Report to:	**Pension Committee**
Date:	**25 September 2024**
By:	**Chief Finance Officer**
Title of report:	**Divestment Proposals – Supporting Information**
Purpose of report:	**To provide the Pension Committee with the information required to consider the motions previously put forward by Committee members.**

RECOMMENDATION

1. **The Pension Committee are recommended to consider the proposals set out in paragraph 1.1 of the report in light of all the factors detailed in the report.**

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1. Background

1.1. At the Pension Committee on 19 September 2023, following discussion of the Engagement vs Divestment Report (see Section 2), Cllrs Taylor and Tutt proposed a motion with three proposals for the Committee to consider. The proposals in the motion were as follows:

Proposal 1: That the Fund commits:

(a) to make no new investments in fossil fuel extractors;

(b) to fully divest from all fossil fuel extractor public equities and corporate bonds within five years; and

(c) to make no new private equity investments that include fossil fuel extractors.

This is very close to column 3 in the table of 'Strategic Modelling Scenarios' on p. 228. According to the table on p. 227, the Fund's current exposure to fossil fuel extractors through private equity (through Adams Street Private Equity and Harbourvest Private Equity) will expire in the mid-2030s.

Costs of this approach will be minimal and is in line with a mitigation approach for the whole Fund portfolio risk from climate chaos. According to the Climate Action 100+ investor initiative (of which the Fund is a member): 'action to cut [global] emissions and avoid the worst impacts of climate change is the only real path to protect long-term investment value and returns.'[1]

Perceived advantages of divestment from the report (p.409):

- *Early defined constraint of fossil fuel divestment is easy to implement & a low-cost option (vs more nuanced engagement-heavy approaches)*
- *Fossil fuel projects may be mispriced, reducing exposure to low carbon and stranding risks*

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[1] The Business Case | Climate Action 100+

Proposal 2: That the Fund commits:

(a) to exclude (over a reasonable timeframe) the public equity or corporate bond of any fossil fuel extractor that has failed to commit to 'no new fossil fuels' by the September 2024 Pension Committee meeting;

(b) not to make any new private equity investments in such fossil extractors; and

(c) to immediately inform our investment managers of this commitment so that they can take whatever actions they deem necessary in response.

The Summary repeatedly talks about the importance of 'escalation' (pp 221, 232, 235) and lists 'Establish[inga] clearer thresholds as to when to escalate an engagement and when disinvestment should be considered' as something that ACCESS should consider.

However, the reality is that no meaningful escalation with fossil fuel companies appears to be taking place, and that those involved with engagement tend to accept non-binding commitments from fossil fuel companies to align with all-too-gameable targets ('net zero') set in the distant future (2050).

The most natural non-gameable 'threshold' to set would be to demand of fossil fuel extractors that they commit to 'no new fossil fuels'. That is that they make a binding a commitment not to explore for or extract any new fossil fuels (i.e.. fossil fuels that were not already under development in 2021, when the IEA made its declaration about no new fossil fuels and 1.5ºC).

Recall that in May 2021 the IEA said that if we're to have a fighting chance of limiting the rise in global temperatures to 1.5°C 'there can be no new investments in oil, gas and coal, from now – from this year'.

Proposal 3: That the Fund commits:

(a) to make no new investments in thermal coal;

(b) to fully divest from all thermal coal public equities and corporate bonds within one year; and

(c) to make no new private equity investments that include thermal coal.

The report states that 'tackling exposure to thermal coal' could be a 'key focus area' for investors interested in 'escalation in the name of climate action' (p. 235), noting that: '[P]eak coal production should have occurred in 2020 to align with a 2050 net zero outcome. There is inherent risk that rising oil and gas prices result in harmful substitutions of oil and gas with more emissions intensive coal.' (p. 220)

1.2. The Committee's robust governance arrangements require any decision to be supported by appropriate advice, in light of a full understanding of the legal and financial risk implications. Given the proposed motions had not been shared with other Committee members, officers or advisers to the pension fund in advance of the meeting, insufficient detail and advice about the impacts of the proposals set out in the motions was available at the meeting. Consequently, the motions were not voted on and the Committee instead resolved that officers should consider the proposals and provide the requisite information at a subsequent meeting of the Committee.

Engagement vs Divestment Report

1.3. At the July 2022 meeting, the Committee requested that officers and the Fund's external advisers conduct a piece of work concurrent with the completion of the triennial valuation which:

1. Assesses the fiduciary and legal consequences of fossil fuel divestment for the Fund;

2. Examines how such a move aligns with relevant guidance and advice;

3. Explores how practical an act it would be within the context of the ACCESS pool; and

4. Reviews evidence on the efficacy of such an approach in promoting the energy transition.

1.4. Isio, the Fund's investment consultant, led on the production of this piece of work with input from the Fund's legal advisers on fiduciary duties. The consultants produced three detailed chapters of analysis and research, as well as a summary report that could be shared with the Funds beneficiaries. The Pension Committee agreed that the summary report be published and available to members of the public.

1.5. A report outlining the analysis completed by Isio was presented to the Pension Committee, initially at their strategy day in July 2023 and subsequently at the Pension Committee meeting on 19 September 2023. This report is also published on the Fund's website at: (https://www.eastsussexpensionfund.org/media/qobc405d/engagement-vs-divestment-report-september-2023.pdf).

1.6. The research has highlighted that neither engagement nor divestment have, by themselves, been entirely effective to date in bringing about the low carbon transition, albeit there remain challenges in analysing the effectiveness of these processes (as compared with the numerous other influences on climate outcomes). It was, however, clear that the fossil fuel industry has not made the adjustments required to align with a low carbon future and a step change is needed to tackle the climate emergency. This requires escalation in the name of climate action, with investors working alongside companies and governments towards change, through: engagement with investee companies; effective governance processes for investment managers; engagement with policy makers; and the ability for investment managers to divest from holdings where there is an insufficient energy transition plan or where there is a financial risk of holding those investments.

1.7. The report highlighted that the Pension Committee has a fiduciary duty to invest the Fund's assets in the best interests of beneficiaries – and *"the fiduciaries' investment powers must be exercised so as to yield the best return for the beneficiaries, judged in relation to the risks of the investments in question"*, as well as with the aim of diversification of investments.

1.8. The report found that if the Fund were to implement a fossil fuel divestment policy, the financial impacts could be significant. For example, combining Isio modelling efforts and manager investment analysis, immediate divestment could cost the Fund circa £79m, including an £18m shortfall in returns (alongside a 12% increase in the 3-year 1 in 20 Value at Risk and reduction in diversification) and £61m incurred in transaction costs (with £60m of this coming from infrastructure equity and private equity haircuts). The exit costs of the private markets would be reduced if managed out of the portfolio over the longer term; however, this may restrict the ability to invest in best in class value for money asset classes in the future, which would impact diversification of the portfolio, investment returns and correlation of the portfolio to market changes.

1.9. The costs identified in the research were likely to be an underestimate, as they ignore costs such as the losses of efficiencies of scales from pooling investments, additional custodian fees from ex-fossil fuel segregated mandates, and governance and staffing costs relating to the additional burden of implementing and monitoring the divestment strategy across the Fund. This list is not exhaustive.

2. Local Government Pension Fund: A Changing Environment and Risks

2.1. In considering the proposals set out in each of the three motions, the Committee should reflect on the arrangements of the LGPS, the Pension Committee's role and the risks facing the Fund. It should be noted that there has been a general election and change of Government since the proposals were put forward, which has created significant uncertainty for the LGPS.

Pooling

2.2. The 2015 Pooling Guidance made clear the Government's expectation for ambitious proposals for pooling, and invited authorities to lead the design and implementation of their own pools. Pooling was intended to be a real opportunity to realise the benefits of scale that should be available to one of Europe's largest funded pension schemes, drive down investment costs and become a world leader in infrastructure investment and help drive growth. It was for the authorities to suggest how their respective pooling arrangements would be constituted and how they would operate.

2.3. ESPF joined 10 other LGPS Funds in 2016 to create the ACCESS pool. The Pool itself is not a legal entity. It is governed by an Inter Authority Agreement (IAA) signed by each Administering Authority within the Pool. The IAA sets out the constitution of ACCESS.

2.4. The pool resolved to adopt an outsourcing model that would grant the Pool access to the best-in-class asset managers for each assets class to deliver superior investment performance. This outsourcing model was set up as a Financial Conduct Authority (FCA) regulated Collective Investment Vehicle (CIV), called an Authorised Contractual Scheme (ACS), and through the employment of an Alternative Investment Fund Manager (AIFM).

2.5. This operator model is a separate legal entity, and it is the operator who is the legal owner of relevant underlying assets. Instead of ESPF (and its pool counterparts) having direct ownership of the underlying investment assets, the Fund hold units in the ACS sub-funds as beneficial owners.

2.6. The ACCESS Joint Committee (JC) is a statutory committee made up of elected members from each of the 11 ACCESS local authorities. The JC was established to exercise specific functions in relation to the pooling of pension assets and is the formal decision-making body within the ACCESS Pool. The JC was appointed by the ACCESS Pool's Administrating Authorities under s.102 of the Local Government Act 1972, with delegated authority from the Full Council of each Authority to exercise specific functions in relation to the pooling of pension funds.

2.7. The ACCESS Pool has set its Responsible Investment (RI) guiding principles and RI beliefs which include:

- RI considerations are important across all time horizons, but especially in the medium and long-term. This is true not just in terms of protecting and enhancing long-term

investment return, but also increasingly in terms of the interests expressed by our stakeholders;
- RI considerations are important irrespective of asset class;
- Responsible management of RI issues by ACCESS and the Authorities is a reputationally important issue;
- Consideration of Environmental, Social and Governance (ESG) factors should be incorporated into the portfolio construction process of all investments made by the Pool's active investment managers;
- ESG factors are relevant in the context of benchmarking, risk analysis and investment opportunity identification;
- Climate risk – and the issues which contribute to it – is of significant concern to all stakeholders, and as a result it is a prominent area of focus.

