

## Exposure to, and engagement comment on, the largest oil related companies

### Exposure

The table below highlights the exposure to the largest oil related companies within the global equity mandates managed by Border to Coast Pensions Partnership, BCPP, Legal and General Investment Management, LGIM, and Newton Investment Management. The companies are ranked by turnover and their weightings within the FTSE All-World Index, a broader index than MSCI, are given as a guide.

Security Name	Turnover £bn	Weighting in FTSE All-World	BCPP	LGIM	Newton
Saudi Aramco	433.0	0.04%	0.02%	0.004%	-
China Pet. & Chemical	398.8	0.03%	-	-	-
Petrochina	386.8	0.03%	0.04%	-	-
Exxon Mobil Corporation	327.8	0.68%	-	-	-
Shell	319.1	0.32%	-	0.156%	1.96%
TotalEnergies SE	214.0	0.20%	-	0.090%	-
BP	206.3	0.16%	-	0.141%	-
Chevron	192.9	0.43%	-	0.122%	-
Valero Energy	144.8	0.07%	-	0.032%	-
Marathon Petroleum	144.8	0.08%	-	0.021%	-
Phillips 66	139.7	0.07%	-	0.012%	-
Equinor ASA	118.1	0.04%	-	0.019%	-
Eni	110.2	0.05%	-	0.021%	-
Petrobras PN	103.0	0.09%	-	0.041%	-
Eneos Holdings	92.1	0.02%	-	0.001%	-
Reliance Industries	91.0	0.16%	0.03%	0.071%	-
Indian Oil	87.1	0.01%	-	0.001%	-
SK	86.6	0.01%	-	0.001%	-
PTT	79.3	0.02%	0.02%	-	-
Oil & Natural Gas Corp.	70.8	0.01%	-	-	-
Repsol	63.2	0.03%	-	0.012%	-
PKN (Polski Koncern Naftowy)	62.9	0.01%	-	0.002%	-
ConocoPhillips	62.8	0.20%	0.81%	0.101%	-
Idemitsu Kosan	58.0	0.01%	-	0.001%	-
SK Innovation	51.4	0.01%	-	0.005%	-
Weight of Largest 25 Companies		2.81%	0.92%	0.85%	1.96%
Total Energy Sector Weight		4.76%	2.25%	1.97%	1.96%

As can be seen, all the mandates are less exposed to these companies than the broader index. Newton has the highest exposure to the subset of companies shown, but the lowest exposure to the Energy sector in its entirety. All mandates are currently significantly underweight the sector, but this is a snapshot in time and not a requirement from the Fund.

## Engagement Commentary

### BCPP

All five companies highlighted in the table are under engagement by BCPP, BCPP's third-party managers and/or Robeco (BCPP's engagement provider). A summary of this engagement is in the table below. Also included in the table are links to the independent organisations of Climate Action 100+, CA100+, and Transition Pathway Initiative, TPI. All five companies are under CA100+ coverage and have a TPI rating of 3 or 4.

The TPI is a global initiative led by asset owners and supported by asset managers. It uses a framework to evaluate the quality of companies' management of greenhouse gas emissions associated with their business. It also assesses companies' planned or expected future carbon performance and how this compares to international targets and national pledges made as part of the Paris Agreement.

The TPI currently covers around 1,000 publicly listed companies. Companies' management quality is assessed against a series of indicators, covering issues such as company policy, emissions reporting and verification, targets, strategic risk assessment and executive remuneration. Based on their performance against the indicators companies are placed on one of six levels:

- Level 0 – Unaware of (or not Acknowledging) climate change as a business issue.
- Level 1 – Acknowledging climate change as a business issue.
- Level 2 – Building capacity.
- Level 3 – Integrated into operational decision-making.
- Level 4 – Strategic assessment.
- Level 5 – Transition Planning and Implementation (Beta).

The following links provide more information on both CA100+ and TPI.

