Shropshire County Pension Fund

Pensions Committee meeting 17 January 2022

BMO Global Asset Management (EMEA), part of Columbia Threadneedle Investments, has been the engagement provider to Shropshire County Pension Fund since 2005. We engage with companies held by the Fund calling on them to improve their policies and practices on a range of environmental, social and governance issues.

Whilst the engagement covers a wide range of ESG themes, climate change engagement has consistently been a high priority, guided by the preferences of our clients, who we survey annually.

In our view, and having conducted a global shareholder engagement programme for over twenty years, engagement – if done in the right way – can be a very powerful lever for change at companies. Whilst there are many influences on a company's approach to sustainability, the voice of shareholders, as the ultimate owners and providers of capital, carries significant weight, particularly when it comes to influencing the views of the Board and senior management. Divestment strategies remove the opportunity to use this influence as a force for positive change.

Our climate change expectations

On behalf of Shropshire and our other engagement clients, we engage with companies across sectors and regions, encouraging to adopt business strategies consistent with a net zero emissions economy, and with limiting the global temperature rise to 1.5 degrees Centigrade.

Our engagement goes well beyond asking companies to set a net zero emissions target. Whilst that is certainly one part, we focus on seeking credible and robust implementation strategies. Our asks are closely aligned to the Climate Action 100+ benchmark, a set of standards backed by investors representing $60 trillion in assets. They include: Interim targets (including ambitious 2030 targets); a transition strategy, including a capital expenditure plan; governance structures; and disclosure in line with TCFD recommendations.

For specific sectors, we may have additional asks or recommendations, such as calling on banks to integrate climate change into lending and underwriting policies. Our team has helped to develop many of these standards, such as a recently-published net zero expectations document for the electric utilities sector.

Expectations for fossil fuel companies

We see climate change as a cross-sectoral and economy-wide issue, where engagement cannot just look at the supply side (the fossil fuel producers), but also at the demand side (such as industry, buildings, transportation) as well as finance (banks, insurers). Our engagement programme has systematically targeted action across all these sectors, using both 1 to 1 meetings, and collaborating through initiatives including as Climate Action 100+.

Within this broader context, there are particular considerations and expectations that we apply to fossil fuel producers – coal miners, and oil & gas companies. Many of these companies had, until recently, been focused on their own operational emissions – Scope 1 and 2 emissions – rather than the impact of their products – Scope 3 emissions. Our engagement puts these product emissions at the centre of the dialogue, where we push for phase-out or managed decline of fossil fuel production, in line with the sectoral standards referenced earlier, and in line with net zero pathways produced by, for instance, the International Energy Agency.

Conducting engagement

Where possible, we aim to engage directly with Boards and senior management of companies, to have maximum influence and to emphasise the fact that ESG issues, including climate change, should be considered as core to business strategies.

We also engage with operational specialists, such as heads of sustainability or heads of climate, where we want to get more in-depth on policy details, as well as with investor relations. Access to senior decision-makers is more challenging in some markets than others. However this is improving as the importance of stewardship becomes more recognised by regulators.

For the largest emitters, we engage collaboratively through Climate Action 100+. As described above, the principles behind this initiative are aligned with ours, and with $60 trillion represented, the weight of assets represented means that we get good access to companies. We are directly involved in engagement with 27 companies, all of which are held by Shropshire.

Achieving results

We are systematic in recording our asks of companies, and whether these are successful. Where a company changes its policies or practices following engagement, this is recorded as a ‘milestone’. We recorded 283 milestones for Shropshire in 2021, 78 of which related to climate change.

In the case of fossil fuel producers, we see the current picture as follows:

- All European oil & gas majors have now adopted a net zero emissions target. However, speeds of implementation vary, with some firms planning to increase oil & gas volumes throughout the 2020s, before cutting later. We see this as insufficient and continue to engage these firms to be more ambitious. We are also looking at the allocation of capex to renewable / clean energy versus fossil fuels. Again this varies; at some firms it has shifted significantly, but at others the weight remains too strongly on fossil fuels.

- Progress is significantly slower at oil & gas firms outside of Europe. In the US, the more progressive stance of President Biden may start to have an impact. In the meantime we continue to engage, referencing the more ambitious plans of European companies.

- Diversified miners are generally shifting out of coal, with the largest firms in the sector either already divested or committed to doing so.

- Engagement is challenging with some companies, such as smaller oil & gas firms or pureplay coal miners. Often these companies lack the knowhow and/or resource to diversify into entirely different business areas, meaning that the best option for shareholders might be managed decline.

- Across sectors, engagement on topics including disclosure in line with TCFD, reporting and governance has generally been productive. Clearly disclosure alone is not sufficient but it does allow investors to better analyse risk and the relative position of different companies.

Whilst, as noted above, companies are facing multiple influences to take action, not least regulatory change, we know from our interactions with companies that investor engagement is without doubt putting pressure on Boards and senior management level to take action more rapidly and with more ambition than would otherwise be the case.

By using a pooled engagement service, representing £719bn in assets (as at 30 September 2021), Shropshire is able to leverage its influence, and be part of this pressure for further and faster change, in line with its investment beliefs.

BMO Global Asset Management
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