2.8. The ACCESS Pool advocate the use of engagement over divestment as the means to promote RI beliefs. However, selling an asset remains an option when it comes to unaddressed ESG concerns in the investments made by the Pool's managers.

2.9. The ACCESS Pool has over the past year taken steps to significantly enhance its RI activity including creating a resource in the staffing structure of the ACCESS Pool that has RI responsibilities. It has carried out a gap analysis to determine whether the pool can submit a Financial Reporting Council (FRC) Stewardship Code report. The pool has joined the Local Authority Pension Fund Forum (LAPFF) as a collaborative partner. In addition, it has reviewed and revised the voting guidelines and will be considering the benefits of procuring a voting and engagement partner to support the stewardship activities of the underlying investments through the pool.

2.10. Decision making on the East Sussex Pension Fund's individual asset allocation, and the timing of transfers of assets into the ACCESS Pool arrangements are the responsibility of the ESPF Pension Committee. Decisions on the implementation of the strategy through specific investment mandates, the underlying Investment Management Agreements and holding the Investment managers to account are the responsibility of the ACCESS Pool Operator.

Government Review

2.11. In July 2024, the new Chancellor of the Exchequer, announced a pensions' review to boost investment and tackle waste in the pensions system. It was stated that *"action will be taken to unleash the full investment might of the £360bn LGPS to make it an engine for growth"* and tackle the £2bn that is being spent on fees. The work announced focusing on investments was stated to be the first phase in reviewing the pensions landscape.

2.12. In a press release issued on 20 July 2024 by the Government, it states:
"The Local Government Pension Scheme (LGPS) in England and Wales is the seventh largest pension fund in the world, managing £360 billion worth of assets. Its value comes from the hard work and dedication of 6.6 million people in our public sector, mostly low-paid women, working to deliver our vital local services. Pooling this money would enable the funds to invest in a wider range of UK assets and the government will consider legislating to mandate pooling if insufficient progress is made by March 2025."

This is a clear statement of direction that the LGPS must invest through the LGPS pools and do so as quickly as possible.

2.13. 59.5% of the Fund's total assets were pooled as at 31 March 2024 (78.3% of the Fund's listed assets). It is anticipated that 15.8% of the Fund's listed assets will not be pooled by 31 March 2025. These assets are held in three small boutique funds that specialise in climate change, either as an impact manager or as listed infrastructure. Impact equity and listed Infrastructure are Strategic Asset allocations by the Pension Committee and there is currently no solution available on the pool platform that would replace these investments. Further information on the Council's pooling arrangements are set out in section 4 of the report.

2.14. The press release goes onto say: *"To cut down on fragmentation and waste in the LGPS, which spends around £2 billion each year on fees and costs and is split across 87 funds – an increase in fees of 70% since 2017, the Review will also consider the benefits of further consolidation."* This statement highlights the Government's concern over investment fees paid in the LGPS and potential uncertainty for the future structure of the LGPS and administering authorities in their current forms.

2.15. On 16 August 2024, the Government published the terms of reference for the pensions' review. The Chancellor has appointed the Minister for Pensions to lead the review. The review will focus on defined contribution workplace schemes and the Local Government Pension Scheme. The review will also work closely with the Minister of State at the Ministry of Housing, Communities and Local Government (MHCLG), Jim McMahon, to look at how tackling fragmentation and inefficiency can unlock the investment potential of the £360 billion Local Government Pension Scheme in England and Wales. The first phase of the review will focus on developing policy in four areas including *"Tackling fragmentation and inefficiency in the Local Government Pension Scheme through consolidation and improved governance".*

2.16. The ACCESS pool has already demonstrated significant cost savings to the underlying LGPS funds, with costs savings of £28.5m p.a. In analysis conducted by ClearGlass, it was established that the total ongoing charges were 4bps compared to the Benchmark Median of 7bps which equates to annual fees totalling £4.2m compared to the Benchmark Median annual charge of £7.6m for a comparable portfolio; and the resultant savings total £3.4m (3bps). More illiquid assets, such as those being considered for increased investment by pension funds (for example, productive infrastructure assets and UK private equity assets) have significantly higher investment management fees than liquid mandates, so cost more to invest in such assets.

Additional Risks

2.17. The Fund is facing a number of significant risks that will affect the operational delivery of pensions, which is its primary function, and these should be considered by the Committee before any change, restriction or complexity is introduced. Some of the key risks and challenges the Fund is currently facing are as follows:

- Regulatory change and initiatives from the new government which could include direction to invest in specific asset classes or specific geographical regions, as well as the merger of LGPS funds;
- Implementation of planned regulations on climate reporting, good governance and pooling;
- Staffing – loss of key staff, and an inability to recruit to key positions;
- Implementation of National Member Information through Dashboard;
- Implementation of McCloud Remedy;
- Inflationary Risks;
- Income generation: ability to pay pensioners without having to sell assets;
- Extension of illiquid holdings due to inability for managers to sell underlying positions of struggling or devalued companies;

- Volatility of markets;
- Geopolitics, Conflicts, Deglobalisation;
- Climate Change physical risk, transition risk and loss of Biodiversity;
- Cost to retrofit existing property for and companies to be more energy efficient;
- Reputational risk of investing in companies that fail to have robust health and safety or human rights standards;
- Change of suppliers including potential change of Investment Consultants;
- Triennial Valuation impact on team resources and employer affordability of the scheme;
- Employer data quality and knowledge;
- Employer covenant and security;
- Loss of knowledge and skills with potential change to Pensions Committee post May elections;
- Ability to implement investment strategy via the LGPS pool / governance of investments through LGPS pools;
- Cyber risk and data security.

Potential Government Intervention

2.18. Under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Fund must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State. The investment strategy must include the authority's approach to pooling investments, including the use of collective investment vehicles and shared services. Under Regulation 8, where the Secretary of State considers that the Fund is failing to act in accordance with the guidance issued under Regulation 7, the Secretary of State may direct the Fund to make such changes to its investment strategy as the Secretary of State considers appropriate, and / or make a direction that the investment functions of the Pension Fund be exercised by the Secretary of State or a person nominated by them for so long as the Secretary of State considers appropriate. Guidance published by the Secretary of State in November 2015 ('LGPS: Investment Report Criteria and Guidance') is currently the only statutory guidance in place regarding pooling of investments; however, there have been later draft documents and a consultation in 2023 where the Government issued its response to the consultation in November 2023.

Fiduciary Duties

2.19. The Pension Committee must exercise its power of Investment for investment purposes only. Its primary purpose is to make investment decisions that support its ability to pay pensions when they are due. The Committee should ensure investment decisions generate the best realistic return with the balance of risk, keep contribution rates sustainable and affordable for employers and minimise the need to call upon local taxpayers or employer organisations for additional funding. Acting within the best financial interest of the scheme members / beneficiaries is the Pension Committee's fiduciary responsibility. Investment decisions must not be driven by politics or activism, but driven by risk and return and based on proper investment advice.

3. Sustainable Investing

3.1. There has been significant work by regulators to try and support investors to identify how sustainable investment products are for them to invest and to avoid green washing in the industry.

3.2. All investment products sold within the EU must be classified as Article 6, 8 and 9 funds under the EU's Sustainable Finance Disclosure Regulation (SFDR), in effect since 2022. They compel asset managers to reveal the differing levels of sustainability integration that an investment strategy contains. The regulation aims to create a more transparent playing field, partly to prevent greenwashing – where some financial firms claim that their products are sustainable when they are not.

3.3. Article 6 funds do not integrate any kind of sustainability into the investment process and could include stocks currently excluded by ESG funds such as tobacco companies or thermal coal producers. These funds are allowed to continue to be sold in the EU, provided they are clearly labelled as non-sustainable.

3.4. Article 8 funds promote investments or projects with positive environmental or social qualities, or a combination of such characteristics, as long as the investments are made in enterprises that adhere to sound governance practices.

3.5. Article 9 funds cover products targeting sustainable investments. The product must have a sustainable investment as its objective.

3.6. SFDR only applies to products sold in the EU so not all investments by the Fund will be classified in this way. The majority of investment products sold in the EU are classified as Article 6 or Article 8.

3.7. The UK Sustainability Disclosure Requirements (SDR) is a UK-specific regulation set out by the Financial Conduct Authority's Sustainability Disclosure Requirements and Investment Labels Policy Statement. UK-domiciled funds will fall under one of three categories: sustainability-labelled funds, non-labelled ESG funds, or non-ESG funds. SDR has three key objectives including anti greenwashing rules. The anti-greenwashing rule requires authorised firms who make sustainability-related claims about their products to substantiate them, to prevent consumers from being misled about the ESG credentials of their investment products.

3.8. UK SDR allows for UK asset managers to use four labels for their funds from 31 July 2024. The labels are "Sustainability Focus," "Sustainability Improvers," "Sustainability Impact," and "Sustainability Mixed Goals." Use of labels is voluntary; however, funds that claim to be sustainable will have to explain why they do not have a label and will be required to provide the same disclosures as labelled funds.

Sustainability Focus	Investment mainly in assets that focus on sustainability for people or the planet.
Sustainability Improvers	Invests mainly in assets that may not be sustainable now, with an aim to improve their sustainability for people or the planet over time.
Sustainability Impact	Investment mainly in solutions to sustainability problems, with an aim to achieve positive impact for people or the planet.
Sustainability Mixed Goals	Investment mainly in a mix of assets that either focus on sustainability problems, aim to improve their sustainability over time, or aim to achieve a positive impact for people or the planet.

3.9. It is worth noting that the FCA advise that they consider that it is for firms to determine what assets their products invest in. However, it is also important that firms provide sufficient transparency around the types of assets that their products will and will not invest in, so that consumers can make informed investment decisions. This is in line with

Consumer Duty requirements. So the FCA will not prevent firms from investing in certain asset classes such as tobacco or fossil fuels. Instead they are introducing a rule that requires firms to identify and disclose (in their consumer-facing and pre-contractual disclosures) if pursuing the positive outcome could result in negative environmental and/or social outcomes.

