<u>Public Questions – Pensions Committee 18 September 2020</u>

Question from Benjamin Christmas

Industries and companies around the world, big and small, are increasingly aware of the need to transition away from fossil fuels. Some are doing this for the financial risk fossil fuels now pose, but many more are facing their ethical and moral responsibilities and stepping up to the existential threat facing the world.

For companies who understand the science, one aspect of the future is very certain – the world cannot continue to burn fossil fuels.

For example, in January 2020 Microsoft set one of the most ambitious carbon commitments put forward by any company. Microsoft will be carbon negative by 2030 and will remove from the environment more carbon than they have emitted since their founding, by 2050.

To reduce Scope 1 and 2 emissions Microsoft is on a path to using renewable energy power for 100% of the day-to-day power of their data centres by the middle of this decade. Furthermore, the company aims to eliminate their dependency on diesel fuel by 2030. The announcement also stated:

"… we believe it's important to help accelerate the global transition away from fossil fuels."

The SCPF defence that almost all companies include an element of fossil fuel consumption in their current operations is true but a woefully inadequate response to the issue. Top companies are transitioning away from fossil fuels, in increasing numbers and with ever more urgent time scales.

SCPF and/or their investment managers can act swiftly when necessary. A recent rebalancing exercise resulted in the combined weighting of BP and Shell dropping from 1% or 0.6% of the total index between March 2019 and March 2020. Given the small proportion of the fund represented by these two companies and the very diverse portfolio SCPF possesses, it seems perverse to continue to give financial support to BP and Shell, especially in the face of the unfolding climate crisis, the moral responsibilities of all companies and the overwhelming scientific evidence that burning fossil fuels will destroy the planet.

Why is SCPF so determined to financially support Shell and BP?

RESPONSE:

SCPF delegates investment decisions to its investment managers. One of the managers appointed invests in passive global equities which tracks the FTSE all world developed index meaning it holds all companies within that index which include BP & Shell. The Fund's active UK equity manager also holds BP & Shell although these positions have been reduced recently. By investing in BP & Shell these managers can engage and change company behaviour on behalf of SCPF as a shareholder. Shell is taking meaningful steps to upgrade its asset portfolio, cut costs and capital intensity, partly by reducing the number of its refineries. Our UK Equity manager see the group's portfolio transformation from a legacy 'upstream' (exploration and production) assets to being a key player in the energy transition as one of its key opportunities. They engage the group regularly on this, as they did most recently in July 2020. Shell currently supplies around 3% of the energy the world uses. It has a goal to reduce greenhouse gas emissions emitted with each unit of energy it sells by 30% by 2035 and by 65% by 2050, partly by reducing the emissions from its operations, but also by changing the mix of energy products. In 2019, the group started setting unconditional targets to reduce its Net

Carbon Footprint – the target announced in 2020 was a reduction in emissions of 4% by the end of 2022. The group's Net Carbon Footprint target is consistent with the 1.5° Celsius goal of the Paris Agreement. They have also met several times with BP over the last 12 months to speak with the board, executives and management teams about the group's transition to greener energies. Among other things, they have asked the group to come up with a way to measure overall "energy efficiency," instead of having a different efficiency metric for each commodity. They also asked the group to link energy transformation directly to group strategy and pay as well as report more clearly on its climate impacts. In February 2020, BP announced its carbon neutral goals to be achieved by 2050. They will learn more about the group's plans on how it will achieve this target in updates from the company this month. They plan to understand more thoroughly how the group plans to restructure its business, and how this will impact the group's cost of capital, balance sheet and future dividends, along with its environmental footprint.

Question from Suzie Burnell

We are asking you today to agree to divest from fossil fuels and seek confirmation that you will reinvest in low/no carbon funds, and that you have authority to do this independently from the Local Government Pension Scheme.

RESPONSE:

Shropshire County Pension Fund is currently reviewing the analysis within their Climate Risk Report being presented today following the Council motion which asks the Pension Committee to consider divesting from fossil fuels within a 3-year timeframe. As part of the on-going investment strategy review low/no carbon funds will be considered.

Question from Dr Jamie Russell on behalf of her daughter Alice Russell (aged 9) and 115 children resident in Shropshire & Telford & Wrekin

We are children of Shropshire and Telford & Wrekin. We are worried about the climate crisis. We are writing to ask a question. When will you stop funding fossil fuel companies that damage the planet and our future? Will you do it at today's meeting?

RESPONSE:

The Pension Committee is considering a detailed Climate Risk Report at today's meeting following the recent Council motion which asked Pension Committee members to consider divesting from fossil fuel companies within a 3 year timescale