[Climate Action 100+](#)

[Home - Transition Pathway Initiative](#)

Security Name	Surrey Holding	Under Engagement (Robeco)	Under Engagement (Border to Coast)	Latest Engagement(s)	CA100+	TPI
Saudi Aramco	Yes	Yes	Yes	Robeco – Net Zero Carbon Emissions / Border to Coast – AGM Letter on climate expectations	<a href="#">Yes</a>	<a href="#">3</a>
PetroChina	Yes	Yes	Yes	Robeco – Environmental Challenges in the O&G Sector / Border to Coast – AGM Letter on climate expectations	<a href="#">Yes</a>	<a href="#">3</a>
Reliance Industries	Yes	Yes	Yes	Robeco – Just Transition in Emerging Markets / Border to Coast – AGM Letter on climate expectations	<a href="#">Yes</a>	<a href="#">3</a>
PTT	Yes	Yes	Yes	Robeco – Net Zero Carbon Emissions / Border to Coast – AGM Letter on climate expectations	<a href="#">Yes</a>	<a href="#">3</a>
ConocoPhillips	Yes	Yes	Yes	Robeco – Environmental Challenges in the O&G Sector / Border to Coast – AGM Letter on climate expectations	<a href="#">Yes</a>	<a href="#">4</a>

The following table explains the engagement themes and approaches being used by BCPP and its partners.

Engagement	Overview
<b>Robeco - Net Zero Carbon Emissions</b>	<p><i>This engagement Theme focuses on smoothing the decarbonisation journeys for the four key emitting industries: oil and gas, electric utilities, steel and cement by encouraging the companies under engagement to take climate change mitigation actions and secure their long-term license to operate. The engagement approach is based on the Climate Action 100+ (CA100+) Net-Zero Company Benchmark Framework.</i></p>
<b>Robeco - Just Transition in Emerging Markets</b>	<p><i>This engagement will initially focus on the energy (oil &amp; gas and utilities) and mining sectors due to the stronger urgency to decarbonize and their socio-economic relevance for emerging markets.</i></p> <p><i>A Just Transition is crucial for achieving climate goals in a manner that respects human rights, promotes social equity, supports economic well-being, and fosters global collaboration. It is a comprehensive approach that acknowledges the complexities of transitioning to a sustainable future and aims to make the process as inclusive and positive as possible. It enhances social equity, economic stability, and global cooperation, creating a more inclusive and sustainable pathway towards a net-zero future.</i></p>
<b>Robeco - Environmental Challenges in the O&amp;G Sector</b>	<p><i>Oil and gas companies are having to reconsider their business strategies as the rise of renewable energy, the promise of energy storage and the potential of electrified transportation. At the same time, tighter environmental and climate change legislation on a global, regional, and national level is and pressure for more concerted climate-policy coordination has increased post Paris COP in 2015.</i></p> <p><i>As investors, we need to know how the oil &amp; gas companies will deal with these changes in their industry, how they will address the huge risks and how they plan to profit from the opportunities that arise. The engagement objectives are based on the drivers that shape the new energy world. Objectives for companies were around how they will future-proof business strategy, striving for operational carbon-efficiency, assessing asset portfolio resilience, public policy engagement and working on product stewardship.</i></p>
<b>Border to Coast – AGM Letter on climate expectations</b>	<p><i>Prior to the company’s Annual General Meeting (AGM), Border to Coast wrote to the company to explain we would vote against management as they do not fully meet the first four indicators of the Climate Action 100+ Net Zero Benchmark (CA100+ NZB). Therefore, it is determined that the company has set insufficient short, medium and/or long-term emission reduction targets.</i></p>

## BCPP data verification comments

An independent review of the company's approach to climate change and data has been conducted by CA100+ and the TPI. These are included as links in the table above.

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## LGIM

Below, LGIM report some examples of the engagement they carry out on behalf of the Fund and their approach.

At LGIM, we believe that company engagement is a crucial part of transitioning to a net zero economy by 2050. Under our Climate Impact Pledge, we publish our minimum expectations for companies in 20 climate-critical sectors. We select roughly 100 companies for 'in-depth' engagement - these companies are influential in their sectors, but in our view are not yet leaders on sustainability; by virtue of their influence, their improvements would be likely to have a knock-on effect on other companies within the sector, and in supply chains. Our in-depth engagement is focused on helping companies meet these minimum expectations, and understanding the hurdles they must overcome. For in-depth engagement companies, those which continue to lag our minimum expectations may be subject to voting sanctions and/ or divestment (from LGIM funds which apply the Climate Impact Pledge exclusions).