4. How the Fund invests, its Commitments and Policy

4.1. The Fund does not invest directly into any company or asset and invests in pooled vehicles, meaning there are multiple investors in the same investment vehicle. This means the Fund cannot dictate the underlying holdings of an Investment Manager. The Fund does not have sight of any investment transaction made by an investment manager and has no sight of what is owned on any given day.

4.2. The Committee is subject to fiduciary duties with respect to investment matters. As a result, the Fund must only use its power to invest the assets for investment purposes, to generate the best realistic return over the long-term, given the need to control for risks, to enable benefits to be paid to members when due. Investment decisions must be taken prudently, with a reasonable level of skill and care, and on the basis of proper advice, acting in the members' best (financial) interests. To ensure the Pension Committee can do this, the Fund recognises that ESG issues can positively and negatively impact on financial performance. The Pension Committee responsibility is to set the investment strategy. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require the investment strategy to invest in a wide variety of investments. The Fund must consult such persons as it considers appropriate as to the proposed contents of its investment strategy.

4.3. As a global long-term investor, the Fund recognises that climate change presents significant long-term risks to the value and security of pension scheme investments and capital markets more broadly. As a result, the Fund recognises climate risk to be a significant financial risk and addresses climate risk separately to wider ESG factors.

4.4. The Fund's Statement of Responsible Investment Principles (SRIP) was approved by the Pension Committee in September 2023. The objectives of this Statement are to:

- reduce the likelihood that ESG factors, including climate risk, will negatively impact asset values and returns;
- set out a framework to inform stakeholders on the action ESPF is taking to address and manage ESG and climate risks.

4.5. The Pension Committee has formally agreed to adhere to the Stewardship Code as published by the Financial Reporting Council, and was approved as a signatory under 2020 Stewardship code requirements in February 2023 and February 2024. The Stewardship Code sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. A copy of the Funds Stewardship Report can be found on the Fund's website: https://www.eastsussexpensionfund.org/forms-and-publications

4.6. The Fund believes in collective engagement and is a member of the LAPFF, the UN Principles of Responsible Investment (PRI) and the Institutional Investors Group on Climate Change (IIGCC), to collectively exercise a voice across a number of ESG principles, including climate change, benefiting from the scale of investment compared to engaging alone. The Fund expects as a minimum, all its liquid investment managers to also be signatories of IIGCC and PRI.

4.7. The Pension Committee have stated in the SRIP that the Committee believe that, over the expected lifetime of the Fund, climate change presents both risks and opportunities with the potential to be financially material to the performance of the investment portfolio. Recent trends in climate activity indicate an increasing physical risk to some assets and geographical regions. As such, we consider climate change issues across the Fund and specifically in areas such as Strategic Asset Allocation, Investment Strategy, Investment Manager Selection and Risk Management, with the aim of minimising adverse financial impacts and maximising the opportunities for long-term economic returns on our assets.

4.8. Climate change risks and opportunities are a primary focus of the Fund's investment strategy, with strategic asset allocations to sustainable impact funds and funds with alignment to the Paris Agreement. The Fund engages with Investment Managers on holdings where there are high emissions or climate physical or transition risks to ensure there is a robust rationale for investment and an understanding of transition plans of the investee company and, where relevant, a clear engagement plan. The Fund expects investment managers to have clear escalation strategies in place for stewardship of the Fund's assets.

4.9. The Fund recognise that climate risk is a financial risk and support the view that limiting global warming to 1.5 degrees could help curb the catastrophic impacts to the financial standing of the Fund, and our members wellbeing, of climate change. The Fund want its members to be proud that it has a focus on climate change and the actions it has, and will continue to take, to work towards a better future. The Fund will aim to understand the evidence in light of research and policy developments to inform the investment approach applying long-term thinking to integrate ESG, including climate risk and opportunities, into investment decision making.

4.10. Noting the Fund does not directly invest but sets investment strategy, the Fund has committed to review mandates and managers against climate annually. For all new mandates we will consider climate-related risks and objectives explicitly as part of the selection criteria. The Fund is committed to carrying out engagement with Investment Managers on specific issues and risks identified by the climate related data and engagement priorities.

4.11. In the Fund's SRIP (as approved in September 2023) the Fund set out how it expects escalation to be actioned where ESG, including climate risks, are deemed to be evident. Where the Fund believes an Investment Manager to be holding assets bearing financial risk to the Fund and outside of the Fund's long term Investment Beliefs and Investment Strategy, the Fund will take the following escalating actions:

- Communicate with the Manager and ask them to explain the position of the holding in the portfolio;
- Request information on any engagement or escalation activity undertaken, engagement outcomes, transition plan analysis and an assessment of financial risk;
- Pension Committee will write to the Manager to outline its concerns. This may be followed up with a meeting with the Manager and Pension Committee;
- Engage with its Investment Consultant and Independent adviser to understand financial risks for continuing investment with a view on risk and return of the Investment methodology and approach;
- Managers' activities will be considered in light of the Investment Management Agreement (IMA) where relevant, Subscription documents and due diligence or Prospectus if invested by the ACCESS Pool, and manager section paperwork;

- Engage with other invested pool members and pool operator if investment is via the ACCESS pool to understand wider concerns and risk.

4.12. In the SRIP, the Committee recognised that the Paris Agreement is creating change that represents both significant risks to, and opportunities for, the Fund. As such the Fund make the following commitments to climate monitoring and action:

- To continue to measure and report on carbon-equivalent emissions throughout the listed portfolios and illiquid asset classes where possible;
- To continue our work with IIGCC and Climate Action 100+ indirectly via our IIGCC membership and Investment Managers;
- To continue to research and support the deployment of new impact capital into projects set to benefit from the transition to a low carbon economy;
- To assess the carbon intensity of all assets (using estimates if necessary) supported by external managers and GPs;
- Using data from the Transition Pathway Initiative (TPI) to help assess company transition plans to engage with our Investment Managers and alongside our collaborative partners to encourage companies to adopt business models and strategies that are in line with the aims of the Paris agreements;
- Climate reporting in line with Taskforce for Climate Related Financial Disclosures (TCFD) recommendations on mandatory reporting and governance requirements related to climate risk as they are expected to apply to the LGPS;
- The Fund is a signatory to the FRC Stewardship Code and commits to annually publishing its Stewardship Report to maintain its signatory status. The Stewardship Report monitors the stewardship activities and outcomes of the Fund's management of its investment portfolio and active ownership of the Fund assets. This includes reporting on RI issues and specific climate-related risks and opportunities.

The Pension Committee:

- affirms the Fund's commitment to integrate ESG factors, such as carbon efficiency trends into its decision-making.
- delegates scrutiny and engagement with investment managers to Fund officers, with advice from the Investment Working Group, to ensure that they take ESG issues, including climate change and carbon risk, into account;
- affirms the Fund's policy of not divesting solely on the grounds of non-financial factors;
- notes that the Fund will monitor research on the link between climate risk and financial performance to inform future investment strategy, such as stock selection criteria for quantitative strategies;
- agrees that the Fund will use its shareholdings in companies that perform poorly on carbon efficiency measures to influence engagement activity.

5. Exposure to Fossil Fuel Extractors in the portfolio

5.1. To support the Committee in understanding (i) the current exposure to the items raised in the proposals, (ii) how the proposals may be implemented if agreed, (iii) the impacts of such a decision and (iv) whether alternative investments are accessible, officers have liaised with each of the Fund's investment managers to establish what the current exposure to both Fossil Fuel extractors and Thermal Coal is. Investment managers were also asked to provide their definition of 'Fossil Fuel Extractor' and 'Thermal Coal'.

5.2. All investment managers were asked to provide information on *"What companies within your portfolio have a greater than 10% exposure to fossil Fuel **Extraction** (specifically activities that remove fossil fuels from the ground)"*

5.3. A summary of the exposure response is provided in the table below and equates to approx. 0.4% of the Fund.

Strategy	Pooled or un-pooled	Liquid or Illiquid	Exposure within mandate
Private Equity	Un-pooled	Illiquid	1.7%
Listed Infrastructure	Un-pooled	Liquid	Nil
Passive Equity	Pooled / Unpooled	Liquid	Nil
Infrastructure	Pooled	Semi-liquid	1.1%
Global Equity	Pooled	Liquid	Nil
Global Equity	Un-pooled	Liquid	Nil
Credit	Pooled	Liquid	0.2%
Diversified Growth	Pooled	Liquid	0.6%
Property	Un-pooled	Illiquid	Nil

5.4. **Definition of Fossil Fuel Extractors**

- Fossil fuels are defined as: Fossil fuels resulting from decomposing animal and plant matter. Fossil fuels include: coal, oil and gas fuels. Coal is the most carbon intensive fossil fuel, upon burning, whilst natural gas is the least carbon intensive.
- Fossil fuel exposure is defined using the Investment Consultants Sustainability Working Group (ICSWG) and SFDR frameworks and the inclusion of power generation. This includes companies that derive revenues from fossil fuel related activities including exploration, mining, extraction, distribution or refining, transportation, storage and trade activities.
- Extraction is one of the key components of fossil fuel exposure. Typically, extraction activities are those that remove the fossil fuels from the ground, via mining of coal, or drilling for oil and gas resources.
- Only exposure over 10% of revenue generation has been included in this definition.

5.5. **Companies or assets identified as Fossil Fuel Extractors**

More details as to which asset class and Investment Manager holds any of the following companies in their portfolios are included in an exempt report later in this agenda. This section identifies example companies/assets that have been identified within the Funds investment portfolio on implementation of the strategic asset allocation. More detail on some of the identified companies are included in Appendix 1 to this report.

Energi ASA – is a Norwegian oil and gas company headquartered in Norway. The company was established in 2018. They are the 3rd largest oil and gas producer on the Norwegian Continental Shelf, and the 2nd largest exporter of gas from Norway.
Note: this company does not have data available on the Transition Pathway Initiative and is not on the Climate Action 100+ list.

