**73/24 QUESTIONS AND PETITIONS [Item 4]**

**Surrey Pension Fund Committee – 13 December 2024**

**Item 4b - Public Questions**

**<u>Written response to supplementary question</u>**

<u>Extract from the minutes:</u>

*SQ6 - Jenifer Condit - on Jenifer's behalf Lindsey Coeur-Belle: noted a recent announcement of a new 50:50 joint venture called Jera Nex BP. It appeared to be greenwashing, BP was shifting its renewables business off its balance sheet and looked for further investment elsewhere. She asked how many times BP had to indicate that it was not serious about divestment from fossil fuels, before the Committee decides to believe them.*

*The Chairman requested a written response from BCPP regarding the investments in the three companies identified and how engagement had proceeded.*

*A Committee member was disappointed by the written response which simply stated that the position was to favour engagement over blanket divestment, and whilst in line with the RI Policy, the question asked specifically about the three companies which based on the records were not serious about decarbonisation. Divestment, whilst to be used as a last resort, could be used to apply consequences when engagement fails.*

*The Chairman noted that regarding the RI Policy, the decision to make investments to get satisfactory returns was delegated to the Fund's investment managers, he noted that it would be useful to get their views on why they continued to invest in the three companies listed in the original question.*

**RESPONSE: (Border to Coast)**

At Border to Coast we do not believe in directing our external fund manager's investment decisions outside the scope of any exclusions that are contained in our policies. However, we do expect our external managers to align in spirit with our own responsible investment policy. We regularly assess whether our external fund managers' investment approaches align with our own responsible investment policy and expectations. We expect our external managers to have established processes to assess the climate risks linked to their current and potential holdings. During regular reviews, we assess our external managers on how they integrate financially material climate risks into their investment decisions. Where our external fund managers do not meet our expectations, we engage with our managers to encourage the strengthening of their responsible investment policies and processes. Where managers identify financially material risks, we expect our external managers to engage with investee companies as part of their mandate on our behalf and in alignment with our RI policy. In addition to our own engagement activities, ConocoPhillips, Shell and BP have all been engaged by our external managers.

**Harris Associates, holding ConocoPhillips in Global Equity Alpha Fund:**
In August 2024, Harris Associates engaged with ConocoPhillips to discuss their climate risk assessment and planning as both Harris and ConocoPhillips recognise a long-term shift away from fossil fuels represents a material business risk to the

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business. They covered the company's long-term climate risk view, efforts to reduce Scope 1 and 2 emissions, and policy on Scope 3 emissions.

ConocoPhillips sees the shift away from fossil fuels as a significant long-term risk and as such are focused on mitigating this through proactive capital expenditure and setting Scope 1 and 2 targets. They invested $150 million in 2022 on emissions reduction projects and low-carbon opportunities. The company does not set a Scope 3 target but addresses these emissions through supplier evaluations and green hydrogen investments. Harris Associates believes ConocoPhillips is taking significant action to reduce Scope 1 and 2 emissions and planning for a low-carbon economy. Harris have committed to continue monitoring and engaging with the company.

ConocoPhillips aims to eliminate routine flaring by 2025 and reduce operational emissions intensity by 40-50% by 2030. They are focusing growth investments on areas such as LNG and less carbon-intensive regions like the Permian Basin, with LNG expected to be a dominant transition fuel with less risk of demand declines than oil. The company reduced methane emissions by 65% from 2015-2019, with a further 10% reduction target for 2025. ConocoPhillips received a Level 4: Strategic Assessment rating from the Transition Pathway Initiative, indicating strong performance in managing climate risks.

**Redwheel, holding BP and Shell in UK Listed Equity Alpha Fund:**
Redwheel, a manager in our UK Listed Equity Alpha Fund, holds BP and Shell and has engaged with both companies.

In February 2023, Redwheel engaged with BP after BP adjusted its climate strategy, reducing planned divestments and lowering Scope 3 reduction targets from 35%-40% to 20%-30%.

Redwheel wanted to understand the impact and motivations behind BP's changes. BP claims cost reductions allow it to retain and profit from upstream assets, generating funds to invest in low-carbon projects. BP estimate this could add $17.5 billion in EBITDA by 2030, with $8 billion reinvested in low-carbon businesses and $1 billion for shareholders. BP manages the risk of these upstream assets becoming stranded by focusing on projects with quicker payoff profiles. Redwheel’s engagement with BP included discussions with top executives and industry peers, has helped to assess BP’s changes against net zero pathways.

BP's original Scope 3 reduction target relied on their divestment from upstream assets, as did BP’s Scope 1 and 2 targets. Redwheel understand that selling assets doesn’t necessarily reduce real-world emissions, as private buyers often have worse environmental records. For example, Hilcorp, which bought BP’s assets, has a poor environmental track record. Redwheel believe the key is how the profits from these assets are used and whilst Hilcorp's climate efforts can't be assessed, BP is investing more in low-carbon projects by retaining upstream assets. Retaining control of assets and conducting effective engagement remains, in our view, the most important and impactful mechanism of reducing real-world emissions.

In November 2024, Redwheel engaged with BP to discuss BP’s methane management who have reduced their methane intensity by –64% since 2019 levels. The Redwheel team undertook a thematic review on methane in Q3 and Q4 and engaged in depth with both BP and Shell and Dr Sam Cornish of IIGCC, who co-authored a report on methane.

Redwheel have engaged with Shell on numerous occasions in recent years to discuss their transition plans and expect this to continue in the future. Redwheel believe Shell is committed to reducing their Scope 1 and Scope 2 emissions by 50% by 2030 and become a net zero emissions energy business by 2050. They also have targets to reduce net carbon intensity by 20% by 2030 and 100% by 2050[1].

In September 2024, Redwheel met with Shell's Downstream, Renewables and Energy Solutions Director, who is responsible for Shell's marketing, biofuels, refining & chemicals, crude/ product trading and renewables activities. The discussion was wide ranging covering topics including biofuel molecules, refinery overcapacity in Europe and the US, and LNG. On LNG, Shell noted that they believe demand for LNG from China will be significant, and it will allow the Chinese economy to balance renewables and move away from the relatively heavier polluting coal.

Redwheel believe reducing fossil fuel supply by companies like BP or Shell fails to reduce real world emissions. When oil majors cut production, private companies and national oil firms often step in to fill the gap. This shift merely moves production out of the public eye and away from the scrutiny of concerned investors.

Redwheel have observed a shift in the shareholder profile of European major companies due to the divestment of their shares. Currently, over fifty percent of these companies' shareholders are based in the US, where many investors prioritize short-term returns over climate objectives. These investors are advocating for increased drilling, higher production, and reduced investment in low-carbon energy. The reduction in climate-focused shareholders diminishes the opportunity to influence the future direction of these companies. If climate-conscious investors were to completely withdraw, the push for climate action would be significantly weakened.

In summary, Redwheel believe Shell and BP are adequately suited to adapt their strategy to match the speed of the energy transition as it develops.

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