our ambition 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. We expect that emissions in our portfolio will have to halve by 2030 in order to be on course to meet this ambition."

Climate Engagement	A

Nest sets high expectations for owned companies in its voting guidelines, which are the strongest among those examined in this analysis.

Nest's *Global Voting Guidelines* (p.8-12) state that TCFD disclosure should include an explanation of how the business model is aligned with the goals of the Paris Agreement. Nest will not vote to accept a company's annual statements and will vote against the company Chair if scope 1 and 2 emissions are not reported. Nest will also vote against directors if progress is not made toward a "coherent and robust strategy on climate risk mitigation." If this does not have the desired result, Nest "may" escalate to filing a shareholder resolution or divesting. Nest clearly states its goal of engagement with fossil fuel companies: "We will engage with companies in carbon intensive industries with the goal of having them commit to stop developing new oil and gas fields that do not fall within the IEA's net zero by 2050 scenario." Nest encourages the linking of climate targets to executives' variable compensation and will vote against remuneration-related proposals when "concerned that companies are failing to appropriately incentivise their executives to meet their climate change goals". Nest also states an expectation that companies' lobbying activities and industry associations align with their public position on climate, and may vote against directors if they believe such activities to be misaligned. Finally, Nest expects auditors to take into account material climate change risks and opportunities in their review of the financial statements, and may vote against the re-appointment of auditors if this is not the case.

Nest's *Voting and Engagement Standards – UK* specifies further that banks should align all financing activities with the goal of achieving net zero emissions by 2050 or sooner and says that Nest will vote against re-election of directors should banks finance new coal, oil sands or Arctic drilling projects (p.25).

Collaborative engagement

Nest provides details of select engagements, including its goals for engagement, the process of engagement, the result, and Nest's analysis. Its *Responsible Investment Outcomes Report 2020/2021*, for example, reported that Nest announced in advance that it would be supporting a shareholder resolution calling on Barclays to become net-zero by 2050, then met with the Chair of Barclays to discuss the resolution and Barclays' response. Barclays subsequently put forward a resolution for shareholders to approve its net-zero commitment (p.16).

Nest also supported a shareholder resolution calling on oil and gas company Total to set Paris-aligned targets and met with Total ahead of the AGM. While Total subsequently announced a commitment to become carbon neutral by 2050, Nest still voted in favour of the shareholder resolution as Total's commitment did not include scope 3 emissions (p.16). According to Climate Action 100+'s Net-Zero Company Benchmark, as of May 13, 2022, Total met four of ten criteria in the investor engagement group's disclosure framework, while the Alignment Assessment shows little to no alignment with net-zero.[1]

Nest is a member of Climate Action 100+.

Direction given to external managers

Nest's *Climate Change Risk Policy* demonstrates the strongest guidance Shift has seen when it comes to external managers. This includes an expectation that all fund managers work toward aligning the portfolio to meeting the goal of limiting global heating to 1.5°C, with this being a "requirement" for all new external manager mandates from July 2020. Existing managers must demonstrate by 2030 "meaningful progress against defined benchmarks" (p.4). Managers must also by 2023 prepare an analysis of how they could halve their managed portfolio's emissions by 2030, and report on the portfolio's carbon intensity and climate scenario analysis (p.8). Nest is clear that these expectations are not a matter of "encouragement" nor are managers being given unlimited timeframes to implement these directions: "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. We expect all incumbent managers to deliver on our expectations by the end of 2023" (p.8).

Climate Integration	A–

Accountable Paris-aligned membership

Nest is a member of the Paris Aligned Investment Initiative (PAII).

Transparency and disclosure of holdings

Nest's annual report includes its top 100 holdings. Its quarterly investment reports include a breakdown of asset classes, the top 10 holdings in each fund, asset allocation and overall exposure to underlying funds.

Transparency and disclosure of climate risk

Nest has tested its portfolio against a base case scenario, a "no transition" (4°C) and "disorderly transition" (less than 3°C) scenario, and an abrupt (1.5°-2°C), orderly (1.3°-2°C) and smooth (less than 1.5°C) transition outlook. Nest provides a three-page description and analysis of results in its *2022 TCFD Report* (p.15-17). Nest's scenario analysis went to the extent of showing to what degree a younger member of the fund would be exposed to climate-related risks, based on Nest's strategy for target-date funds (members have a different make-up of funds depending on how close or far they are to retirement). The analysis found the young member's "pension pot could be worth £11,000 to £12,000 less if the transition to a low-carbon economy is disorderly, or no transition is made. On the upside, in an orderly or smooth transition, the member could be £6,000 better off compared to the base case scenario" (p.17).

Nest reports scope 1 and 2 emissions with inclusion of scope 3 where possible.

Nest has a current climate strategy, first crafted in July 2020 and updated in December 2021 and December 2022.

Board climate expertise and/or fossil fuel entanglement

A Board competency framework is not published and no Directors are identified as having climate expertise. Nest's *2022 TCFD Report* states that in 2021 the Board undertook "training on the Trustee's new statutory duties in relation to climate-related risks and opportunities" (p.9).

One of 10 Directors, or 10% of the Board, has a fossil fuel entanglement: Clive Elphick is an independent director of National Grid Gas and of National Grid Electricity Transmission.[2]

Executive and staff compensation and climate

There is no indication that Nest ties compensation to the achievement of climate targets.

Fossil Fuel Exclusions	B

Nest states in its *Climate Change Risk Policy*, "There are some business activities that we do not believe can be aligned with the goals of the Paris Agreement" (p.7). Accordingly, Nest divested by the end of 2020 from all companies with more than 20% of revenues from thermal coal, oil sands and Arctic drilling, and continues to exclude all companies making new developments in those areas. The 20% revenue threshold will be lowered to 10% in 2023. By 2025, all companies with any involvement in those areas will be divested unless they have a commitment to fully phase-out those activities by 2030 (*Climate Change Risk Policy*, p.7).

ENDNOTES

1 Climate Action 100+. (2022). *Total Energies SE*. Retrieved November 10, 2022 from https://www.climateaction100.org/company/total/.

2 Nest. (2022). *Board Members | About Nest Corporation | Nest Pensions*. See: Clive Elphick. www.nestpensions.org.uk/schemeweb/nest/nestcorporation/who-runs-nest/trustee-members.html.

REFERENCES

The following publicly available information was reviewed in the preparation of this analysis.

Reports

- 2021-2022 Annual Report (2022)
- Investing for a better future. Our responsible investment outcomes over 2020/21 (2021)
- Nest quarterly investment report. At end September 2022 (2022)
- Climate change progress for Nest's investments 2021/2022 (2022)
- Climate change progress for Nest's investments 2020/21 (2021)

Documents

- Climate Change Risk Policy (December 2022)
- Climate Change Risk Policy (December 2021)
- Nest's global voting guidelines (2022)
- Nest's voting and engagement standards - UK (2022)

Webpages and press releases

- How climate change could impact your pension (webpage) (accessed November 7, 2022)
- Working for Change together (webpage) (accessed November 7, 2022)
- Members' Panel | About Nest Corporation | Nest Pensions (webpage) (accessed November 7, 2022)
- Board Members | About Nest Corporation | Nest Pensions (webpage) (accessed November 7, 2022)
- Growing your money (webpage) (accessed November 7, 2022)
- How we're investing responsibly (webpage) (accessed November 7, 2022)