Wintershall DEA - Wintershall Dea's predecessor companies were among the pioneers of the gas and oil industry in Germany. In 2019 Wintershall Dea was established as Europe's leading independent natural gas and crude oil company.
Note : As of 3 September 2024, Wintershall Dea's E&P business, was transferred to Harbour Energy plc. The transfer included production and development assets as well as exploration rights in numerous countries and carbon storage (CCS) licenses. Wintershall Dea's tasks now include managing and divesting its remaining assets, and ultimately, implementing a responsible closure of the company.

This company does not have data available on the Transition Pathway Initiative and is not on the Climate Action 100+ list.

BP - is an integrated oil and gas company that explores for, produces, and refines oil around the world.

Shell - is an integrated oil and gas company that explores for, produces, and refines oil around the world.

Conocco Phillips - is a US-based independent exploration and production firm. It produced oil and natural gas liquids, primarily from Alaska, the United States and Norway.

Northern Star Generation - is a privately held power generation company. It was formed in early 2004 to own and operate a portfolio of power plants with long term contracts. The four plants currently owned by Northern Star Generation are gas fired combustion turbine plants.

6. Exposure to Thermal Coal in the portfolio

6.1. All investment managers were asked to provide information on *"what exposure (if any) ESPF have to thermal coal through your fund".*

6.2. A summary of the exposure response is provided in the table below and equates to approx. 0.1% of the Fund.

Strategy	Pooled or un-pooled	Liquid or Illiquid	Exposure within mandate
Private Equity	Un-pooled	Illiquid	0.0%
Listed Infrastructure	Un-pooled	Liquid	1.0%
Public Equity	Pooled	Liquid	0.4%
Infrastructure	Pooled	Semi-liquid	0.6%
Global Equity	Pooled / Un-pooled	Liquid	Nil
Credit	Pooled	Liquid	Nil
Diversified Growth	Pooled	Liquid	Nil
Property	Un-pooled	Illiquid	Nil

6.3. **Definition of Thermal Coal**

The Investment managers were also asked if their organisation has a definition of thermal coal, the responses to which have been set out in the table below. This request may have been interpreted differently by the managers as to what amounts "exposure to thermal coal".

Manager	Response
Adams Street	Use GICS Level 4 primary industry classification definition *
Harbourvest	Use GICS to categorise companies, but no exact definition. There is no direct category relating to thermal coal in GICS. At a lower granular level the manager has tried to identify coal & consumable.

Newton	Thermal coal: also known as steam coal or energy coal, it is a type of coal with a high water content used primarily in thermal power plants where it is burned to produce heat that is then transformed into electricity through the use of steam turbines. Thermal coal is also burned to power heat-demanding processes such as cement manufacturing. Other uses include its transformation in other gaseous or liquid fuels through 'coal-to-liquids' and 'coal-gasification' processes.
Pantheon	Defined as coal burnt in power plants to run steam turbines
Ruffer	The mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. It does not cover revenue from metallurgical coal; coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined thermal coal; and revenue from coal trading.
UBS (ex Osmosis)	No definition, but bases identification on MSCI data
Osmosis	No definition, but bases identification on MSCI data
Schroders	Use MSCI factor definition **
Wellington	Use MSCI factor definition**
Atlas	No definition
Baillie Gifford	No definition
IFM	No definition
Longview	No definition
M&G	No definition
Storebrand	No definition
WHEB	No definition

**GICS definition - Companies primarily involved in the production and mining of coal, related products and other consumable fuels related to the generation of energy. Excludes companies primarily producing gases classified in the Industrial Gases Sub-Industry and companies primarily mining for metallurgical (coking) coal used for steel production.*
*** MSCI factor definition - This factor identifies the maximum percentage of revenue (either reported or estimated) greater than 0% that a company derives from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. It excludes: revenue from metallurgical coal; coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined thermal coal; and revenue from coal trading.*
Definition from the consultant - Thermal coal exposures with a focus on production, capturing all broad exposures including: exploration, mining, extraction, refining (including manufacture), distribution (including transportation, storage and trade), as well as power generation utilities. For public assets we would use a threshold of 10% of company revenues, while for private markets or real assets, a threshold of 10% of investments.

6.4. The mix of response in definition creates complexity in the Fund considering divestment decisions. Differing definitions would result in one product / manager excluding a company based on its definition while another does not. The Fund would not be able to enforce a definition on an Investment manager as it would need to provide a mechanism for identification of a holding that meets the definition, both for the manager to implement specifically for the Fund, and for the Fund to provide an oversight and governance framework to identify when a manager was investing in breach of the mandate’s definition.

6.5. **Companies or asset identified as Thermal Coal exposure**

More details as to which asset class and Investment Manager holds any of the following companies in their portfolios are included in an exempt report later in this agenda. This section identifies example companies/assets that have been identified within the Funds investment portfolio on implementation of the strategic asset allocation. More detail on those identified companies are included in Appendix 1 to this report.

Orsted - One of the world's leading renewable energy companies. 42% heat and power generation from offshore wind, 27% onshore wind, 18% sustainable biomass, 6% Coal, 5% Solar, 1% natural gas, 1% Other. Orsted have committed to eliminate coal from energy mix entirely by end of 2025.

Veolia Energia Polska (VEP) district heating provider.

Heartland Generation - privately-owned independent power generation company with critical infrastructure assets located in Alberta and British Columbia. The company's website suggests 2022 was the first year in which it was 100% coal free in its operations.
Note - This company has been highlighted by the investment manager as coal exposure due to the GICS categorisation, which shows the complexity in identifying these exposures.

Enel S.p.A. - an Italian multinational manufacturer and distributor of electricity and gas. Enel generates 61.2% of its net electricity from renewable sources, with 5.2% generated from coal. Enel are progressively reducing their contribution from coal until it is completely eliminated: the closure of all coal-fired plants, which was originally planned for 2030, will now be completed ahead of schedule, in 2027.

Portland General Electric Company - a fully integrated investor-owned utility that generates, transmits and distributes electricity to approximately 934,000 customers in 51 cities across the state of Oregon. 35% of the power is generated though renewable sources and 8% through one power station which it plans to close before 2030. They have plans for 80% carbon emission reduction by 2030 and 100% by 2040.

E.ON SE - a German multinational electric utility company based in Essen, Germany. It operates as one of the world's largest investor-owned electric utility service providers with a key focus on renewable, sustainable energy sources. E.ON separated its fossil fuel assets into a new company in 2016.
Note - The Investment Manager has identified this company as coal exposure as it owns coal plants but there was no coal generation in 2022.

American Electric Power Company Inc - The company generates, transmits, and distributes electricity. It produces power using coal, lignite, natural gas, wind, solar, nuclear, and hydro sources. AEP builds smarter energy infrastructure and delivers new technologies and custom energy solutions. The company generates 13% of its revenue from coal fired generation which is planned to stop by 2030.

Norfolk Southern Corporation - The primary business function of Norfolk Southern Corporation is the rail transportation of raw materials, intermediate products, and finished goods across the Southeast, East, and Midwest United States. The Investment manager has identified this asset as coal exposure as it generates 14% of its revenue from transporting coal.

EDP - started as utility company in Portugal more than 40 years ago and grew to become a global energy major. The Fund manager has advised officers that the companies energy mix consists of 72% renewables and hydro, 26% from fossil fuels which includes 11% thermal coal. EDP have made commitments to be 100% green by 2030 and will have 0% in coal by 2025. They state on their website that 98% of all energy they generate already comes from renewable sources.

Natural Resource Partners - a limited partnership headquartered in Houston, Texas. It is a natural resource company that owns and manages approximately 13 million acres of mineral interests and subservice rights across the United States. It also owns a 49% equity investment in Sisecam Wyoming LLC, one of the world's lowest-cost producers of soda ash (soda ash is used in a variety of consumer goods, including glass, chemicals, detergents, and other consumer and industrial products). The company provide critical inputs for the manufacturing of steel, electricity and basic building materials. The company claim to have leases in place with the potential to permanently sequester approximately 800 million metric tons of carbon dioxide underground and to generate 15 megawatts of electricity from green, renewable energy, for example through geothermal plants. NRP does not directly mine, drill or produce minerals. Instead, it leases its acreage to companies engaged in the extraction of minerals.
Note – the Funds legacy investment in this company is less than £1,000

Tiger Realm Coal Ltd - an Australia-based company, which is engaged in producing coking and thermal coal from its operations in the Chukotka Autonomous Okrug (District) on Russia's east coast. The coal produced is sold in Asia.
Note – the Funds legacy investment in this company is less than £1,000

American Consolidated Natural Resources - a US-based coal mining company. It is the fourth largest coal producer in the country, and the largest privately-owned coal company.
Note – the Funds legacy investment in this company is less than £100

7. Implementation Risk and potential costs of Proposals

7.1. The exposure identified throughout this report and the exempt paper are as at a specific point in time. Investment managers have a mandate to deliver investment returns within a specific asset class and will regularly change the underlying assets or holdings within the portfolio. The Fund has no sight of these changes, so would not know if an investment manager who was not exposed to fossil fuels or thermal coal on the date asked, then later put some exposure into the portfolio. As the Fund is directed to pool its investments, it does not set the parameters of the investment mandate and cannot intervene in any sale of purchase within a portfolio.

7.2. In order to comply with the commitments proposed, the Fund could have two options on approach.

Option 1

7.3. Option one would be to sell all investments that do not have a specific mandate stopping an investment manager from investing in fossil fuels or thermal coal and go through a full procurement process to select managers to implement a segregated mandate to carry out investment activities solely for the Fund.

7.4. Illiquid mandates mean they cannot be sold without material loss of value to exit those positions. None of the three proposals extend to existing illiquid mandates for divestment either immediately or over a fixed term period, so illiquid mandates are excluded from the costing information below. Proposals 2 and 3 explicitly refer to public equities and corporate bonds, so only those liquid mandates have been included in potential costs for implementation.

