

PUBLIC QUESTION TIME

1. Question from Jamie Russell

At the last Pension Fund Committee there was a robust discussion among members about the possibility of divesting from coal mining giant Glencore. The company has recently been in the news. It is facing a legal challenge in Australia over issuing 'misleading' net zero climate claims (<https://www.clientearth.org/latest/latest-updates/news/clientearth-joins-complaint-against-coal-giant-glencore-alleging-misleading-net-zero-claims/>). Meanwhile, it has recently been fined a record £281m by a UK court for 'endemic bribery' of African oil officials (<https://edition.cnn.com/2022/11/03/investing/glencore-bribery-record-fine/index.html>). Will the Pension Fund Committee now divest from this company as a response to its actions? Or does the fact that Glencore remains hugely profitable for the fund outweigh concerns over its environmental and ethical record?

Response:

The decision to invest in Glencore is taken by the funds external managers based on their analysis of the company, sector and economic environment. They are required to integrate environmental, social and governance considerations into their investment processes and these considerations will impact their valuation of a company where they are considered financially material. A company's share price will trade at a discount to its fair value when markets consider these ESG factors to be material.

LGPS Central, Legal & General, Columbia Threadneedle Investments (CTI) & LAPFF are engaging with companies across sectors, including mining companies to accelerate the transition to a lower carbon economy on the Funds behalf. In engagement with Glencore, LGPS Central along with other Climate Action 100+ investors mentioned above encourage the company to bring forward their coal exit plans in line with objectives set at COP26 in Paris. We take some encouragement from Glencore's decision taken in 2020 to set a net zero ambition by 2050 and their decision to put a climate transition plan to a vote at the 2021 AGM and future AGM's. Glencore's plan covers absolute emissions across all scopes, which was a first in the sector. Following engagement, Glencore strengthened its medium-term (2035) decarbonisation target from a 40% reduction to a 50% reduction. Following the 2021 AGM, Glencore also set a specific short-term target of a 15% reduction in absolute emissions by 2026.

LGPS Central voted against Glencore's climate transition plan at the 2022 AGM. They have written to the firm to explain their decision and their ongoing concerns that the company's transition plan and in particular its coal exit plan is not Paris aligned in the short and medium term. LGPS Central engages with Glencore through the Climate Action 100 and investors will continue to put pressure on the company to accelerate its transition.

However, focusing on the supply of fossil fuels is only part of the story., Whilst demand remains robust and, in the absence of coherent government policies to accelerate the transition to renewable energy, it seems likely that reserves will continue to be extracted and burned (if not done by listed companies, then by private entities). There seems to be little benefit to be derived from Glencore selling their coal assets or

exploration rights to others to exploit. Coal remains an important part of the energy mix in many regions, and we are conscious of the hardship that can be associated with a spike in energy prices caused by a sudden contraction in supply. We are also cognisant of the importance of a just and managed transition away from fossil fuels.

The deployment of super critical power plant technology, carbon capture utilisation and storage and carbon off-setting are also likely to play a part in emissions abatement and it is important that companies like Glencore play their part in the development and deployment of these technologies.

The transition to a lower a carbon economy needs to accelerate rapidly but we do not consider that divesting will help to accelerate the transition. It is important that companies like Glencore are owned by engaged responsible long-term investors, who are prepared to hold management to account on these issues.

It is important to note that Glencore is a key supplier of copper, cobalt and other raw materials that are necessary for a low carbon transition and we believe that the firm will play a key part in this transition as it also makes a withdrawal from thermal coal.

In May 2022, Glencore resolved outstanding bribery cases in the US, UK and Brazil. Our investment managers have carried out engagements with the company since these investigations first became public. There has been an overhaul of the senior management team at Glencore and new management has made compliance a top tier priority. The Funds managers are of the view that the culture of the company has also improved significantly and as such the risk of these issues recurring is low. Overall, they consider that new management has properly and sufficiently focused on issues that could impact Glencore's license to do business, such as compliance and safety. Glencore increased its transparency in this area by publishing its first Ethics and Compliance Report, as well as its 2021 Payments to Governments Report, which aligns with the reporting requirements of Chapter 10 of the EU Accounting Directive. Our managers have provided assurances that they will continue to monitor the situation as the company continues to strengthen its internal processes and culture.