BP

Rationale:

As one of the largest integrated oil and gas producers in the world, BP has a significant role to play in the global transition to net zero, hence our focus on this company for in-depth engagements. As members of the CA100+ we commit to engaging with a certain number of companies on their focus list and on account of our strong relationship with BP, we lead the CA100+ engagements with them.

What LGIM have done:

We have been engaging with BP on climate change for a number of years, during the course of which we have seen many actions taken regarding climate change mitigation.

BP has made a series of announcements detailing their expansion into clean energy. These include projects to develop solar energy in the US, partnerships with Volkswagen (on fast electric vehicle charging) and Qantas Airways (on reducing emissions in aviation), and winning bids to develop major offshore wind projects in the UK and US. Our recommendation for the oil and gas industry is to primarily focus on reducing its own emissions (and production) in line with global climate targets before considering any potential diversification into clean energy. BP has also announced that it would be reducing its oil and gas output by 40% over the next decade, with a view to reaching net-zero emissions by 2050.

We met with BP several times during 2022. In BP's 2022 AGM, we were pleased to be able to support management's 'Net Zero – from ambition to action' report (Resolution 3). Having strengthened its ambition to achieve net-zero emissions by 2050 and to halve operational emissions by 2030, BP has also expanded its scope 3 targets, committed to a substantial decline in oil and gas production, and announced an increase in capital expenditure to low-carbon growth segments.

Next Steps:

We will continue engaging with BP on climate change, strategy and related governance topics. Following the company's decision to revise their oil production targets, we met with the company several times in early 2023 to discuss our concerns. In their 2023 AGM, we voted against the re-election of the Chair; given the revision of the company's oil production targets, shareholders expect to be given the opportunity to vote on the company's amended climate transition strategy at the 2023 AGM. Additionally, we note concerns around the governance processes leading to the decision to implement such amendments. We will continue to engage with the company.

Exxon Mobil (currently on the divestment list, but engagement continues)

Rationale:

As one of the world's largest public oil and gas companies, we believe that Exxon Mobil's climate policies, actions, disclosures and net zero transition plans have the potential for significant influence across the industry as a whole, and particularly in the US.

What LGIM have done:

We have been engaging with Exxon Mobil since 2016 and they have, over time, participated willingly in our discussions and meetings. Under our Climate Impact Pledge, we identified a number of initial areas for concerns, namely: lack of Scope 3 emissions disclosures (embedded in sold products); lack of integration or a comprehensive net zero commitment; lack of ambition in operational reductions targets and; lack of disclosure of climate lobbying activities.

Our regular engagements with Exxon Mobil have focused on our minimum expectations under the Climate Impact Pledge. The improvements made have not so far been sufficient in our opinion, which has resulted in escalations. The first escalation was to vote against the re-election of the Chair, from 2019, in line with our Climate Impact Pledge sanctions. Subsequently, in the absence of further improvements, we placed Exxon Mobil on our Climate Impact Pledge divestment list (for applicable LGIM funds) in 2021, as we considered the steps taken by the company so far to be insufficient for a firm of its scale and stature. Nevertheless, our engagement with the company continues. In terms of further voting activity, in 2022 we supported two climate-related shareholder resolutions (i.e. voted against management recommendation) at Exxon's AGM, reflecting our continued wish for the company to take sufficient action on climate change in line with our minimum expectations.

Next Steps:

Since 2021, we have seen notable improvements from Exxon Mobil regarding our key engagement requests, including disclosure of Scope 3 emissions, a 'net zero by 2050' commitment (for Scopes 1 and 2 emissions), the setting of interim operational emissions reduction targets, and improved disclosure of lobbying activities. However, there are still key areas where we require further improvements, including inclusion of Scope 3 emissions in their targets, and improving the level of ambition regarding interim targets. We are also seeking further transparency on their lobbying activities.