7.5. To exclude the risk of fossil fuel extractors from the liquid portfolio, it would need to sell all positions where there is not an explicit exclusion to invest in this sector. This would result in the fund having to sell the following liquid positions:

- five manager positions totalling £1,832m.

This would result in the removal of Fossil fuel extractor exposure totalling £6.4m (exposure is 0.35% of the manager holdings).

In addition, to sell any exposure to thermal coal, a 6th manager would need to be included in the sell-off, resulting in the need to sell the following (combined) liquid positions:

- six manager positions totalling £2,196m.

This would result in the removal of Fossil fuel extractor and thermal coal exposure totalling £12.6m (exposure is 0.57% of the manager holdings)

7.6. To sell-out of an investment manager position, a full procurement process to select a new manager would be required. The anticipated cost of doing this would be around £20k per investment manager to be replaced. The Fund would then incur transition costs (which include taxes, commissions, foreign exchange conversions and market movements) to sell the underlying holdings of each manager and purchase the new manager’s portfolio positions. A recent investment transition of less than £100m from one equity mandate to a similar equity manage had anticipated trading costs of £80k, with additional opportunity cost risk of circa £30k.

7.7. To extrapolate this to the example to remove all liquid holdings where there is no specific exclusion to the mandate for fossil fuel extractors this could cost the Fund in the region of £1.5m to remove fossil fuel exposure of £6.42m. To do the same for thermal coal could cost an additional £0.3m.

7.8. If the Fund were to enter into segregated mandates, it would bear increased risk of higher investment manager fees as it would not benefit from the economies of scale generated by the LGPS investment pools. Independent analysis procured by the ACCESS Pool and undertaken by Dr Christopher Sier at ClearGlass Analytics has indicated that the ACCESS Pool has achieved an overall aggregated discount to market of 9bps on manager fees compared to what Funds would have to pay had they procured the same funds from the open market, reducing expected fees from 0.33% to 0.24% per annum. Using this rate as an example for annual investment fees on this part of the portfolio, the annual costs for managing the investments would increase from £5.2m to £7.2m per year, an annual cost increase of £2m.

7.9. In addition to this explicit cost, the Fund would be open to risk of reduced returns through a new investment manager who is constrained on what it can or can’t invest in.

7.10. The consideration of implementing this option to move to segregated mandates would also be contrary to statutory guidance and government direction which requires LGPS Fund’s to pool their investments. To make such a move would open the Fund to significant risk of intervention by the Secretary of State (either to instruct the Fund to invest via the LGPS investment pools or to step-in to manage the Fund).

Option 2

7.11. A secondary option would be to exclude managers where there was exposure on a specific date, then monitor managers holdings at regular intervals and exclude those managers if it is evidenced that they have exposure to thermal coal or fossil fuel extractors in their portfolio.

7.12. To remove the fossil fuel extractors where there was **exposure on the date the investment managers provided the information**, the Fund would need to sell the following liquid positions:

- two manager positions totalling £800.7m.

This would remove Fossil fuel extractor exposure totalling £6.4m (exposure is 0.8% of the manager holdings).

In addition, to sell any exposure to thermal coal, a 3rd manager would need to be included in the sell-off, resulting in the need to sell the following (combined) liquid positions:

- three manager positions totalling £1,165m.

This would remove Fossil fuel extractor and thermal coal exposure = £12.6m (exposure is 1.1% of the manager holdings).

These positions exclude a manager that has had fossil fuel extractors in the portfolio at various other times during the year, including in a recent holdings report. To also remove the potential ongoing risk of exposure through this additional manager, the fund would have to sell the following liquid positions:

- four manager positions totalling £1,618m.

This would remove Fossil fuel extractor exposure = £12.6m (exposure is 0.8% of the manager holdings).

7.13. To carry out this alternative approach, Fund officers would need to access a list of excludable investment companies categorised as ‘Fossil fuel extractors’ and ‘thermal coal exposure’ to compare against the managers holdings on a periodic basis. As this list would be regularly updated, officers would need to monitor it (most likely on a monthly basis) and cross reference it against the Fund’s holdings. This would incur both risks as to whether the data was accurate, and additional cost to the Fund. Initial estimates suggest this exercise would take between twenty and thirty hours a month, due to International Securities Identification Number (ISIN) not being available and thus requiring cross referencing to be done manually. Any list that the Fund uses to assess this exposure position could be open to challenge in terms of the interpretation of what a ‘fossil fuel extractor’ or ‘thermal coal exposure’ covers.

7.14. In addition, for this option, the Fund would continue to bear the costs associated with moving to segregated mandates as laid out in the first option for procuring a manager, transition costs, increased investment fees, risk to returns, and significant risk of intervention by the Secretary of State for not pooling investments.

8. Private Equity

8.1. Private Equity managers are not able to include specific investment restrictions in the legal documentation for their funds, and therefore cannot market funds as ‘Fossil Fuel Free’ or ‘Thermal Coal Free’. There are now options with Private Equity managers to invest in funds that are called ‘Impact’ or ‘Stewardship’ funds that align to the SFDR equivalent of an article 8 fund.

8.2. As a result, it would not be possible to invest in Private Equity with 100% guarantee that there will never be exposure to fossil fuels or thermal coal. An investment in this asset class would need to be made on best intentions not to have exposure and the Fund would be reliant on quarterly updates from a manager, often a quarter behind liquid reporting, as to whether there was exposure to fossil fuels or thermal coal as identified within GICS industry classifications.

9. Conclusion and reasons for recommendation

9.1. In reaching any decision, the Pension Committee are required to consider the rationale for such decisions in line with the investment regulations and their fiduciary duty. The Pension Committee are recommended to consider the proposals put forward by Cllrs Taylor and Tutt (as set out in paragraph 1.1 of this report), in light of the information set out in this report and the further details included in the exempt paper.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Sian Kunert, Head of Pension Fund
Email: sian.kunert@eastsussuex.gov.uk

Background Documents

Engagement vs Divestment Report – September 2023 - https://www.eastsussexpensionfund.org/media/qobc405d/engagement-vs-divestment-report-september-2023.pdf

Appendix 1

Further details relating to companies in which the Fund is exposed

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American Electric Power 34

Notes to aid company data

Institutional Investors Group on Climate Change (IIGCC) - Cumulative Benchmark Divergence (CBD)

IIGCC set out the concept of 'Cumulative Benchmark Divergence' ('CBD') in a report published in February 2024 on called From asset to portfolio Alignment. CBD quantifies the projected cumulative emissions performance of a corporate (or real asset) relative to a Paris-aligned decarbonisation pathway, over a defined timespan. IIGCC suggest that its use can also complement the main approaches to portfolio alignment used by investors. IIGCC do identify that it is both destination and pathway that matter for warming, it is not sufficient to just aim for net-zero by 2050 for targets to be considered aligned with the goals of the Paris Agreement and without considering cumulative emissions performance, investors' ability to understand the transition risk of individual assets—and the portfolios in which they are held—is limited. CBD also has the potential to assess transition risk in investors' portfolios. It can be used to measure the proportion of aligned assets in a portfolio (i.e. Where the CBD score is less than or equal to zero).

Transition Pathway Initiative (TPI) – Management Quality Assessment

The management quality assessment evaluates and tracks the quality of companies' governance/management of their greenhouse gas emissions and of risks and opportunities related to the low-carbon transition.

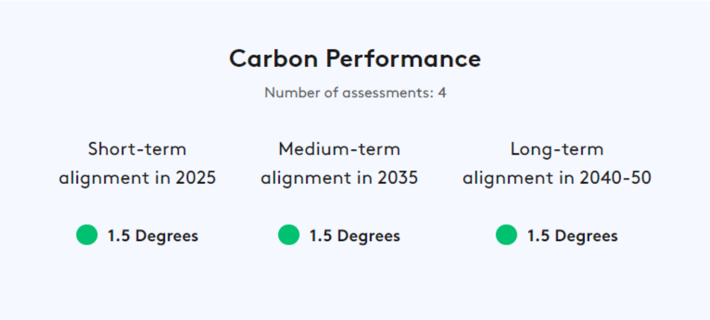
- *Level 0 – Unaware of (or not Acknowledging) Climate Change as a Business Issue.*
- *Level 1 – Acknowledging Climate Change as a Business Issue: the company acknowledges that climate change presents business risks and/or opportunities, and*

that the company has a responsibility to manage its greenhouse gas emissions. This is often the point where companies adopt a climate change policy.

