



## Implementing a robust engagement strategy: Nest Pensions

### Background

Nest is one of the largest pension schemes in the UK, helping over 13 million members save for their retirement, with more than £40bn in assets under management as at March 2024. This case study, authored and provided by Nest, details the organisation's engagement strategy.

We developed a Climate Change Policy in 2020 which sets out our ambition to align our investment strategy with the 1.5°C global goal by reaching net zero emissions across our investment portfolio by 2050 at the latest.<sup>1</sup> Our implementation strategy focuses on four key levers: asset allocation, fund manager selection and monitoring, stewardship and public policy.

In 2021, we published a climate change roadmap to 2030. This included a target to engage with companies responsible for at least 70% of financed emissions in our developed market equity fund, from a baseline of 14.5% in March 2021. This accounts for around 46% of the fund's total assets.

We have also set climate change objectives for all of our external fund managers, including expectations on stewardship. In total, we set 69 objectives across 23 portfolios and 13 fund managers. At the end of 2023, a total of 83% of objectives had been met.

### Tracking progress

28.5% of financed emissions of the portfolio and 44.4% of financed emissions of the benchmark are now under engagement. The portfolio coverage is lower due to the exclusion of engagement laggards from the portfolio, as well as the focus of the engagement programme on companies underweighted compared to the benchmark due to climate factors. While this means that they do not contribute as much to portfolio financed emissions, the engagement has a greater impact on real-world emissions. The manager has been working on developing an alignment assessment, and we will be looking to expand this target in the next year.

### Engagement strategy

We believe that stewardship is one of the most powerful tools investors can use to influence companies to transition their business in line with the goals of the Paris Agreement to limit warming to well-below 2°C and pursue efforts to limit warming to 1.5°C. We invest entirely through external fund managers, who are expected to align the portfolios they manage for Nest with goals of the Paris Agreement. This includes the expectation that managers use their voting rights and engagement resource to positively influence the companies in their portfolio to transition to a low carbon economy.

Nest's in-house responsible investment team also carries out engagement directly, and has developed its own voting policy and expectations for companies. We focus on engaging with our largest holdings on systemic risks to complement engagement by our external managers. The climate engagement workstream has focused on the oil & gas and banking sectors, and has recently been expanded to the demand-side and nature risk. We engage both directly and through our participation in coalitions such as [Climate Action 100+](#), the [Net Zero Engagement Initiative](#), [Nature Action 100](#) and the [IIGCC Banks Engagement and Research Initiative](#).

---

<sup>1</sup> Nest's latest climate change policy is available [here](#)

For every stewardship activity, we will set time-bound milestones on which we expect the company to deliver over the short or medium term.

## Escalation

Where engagement is unsuccessful, in that a company is considered to be progressing insufficiently or too slowly towards alignment with the goals of the Paris Agreement, we will consider divesting. This will usually only take place after several escalation options have been explored, such as engaging collectively with other investors, voting against management, speaking at the annual general meeting (AGM) or co-filing shareholder resolutions.

In December 2021, we announced that we would divest from five energy companies that had been unresponsive to engagement by our developed market equity fund manager, UBS Asset Management. The decision followed a 3-year engagement program by UBS AM, with 49 oil and gas companies identified as lagging on climate change performance.

More recently, we have escalated our engagement with Shell. Nest has engaged with Shell for several years, asking the company to set targets for reducing oil and gas production, set absolute reduction target for scope 3 by 2030 and increase capital expenditure in genuine renewables and energy transition technologies. Ahead of Shell's 2023 annual general meeting, we publicly pre-declared our decision to vote against Shell's energy transition report and the company's Chair of the Sustainability Committee. We also supported a shareholder resolution filed by Follow This, which asked the company to align its existing 2030 reduction target, covering the greenhouse gas (GHG) emissions of the use of its energy products (Scope 3) with the goals of the Paris Agreement.

We engaged further with Shell in 2023, including pushing the company to set a target for the use of its energy products. However, at its capital markets day, Shell announced changes to its production targets. It had previously suggested that oil production would fall by 1-2% per year until 2030, but it would now be kept stable.

This shift in strategy was misaligned with our Climate Change Policy. We therefore decided to escalate engagement by co-filing a shareholder resolution with Follow This and 27 other institutional investors. The resolution asked Shell to align its medium-term emissions reduction targets covering the use of its energy products (Scope 3) with the goals of the Paris Agreement.

In March 2024, Shell published an updated strategy, responding to the resolution's ask in part by setting an ambition to reduce emissions from oil products by 15-20% by 2030 from 2021. However, at the same time, Shell scaled back other targets for 2030 and retired its 2035 target. We therefore decided to continue with the shareholder resolution and also voted against the re-election of the CEO.

## Moving forward

In the first few years of implementing our climate change policy, we were able to achieve reductions in financed emissions primarily through asset allocation, for example by introducing climate change tilts and through selective exclusions across our portfolio. Going forward, stewardship will be an even more important tool to reduce portfolio as well as real-world emissions by encouraging our investee companies to decarbonise. We will continue to track progress in meeting our engagement coverage targets, as well as measuring the alignment of companies under engagement. We plan to expand the engagement programme to other portfolios and asset classes, including fixed income.

*The data contained in this case study has been obtained from third parties. Nest Corporation assume no responsibility for the accuracy of the data.*