



A4S

**ASSET OWNERS
NETWORK**

ALIGNING OUR MEMBER
EXPECTATIONS WITH OUR
INVESTMENT STRATEGIES

Practical example: Tesco Pension Fund



THE PRINCE OF WALES'S
CHARITABLE FUND

TESCO
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WHAT?

Tesco Pension Fund has two pension schemes for Tesco employees – one closed and one open.

The defined benefit pension scheme is closed and has 350,000 existing deferred and retired members. This scheme is managed by a trustee board and is actively managed. The second scheme, called the Tesco Retirement Savings Plan, is a defined contribution scheme administered through the Legal & General (L&G) Mastertrust, with over 210,000 people contributing. Around one quarter of assets for this pension plan are actively managed and three quarters are passive and based on tracking an index.

Environmental, social and governance (ESG) factors are integrated into the investment process of actively managed assets across all asset classes, guided by our investment strategy. For passively managed assets, sustainable investing is guided by our approach to stewardship, which is delegated to L&G.

To understand what matters most when it comes to saving for retirement, we launched an engagement exercise, speaking to over 1,500 of our pension scheme members. The results are now being used to inform our investment and stewardship strategies. This will help us better align with our fiduciary responsibilities and the expectations of our members.

WHY?

Our beneficiaries are investing for their retirement. In some cases this will be 50 years away. They need to be confident that we are investing their savings with this long-term horizon in mind, and that the world they will retire into is one they will want to live in.

Our fiduciary duty to members means we need to safeguard assets, deliver defined benefit pensions and optimize net risk adjusted outcomes for our DC members. Both the pension scheme board and Tesco plc recognize that ESG can play a fundamental role in delivering this fiduciary duty, whilst also investing responsibly and reflecting member preferences where possible.

Collaborating with Tesco, we set out to understand better what mattered most to our members in general, and, more specifically, where sustainability issues fitted with members' priorities. As a pension fund, we want to integrate sustainability in a way that works for our members, but that also helps to secure everybody's future.



HOW?

The whole process took about nine months. We started by agreeing the priorities, including, importantly, that we would receive input from members without assuming any particular outcome. To help us do that, we brought in research partners – C Space and Share Action – to provide independence and expertise.

Given the long-term nature of pensions, it is vital to be forward looking, so the next step in this process was for us to understand the themes that are currently emerging within ESG that are also important for our employees to consider. To identify these themes, we consulted a range of global academics, institutions and large pension funds. Doing this meant that when we started talking to our members, we could help them think beyond current news stories to what future issues are likely to be.

Out of this research and together with our partners, we developed questions for members and planned the member engagement. C Space led a two-day, filmed, focus group of people across different demographics and from both Tesco pension schemes. This gave us an in-depth understanding of what members want from their pensions and how they talk about it so we could engage with them using their words rather than jargon. We also sent a survey to a wider group of pension members and got more than 1,500 responses.

From the results of these engagement activities, we are now exploring how best to reflect member priorities across both pension schemes, including the default fund for the defined contribution scheme. Our key priorities are to optimize future net risk adjusted returns and to be a positive influence for future good through responsible investment and stewardship.



LEARNING WHAT MEMBERS WANT

For the focus groups, about 50 members participated, and we filmed those discussions over two days. We made sure that we had participants from across the country and the business and that a range of demographic groups were included. Over the two days, participants talked in groups about the things that were important to them, and how they wanted to see their pensions invested.

To maintain our independence, we asked C Space to lead the focus group, and Share Action vetted our questions. Nobody from our team or from Tesco plc was in the room, to ensure that we couldn't influence the discussions and that members could talk as freely as possible.

In our questions and in the language used by facilitators, we were careful to avoid industry jargon. We tried to communicate in ways that members would understand and could relate to. Filming the sessions helped us to capture what the members were thinking, why they were thinking those things and the language they

used to express themselves. This will help us to communicate with our members about changes to our investment and stewardship strategies in the language that is clear and meaningful to them.

We supplemented this in-depth work with an online survey. Our research partners helped us to select a sample of members from both schemes that was the right size for our purpose and that was representative.