- *Level 2 – Building Capacity: the company develops its basic capacity, its management systems and processes, and starts to report on practice and performance.*
- *Level 3 – Integrating into Operational Decision-Making: the company improves its operational practices, assigns senior management or board responsibility for climate change and provides comprehensive disclosures on its carbon practices and performance.*
- *Level 4 – Strategic Assessment: The company develops a more strategic and holistic understanding of risks and opportunities related to the low-carbon transition and integrates this into its business strategy.*
- *Level 5 – Transition Planning and Implementation: The company uses its strategic understanding of climate and transition risk/opportunity to create a detailed and actionable transition plan which aligns business practices and capital expenditure decisions with their decarbonisation goals.*

EDP

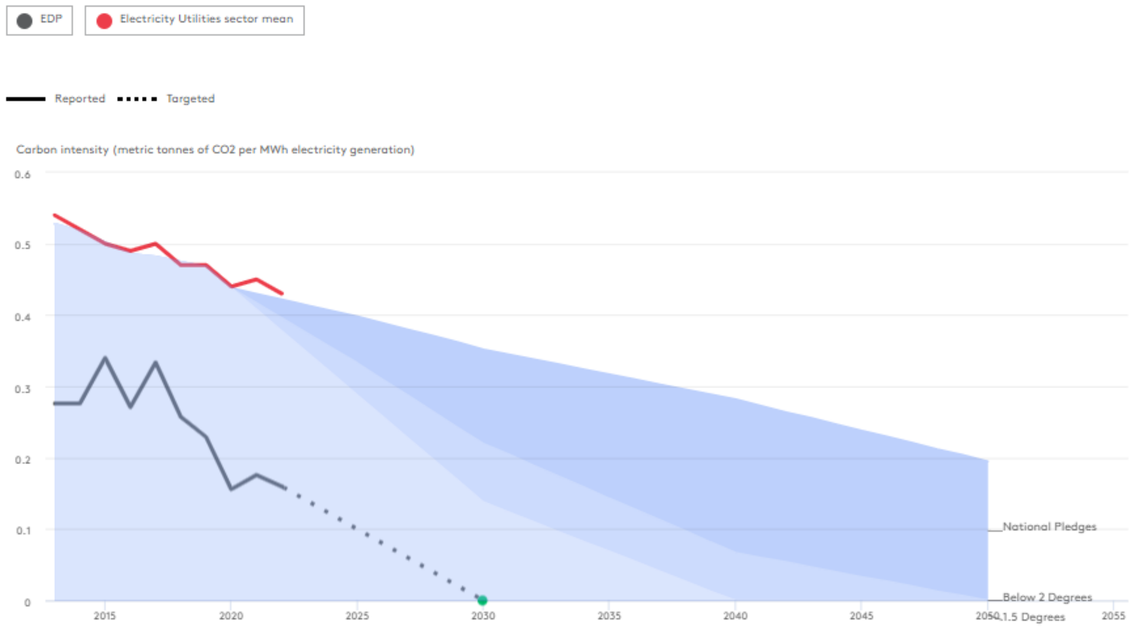
- A Portuguese Utilities Company
- The Investment Manager has advised officers that the companies energy mix consists of 72% renewables and hydro, 26% from fossil fuels - which includes 11% thermal coal.
- EDP have made commitments to be 100% green by 2030 and will have 0% in coal by 2025.
- EDP state on their website that 98% of all energy they generate already comes from renewable sources.
- Transition Pathway Initiative assesses EDP as being 1.5 degree aligned in the short medium and long term.
- They have a Management Quality of Level 4 – Strategic Assessment.



- EDP is significantly ahead of the Electricity sector average in carbon intensity

Carbon Performance EDP

Assessment Date: 04 July 2023



TPI notes:

TPI has not made any further assumptions in order to project this company's Carbon Performance. When interpreting TPI Carbon Performance data, it is important to bear in mind that climate science shows temperature change is proportional to cumulative absolute CO2 emissions.

- IIGCC CBD shows the company as low transition risk

IIGCC CBD analysis					
Based on TPI dataset published 23/11/2023					
Climate benchmc	1.5 Degrees				
Company Name	Geography	Benchmark ID	Benchmark	Co. pathway	CBD (%)
EDP	Portugal	Electricity Utilities_01/11/20211.5 Degrees	4.253	1.7	- 60.0

BP

- BP is an integrated oil and gas company that explores for, produces, and refines oil around the world. The company operates refineries with a capacity of 1.6 million barrels of oil per day.
- Transition Pathway Initiative assesses EDP as being 1.5 degree aligned only in the long term.
- They have a Management Quality of Level 4* – Strategic Assessment.
- Carbon performance is only slightly below the sector average
- CBD analysis suggest there is transition risk associated with this investment
- BP is a Climate Action 100+ engagement company

Management Quality

Number of assessments: 7

4 ★

Strategic Assessment

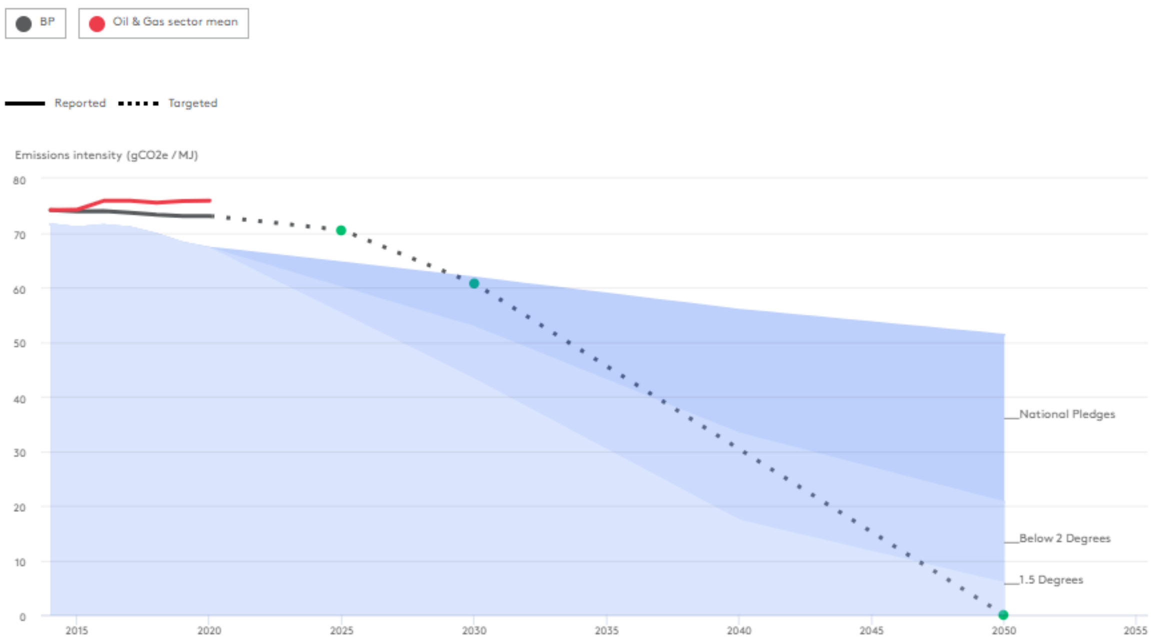
Carbon Performance

Number of assessments: 5

Short-term alignment in 2025	Medium-term alignment in 2035	Long-term alignment in 2050
Not Aligned	National Pledges	1.5 Degrees

Carbon Performance BP

Assessment Date: 30 June 2023



TPI notes:

The company has not disclosed an emissions intensity that TPI can use to assess current and/or future Carbon Performance. The carbon intensity has been (re-)calculated according to TPI methodology. The company's target covers a subset of Scope 1, 2 and 3 (use of sold products) emissions. The emissions intensities of all emissions not covered by the target are assumed to remain constant from the level of the latest disclosure. The company's Scope 3 target is based on a fossil fuel equivalence approach (see TPI's Q&A document for a brief definition). When interpreting TPI Carbon Performance data, it is important to bear in mind that climate science shows temperature change is proportional to cumulative absolute CO2 emissions.

IIGCC CBD analysis

Based on TPI dataset published 23/11/2023

Climate benchma 1.5 Degrees

Company Name	Geography	CA100 Focus Company	Benchmark ID	Benchmark	Co. pathw	CBD (%)
BP	United Kingdom	Yes	Oil & Gas_01/11/20231.5 Degrees	1074.6	1407.4	31.0

Investor update | Plenary

Our strategy in action – *Growing value*

Our capital expenditure and EBITDA targets and aims

Capital expenditure* $bn

	2021	2022	2025 target	2030 aim
Resilient hydrocarbons	9.1	13.0[1]	9-11	8-10
Convenience and mobility	1.6	1.8	2-3	3-4
Low carbon energy	1.6	1.0	3-5	3-5
Group capital expenditure[4]	**12.8**	**16.3**	**14-18**	**14-18**
Of which: Transition growth* engines	***2.4***	***4.9***	***6-8***	***7-9***

EBITDA* $bn

	2021 $71/bbl	2022 $103/bbl	2025 target $70/bbl[2]	2030 aim $70/bbl[2]
Resilient hydrocarbons	30.6[3]	56.9[3]	40-42	↑41-44 (39-42[5])
Convenience and mobility	4.4	4.3	~7	9-11
Low carbon energy				2-3
Group EBITDA[4]	**34.4**	**60.7**	**46-49**	**↑53-58** (51-56[5])
Of which: Transition growth engines			***3-4***	***10-12***

(1) Includes acquisition of Archaea Energy (2) Brent $70/bbl 2021 real, at bp planning assumptions, and at the upper end of the relevant capex ranges
(3) 2021 and 2022 not restated for re-allocation of power trading to low carbon energy (4) Includes OB&C (5) Previous aim included with 2022 full year and 4Q financial results & update on strategic progress

9

Orsted

- Orsted is one of the world's leading renewable energy companies.
- Heat and power generation is created from 42% offshore wind, 27% onshore wind, 18% sustainable biomass, 6% Coal, 5% Solar, 1% natural gas, 1% Other.
- Orsted have a TPI Management Quality score of 4
- TPI Assess Orsted as being aligned to 1.5 degrees in the short medium and long term
- Orsted have committed to eliminate coal from energy mix entirely by end of 2025.
- The CBD calculation suggested very limited transition risk for this company and it is the lowest of CBD rankings across the energy utilities sector.