Improved Environmental Social and Governance controls can have a positive impact on the market's perception of a company and its management of risk which can be positive in terms of the share price. We remain positive about the ability of investors to influence corporate behaviour in a positive way to encourage sustainability across a variety of environmental, social and governance factors. This can bring benefits to a broad set of stakeholders. Health & safety performance has improved across Glencore's assets and investor scrutiny has contributed to the companies (and other mining companies) commitment to improve in this area.

2. Question from Kris Welch

Is the fund committed to keeping within 1.5C, or to 2C or to 3C of global heating? If the fund does not have a commitment to limiting global heating please state this.

Response:

The fund has committed to achieving Net Zero by 2050, in line with the aspirations of the UK Government and the objectives set at COP26 in Paris and the Institutional Investor Group on Climate Change (IIGCC) Net Zero framework. This is aligned with the ambition to limit global warming to 1.5 degrees.

3. Question from Joanna Blackman

On 27 October 2022, the UN Environment Programme announced that there is now 'no credible pathway to 1.5C in place' (<https://news.un.org/en/story/2022/10/1129912>) and warned that the world was likely to miss this target with catastrophic consequences. Does the Pension Fund Committee see the death of 1.5C as a sign that its policy of engagement has failed?

Response:

There can be little doubt that urgent action is required if 1.5 degrees is to remain within reach. Whilst responsible investment has a role to play in the transition required, there are number of other factors which play an important role. Responsible corporate ownership is important, and we need more investors to embrace their stewardship responsibilities and to take a long-term view. However, it is critically important that we don't focus only on the supply of fossil fuels. Attention also needs to be focused on the demand side of the challenge. If demand for fossil fuels remains robust, it is likely supply will continue to satisfy that demand. A comprehensive shift in the real economy is required and a policy environment supporting this needs to be implemented. Responsible investors through engagement with corporations, governments and government agencies can make a valuable contribution but investors acting alone cannot bring about the transition required. We consider that divesting from the fossil fuel companies, and heavy emitters will not help to bring about a more rapid transition.

4. Question from Sal Mager

As a pension fund member, it's very important to me that the Fund makes a rapid transition to net zero. Please could you outline and provide me with a copy of the Fund's road map to get to net zero?

Response:

The fund has set a Net Zero by 2050 target in line with the Institutional Investors Group on Climate Change (IIGCC) Net Zero Framework and in line with the UK governments aspirations and the targets set at COP26 in Paris. This requires a 50% reduction in the financed emissions of the fund's equity, fixed income and real estate assets by 2030. A critical element to achieving these reductions is engagement with the companies in our portfolio that are responsible for the carbon emissions associated with our investments and through that, we can encourage the decarbonisation of the real economy, divesting from companies involves selling those shares to other investors which is a transfer of ownership from one investor to another, this in itself does not result in a reduction of real-world emissions. The Fund has developed a Climate Strategy & Stewardship Plan which provides further details and can be found on the Funds website.

5. Question from Isobel Russell

I am 15 and I am worried about my future. The news from COP27 was very scary. We were told that time is running out to cut emissions. But instead of acting, the UK government is issuing new oil and gas licences to companies like BP and Shell - companies that Shropshire's pension fund invests in. The International Energy Agency and 99% of world scientists say drilling for new fossil fuels will break the 1.5C limit and

could cause the collapse of civilisation. Does the Pension Fund Committee have a legal obligation to safeguard my future and that of other young people in Shropshire?

Response:

The UK government and other governments around the world have a critical role to play in introducing policies that drive the transition to a low carbon economy. This transition needs to accelerate if we are to limit global warming to 1.5 degrees. At this difficult time energy security concerns and energy prices are also an important consideration for governments. The Fund believes that responsible investors have a role to play in encouraging companies to decarbonise, to invest in the transition and to take a long-term view of climate risk management. The transition to a low carbon economy is complex and the pathway to Net Zero is unlikely to be linear. Companies such as Shell and BP will need to play their part in the transition, developing and deploying low carbon technologies and supplying the low carbon energy of the future. Our investment managers integrate environmental, social and governance considerations into their investment processes in order to manage these risks appropriately and in order to ensure that the investment returns required by the fund are achieved. They are also required to undertake stewardship activities such as engaging with the management of the companies in which they invest and voting at their Annual General Meetings. The Funds managers are also engaging with governments around climate change and the implementation of the UK governments Net Zero Strategy. We consider that stewardship has an important role to play in accelerating the transition.

The Fund, in its Climate Change Strategy also endeavours to take a holistic approach to managing climate change risk and to act in a manner that will enable broader transition towards a low-carbon economy through a combination of portfolio construction, engagement and policy advocacy.