The company remains on our divestment list (for relevant funds), but our engagement with them continues. Further escalating our engagement, LGIMA and Christian Brothers Investment Services, CBIS, co-filed a shareholder resolution at Exxon's 2023 AGM, requesting the company to disclose the quantitative impact of the International Energy Agency Net Zero Emissions, IEA NZ, scenario on all asset retirement obligations, AROs. The proposal was centred around disclosure and seeking greater insight into the potential costs associated with the decommissioning of Exxon's assets in the event of an accelerated energy transition. We believe this is a fundamental level of information for the

company's shareholders, in light of growing investor concerns about AROs in a carbon constrained future, and that it is financially material information. The proposal received over 16% support from shareholders which, although lower than we would have liked, demonstrates an increasing recognition of the importance of this issue for investors. In terms of our next steps, we will continue our direct engagements with the company under our Climate Impact Pledge and separately, to better understand and challenge Exxon on their approach to the energy transition, where financial material issues such as disclosure of the potential costs to retire their long-lived assets and decarbonization levers being some of the key discussion points. We will also be engaging with proxy advisors and fellow investors to better understand their voting rationale.

Further details on our Climate Impact Pledge and our ESG scoring methodology can be found at the links below. In addition, further case studies and engagement examples can be found within our Active Ownership Reports and Quarterly ESG Impact reports, available online.

[Climate Impact Pledge scores](#) and [ESG Scores](#)

LGIM data verification comments

When engaging with companies, we are alert to the fact that climate disclosures are not as regulated, or subject to the same audit and assurance requirements as financial disclosures. We use a number of tools to assess the information provided by companies:

**Data and assessment:** our data providers track the participation of companies in credible sustainability initiatives and their external certifications. When companies announce emissions targets, we don't just take their word for it –we compare targets against our own modelling of how fast emissions need to fall in each sector to meet global climate goals, and we also look at companies' past emissions performance. We also use data that scores companies' lobbying activities –to make sure what companies say publicly is consistent with what they tell governments privately.

**Engagement:** the stewardship and investment teams have decades' worth of experience in engaging with companies and challenging the statements (and numbers) issued by their management. In addition to the expertise of the 24-person stewardship team, LGIM has established Global Research and Engagement Groups bringing together industry specialists from our Investments, Real Assets and Investment Stewardship teams in working groups to assess the evolving materiality of climate and ESG factors across different sectors, from energy to consumer goods. Climate change has been a key area of focus since the inception of the groups.

## **Newton**

As reported in the TCFD, the Newton mandate has the lowest carbon footprint and intensity in the Fund.

Comments from Newton on Shell

Against a background where Newton favours “engagement over automatic exclusion” of companies and where we have published our approach to achieving ‘net zero’, Shell is one of our company-specific engagement priorities. We have already held a series of engagement meetings with senior management this year. The primary objective of these discussions has been to encourage Shell to set out a clear, credible and achievable energy transition plan that they can implement and control.

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These discussions have included our direction to the management that their transition strategy should include absolute Scope 3 emission reduction targets. Other ground has been covered in these interactions. For example, they also need to be profiling investment in clean energy, disclosure on clean alternatives and planned investment therein. There is an acceptance that the transition strategy for emerging market economies will need to be different from the US, UK, Europe and an explanation thereof. Other factors that they should outline are plans around staff re-training/upskilling, job security, employee satisfaction surveys and suchlike. Our understanding is that they will be announcing their new climate transition plan towards end-Q1/early-Q2 2024.

Against a backdrop of open and regular dialogue from both parties, we are now getting a clearer understanding of their plans and there is a better understanding of our expectations around these important issues. These factors are incorporated in our overall assessment of the investment case.

#### Newton data verification comments

Regarding data quality, we have a data team that sits within our Responsible Investment team so this is something that we monitor and assess as part of our research into the investment case. As such, while we will tap into various sources, our own oversight on climate-related matters includes a combination of engagement plus 'evidence' (i.e. what they have done in the past and are planning to do, financial commitments already made, management incentives linked to climate factors/GHGs, key financial and business metrics around GHGs, internal policies, changes to products and services etc.).