Management Quality

Number of assessments: 6

4

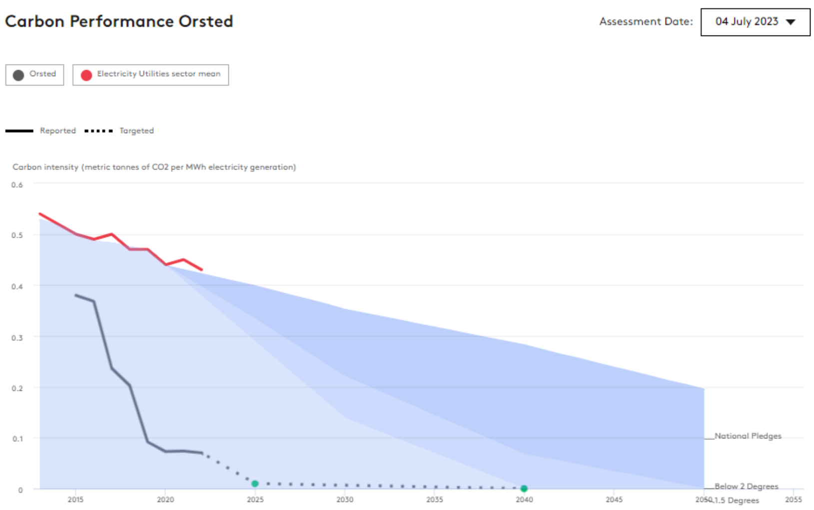
Strategic Assessment

Carbon Performance

Number of assessments: 6

Short-term alignment in 2025	Medium-term alignment in 2035	Long-term alignment in 2040-50
1.5 Degrees	1.5 Degrees	1.5 Degrees

Geography ?	Sector	Market cap (Group) ?	ISIN ?	SEDOL ?	CA100+ engagement ?
Denmark	Electricity Utilities	large	DK0060094928	BYT16L4	No



TPI notes:
TPI has not made any further assumptions in order to project this company's Carbon Performance. When interpreting TPI Carbon Performance data, it is important to bear in mind that climate science shows temperature change is proportional to cumulative absolute CO2 emissions.

IIGCC CBD analysis

Based on TPI dataset published 23/11/2023

Climate benchmark: 1.5 Degrees

Company Name	Geography	CA100 Focus Company	Benchmark ID	Benchmark	Co. pathway	CBD (%)
Orsted	Denmark	No	Electricity Utilities_01/11/20211.5 Degrees	4.253	0.5	- 88.8

Veolia Energia Polska (VEP)

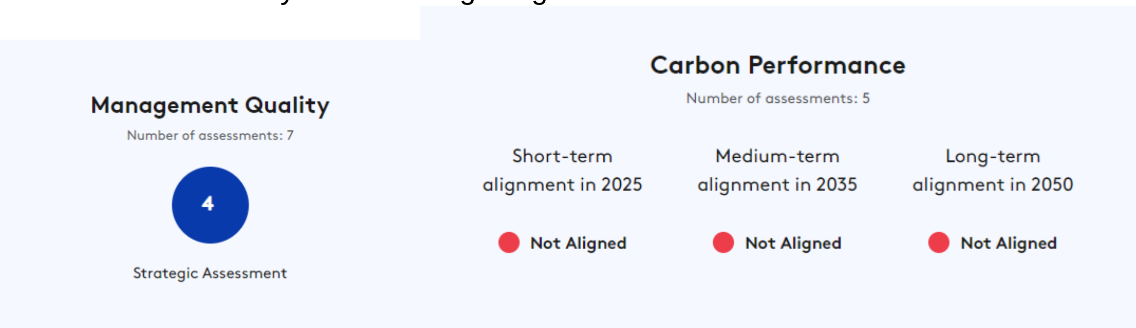
VEP is a district heating provider and owner of cogeneration businesses in Poland.
VEP is held within the Fund's portfolio as a real infrastructure asset
VEP operates heating networks that distribute heat to an estimated 2 million homes. VEP also generates heat for around 1.2 million homes. Owing to Poland's energy mix, VEP's operations are largely coal-based. District heating systems tend to operate in markets with supportive stable regulation, considered essential infrastructure and have stable revenue streams. As well as policy backing, district heating can provide energy security with increased reliance on access to energy; can promote decarbonisation as they can harness a range of renewable or low carbon energy sources such as biomass and geothermal. Digitalisation can also make further improvements.

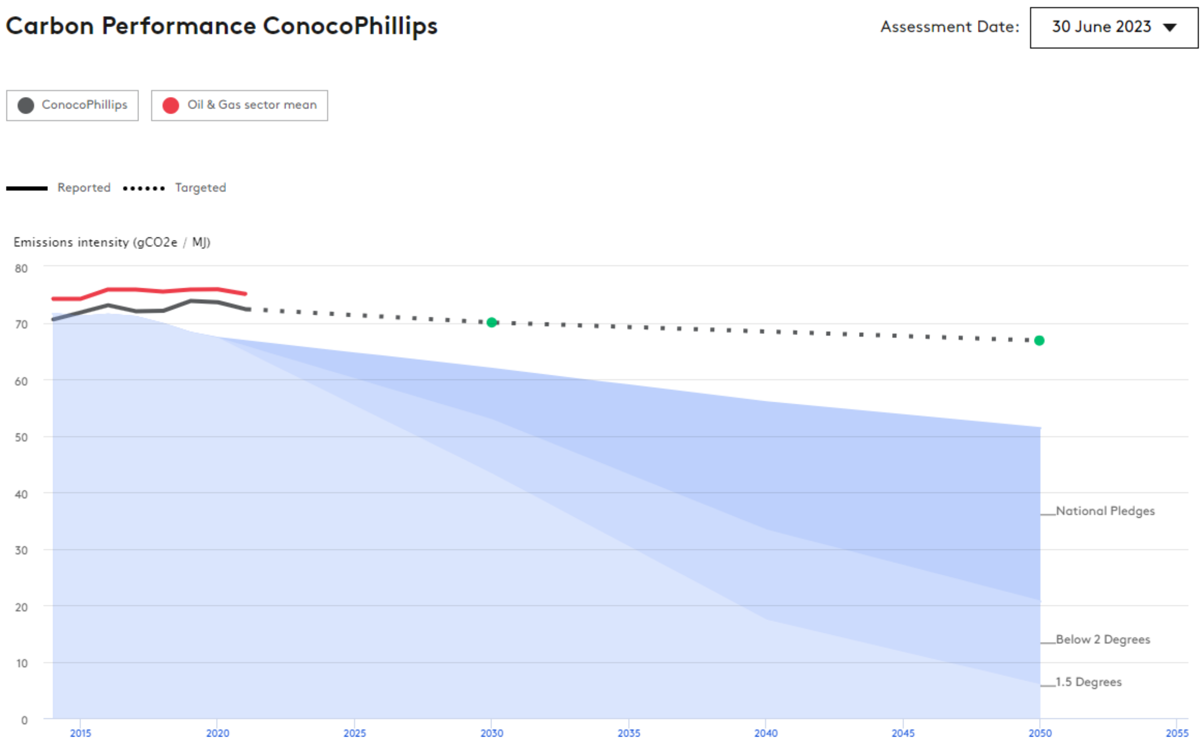
- VEP is committed to transitioning away from coal, and in doing so, seeks to support Poland's transition towards a cleaner energy mix.
- Estimated 40% reduction in tonnes of CO_2e by 2030.
- The strategy focuses on future-proofing energy generation assets for use with lower emissions fuels, while increasing output to support a lower coal energy mix.
- Phase one of the transition targets conversion of two large coal boilers in Łódz and Poznan to gas by 2026. This aims to increase VEP's electricity output while reducing the emissions intensity of such electricity. Longer term, these boilers could be converted to hydrogen co-combustion, for further emissions reductions once green hydrogen is available at scale.
- Phase two is for the remaining energy generation capacity to switch to biomass by 2029.
- believe conversion plans at VEP will create new employment opportunities.

- Since the original request for information to the investment manager we have now been advised one of Veolia heating’s coal fired power stations has just been taken offline, leading to a 42% decrease in coal emissions.

ConocoPhilips

- US-based independent exploration and production firm
- ConocoPhilips have a TPI Management Quality score of 4
- ConocoPhilips are not aligned to a transition pathway.
- They are a Climate Action 100+ engagement company
- The CBD analysis is showing a high transition risk





TPI notes:

The company has not disclosed an emissions intensity that TPI can use to assess current and/or future Carbon Performance. The carbon intensity has been (re-)calculated according to TPI methodology. The company's target covers a subset of Scope 1, 2 and 3 (use of sold products) emissions. The emissions intensities of all emissions not covered by the target are assumed to remain constant from the level of the latest disclosure. When interpreting TPI Carbon Performance data, it is important to bear in mind that climate science shows temperature change is proportional to cumulative absolute CO2 emissions.

IIGCC CBD analysis

Based on TPI dataset published 23/11/2023

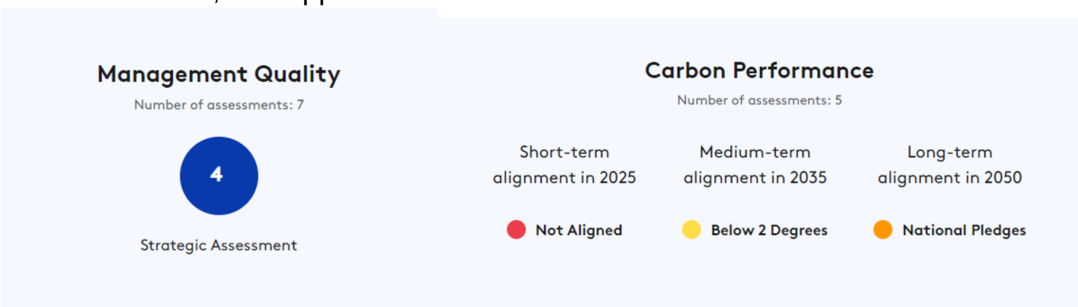
Climate benchmark: 1.5 Degrees

Company Name	Geography	CA100 Focus Company	Benchmark ID	Benchmark	Co. pathway	CBD (%)
ConocoPhillips	United States of America	Yes	Oil & Gas_01/11/20231.5 Degrees	1074.6	2227.0	107.2