Together, these approaches gave us vital information about what our members want that we can use to adapt our strategies. From this work, we identified three member priorities. In order of priority but with a narrow marginal difference between them, these were:

1. Maximize my savings
2. Keep my money safe
3. Invest my money responsibly

Within the third priority, there were three global themes that members thought were the most important overall – although the order of priority differed slightly by demographic:

- **Protecting people's rights:** members were concerned with global human rights, decent working conditions and equality.
- **Working towards a better society:** this covered issues such as health, affordable housing and education.
- **Protecting the planet:** concerns here included protecting natural habitats, using renewable energy and reducing waste.



APPLYING WHAT WE'VE LEARNED

To act in line with members' main concerns, we are focusing on two priorities: first, to optimize future risk-adjusted returns and second, to be a positive influence for future good.

For us, being a positive influence is broader than investing solely in companies that are already leaders in sustainable business. Creating a better world demands a collective, collaborative and consistent effort across the whole market. We want to use our position as a pension fund to influence organizations to embed sustainability into their business strategy and decision making.

Implementing this approach will be different for the two schemes. We can embed ESG more directly into the investment strategies of our actively managed defined benefit pension scheme and work closely with underlying investments. For our defined contribution scheme, the key will be to use ESG metrics to create a portfolio, where responsible investment is integrated across asset classes, into our index-based default fund. Most members remain in the default scheme rather than self-select fund choices, so shifting the default index towards investing responsibly will radically increase our impact.

We will also be revisiting the defined contribution plan's self-select options given what we've learned from engaging with our members. Based on the ESG priorities of our members, we are likely to include more specialist self-select options for different elements of ESG. Importantly, though, embedding ESG considerations will be a focus across the entire scheme. Self-select options and the default fund need to support each other, with ESG at the heart of both. That is what our members expect from us.

Creating the right metrics to build ESG into our default fund is a challenge. Traditional metrics tend to be backward looking, which doesn't necessarily give a good insight into future performance, behaviours or actions. From working with consultants, we know that we need to find the right metrics to deliver on our priorities and the wishes of our members.



NEXT STEPS

We are working with thought leaders to find forward-looking ESG metrics that we will apply to our default fund. This will help us to identify companies that are on a positive path and are likely to generate strong future returns. But we don't want to stand still. Instead of static metrics, we are developing a framework to enable us to keep our metrics up-to-date and in line with emerging trends and knowledge.

To increase member engagement, we are looking at how to measure the positive impact of our work. By measuring our impact, we can also show how what we're doing reflects what members told us mattered to them. We want to bring our work alive for our members and keep the dialogue going.

Another important element is building our networks. At the moment, many people in our industry are recognizing the need to integrate ESG considerations, but we're often approaching it in different ways. We'd like to collaborate with others who share our goals so that we can get real focus, scale and greater consistency behind those efforts.

"This exercise has provided us with a strong foundation to build a sustainable investment and engagement strategy for the future. We will continue to listen to our members and are currently exploring options through Tumelo to give our members the ability to vote on resolutions in companies in which they are invested.

More broadly we are also keen to collaborate with others, to use scale and shared knowledge for good, to contribute towards a better and sustainable planet whilst delivering good retirement outcomes."

**RUSTON SMITH, CHAIR,
THE TESCO RETIREMENT SAVINGS PLAN**



TOP TIPS FOR FINANCE TEAMS

STICK TO YOUR PRINCIPLES

You need to understand both what you want to do and how you want to do it. At the outset, develop the principles that are important to you and your sponsor and stick to them. These principles will help you to guide your work.

UNDERSTAND YOUR MEMBERS

It's important to understand what matters most to members so that you can deliver it for them – it's their money. To get the most out of engaging your members, they also have to understand you. Make sure that you're using language that is meaningful to your members.

STAY FOCUSED ON THE GOAL

The world is changing quickly, but we know that we need to preserve it for all of our futures. Keep that goal clearly in mind. Whatever we do, it should help to deliver on this purpose.

KEEP MEMBER ENGAGEMENT SIMPLE

Ask the right questions and see where it takes you rather than steering the engagement towards a predetermined answer. Listen to the answers and take the engagement step by step, without assuming the outcome.

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The Prince's Accounting for Sustainability Project (A4S)



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www.accountingforsustainability.org



The A4S Asset Owners Network is a grouping of pension fund chairs and trustees to discuss integrating sustainability into investment decision making. [Click here to find out more.](#)