Shell

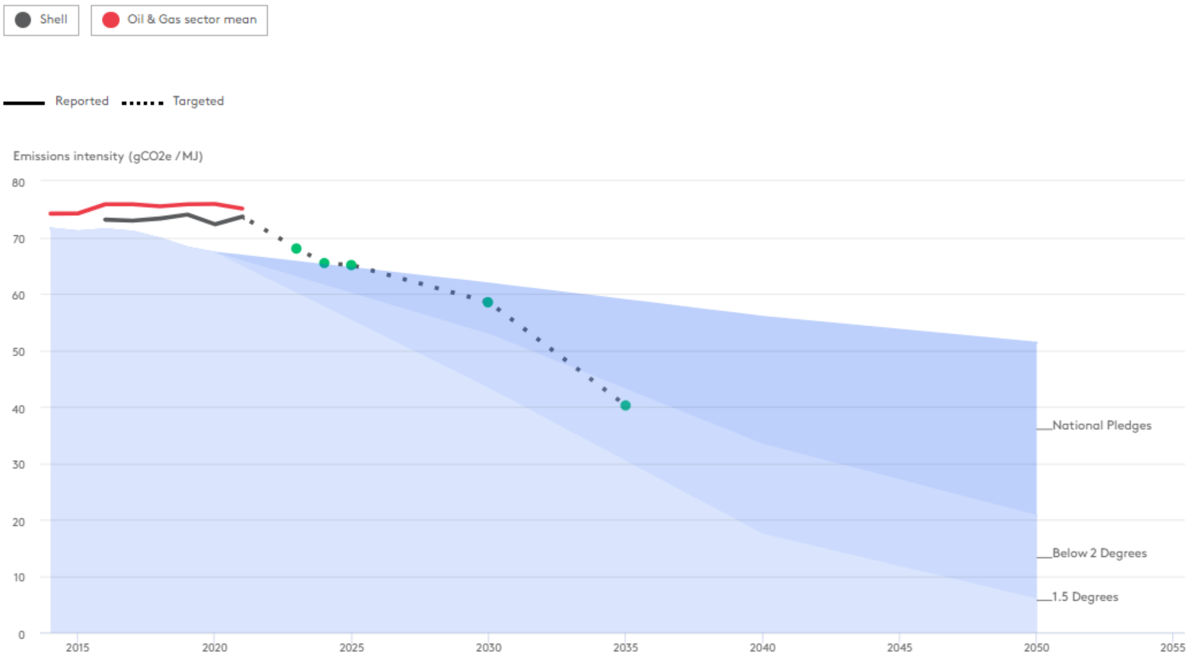
- Shell is an integrated oil and gas company that explores for, produces, and refines oil around the world

- TPI have assessed as a Management Quality score of 4
- Under the TPI assessment, Shell are not aligned to a transition pathway in the short term, however are aligned to a pathway below 2 degrees in the medium term and aligned to national pledges in the long term
- They are a Climate Action 100+ engagement company
- The CBD analysis is showing transition risk
- Shell believe the world will need energy from oil and gas for many years to come. Just over two-thirds of capital spending in 2023 was on maintaining supplies of the vital energy the world needs today. This includes liquefied natural gas (LNG) which they expect will remain a critical part of the energy mix for many years to come, providing secure energy, replacing coal in industry and providing stability to the electricity grid.
- Shells carbon emissions intensity is lower than the sector average and lower than the ley players in the industry
- Shell have published an energy transition strategy update, which lays out targets ambitions, and approach as it transforms its business towards net zero.



Carbon Performance Shell

Assessment Date: 30 June 2023



TPI notes:

The company has not disclosed an emissions intensity that TPI can use to assess current and/or future Carbon Performance. The carbon intensity has been (re-)calculated according to TPI methodology. TPI has not made any further assumptions in order to project this company's Carbon Performance. The company's Scope 3 target is based on a fossil fuel equivalence approach. The company has set further targets to reduce its emissions intensity, but they could not be included in this assessment as it was not possible to make them consistent with TPI's methodology (see TPI's Q&A document for a brief definition). When interpreting TPI Carbon Performance data, it is important to bear in mind that climate science shows temperature change is proportional to cumulative absolute CO2 emissions.

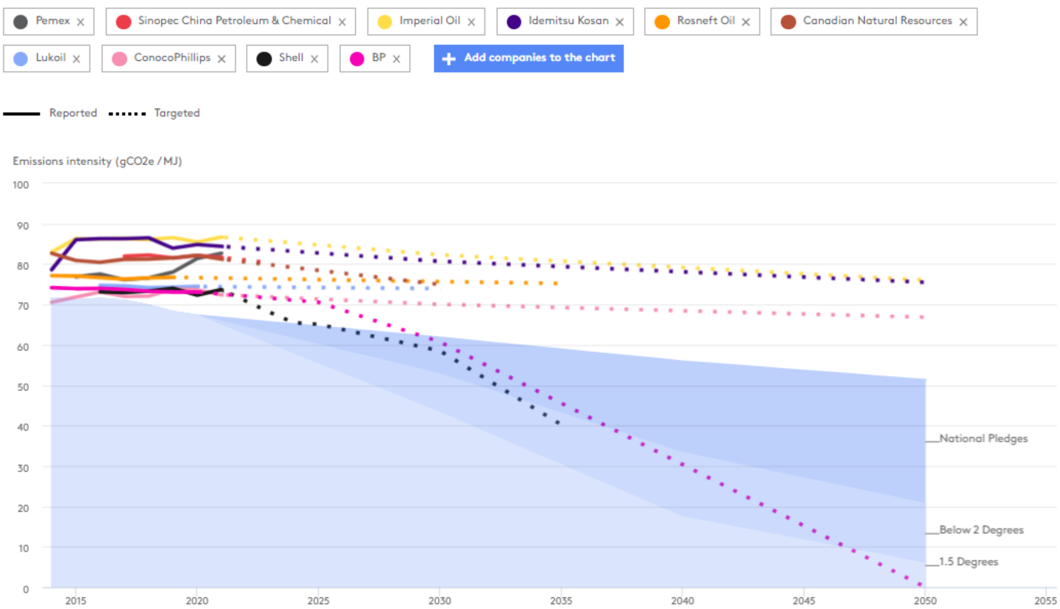
IIGCC CBD analysis

Based on TPI dataset published 23/11/2023

Climate benchmark: 1.5 Degrees

Company Name	Geography	CA100 Focus Company	Benchmark ID	Benchmark	Co. pathway	CBD (%)
Shell	United Kingdom	Yes	Oil & Gas_01/11/20231.5 Degrees	1074.6	1636.4	52.3

Carbon Performance: Oil & Gas



Enel

- Enel S.p.A. is an Italian multinational manufacturer and distributor of electricity and gas.
- Enel generates 61.2% of its net electricity from renewable sources, with 5.2% generated from coal.
- Enel are progressively reducing their contribution from coal until it is completely eliminated: the closure of all coal-fired plants, which was originally planned for 2030, will now be completed ahead of schedule, in 2027.
- TPI have assessed Enel has having a Management Quality score of 4 - Strategy Assessment
- TPI suggest that Enel is aligned to 1.5 degrees in the short, medium and long term
- Enel is well below its peers on carbon emissions intensity
- With its negative CBD calculation Enel is a low transition risk to the Fund

Management Quality

Number of assessments: 7

4

Strategic Assessment

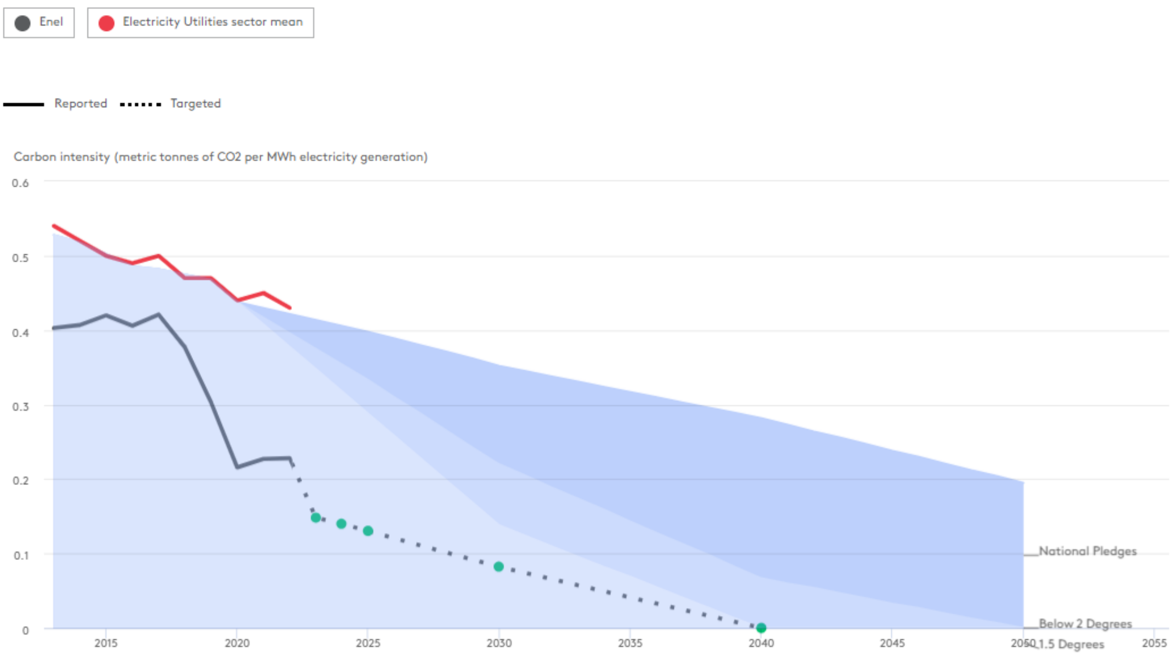
Carbon Performance

Number of assessments: 7

Short-term alignment in 2025	Medium-term alignment in 2035	Long-term alignment in 2040-50
1.5 Degrees	1.5 Degrees	1.5 Degrees

Carbon Performance Enel

Assessment Date: 04 July 2023



TPI notes:

The company discloses an emissions intensity using an activity measure and/or emissions figure that is inconsistent with TPI's methodology for this sector. The carbon intensity has been recalculated according to TPI methodology. When interpreting TPI Carbon Performance data, it is important to bear in mind that climate science shows temperature change is proportional to cumulative absolute CO2 emissions.

IIGCC CBD analysis

Based on TPI dataset published 23/11/2023

Climate benchmark: 1.5 Degrees

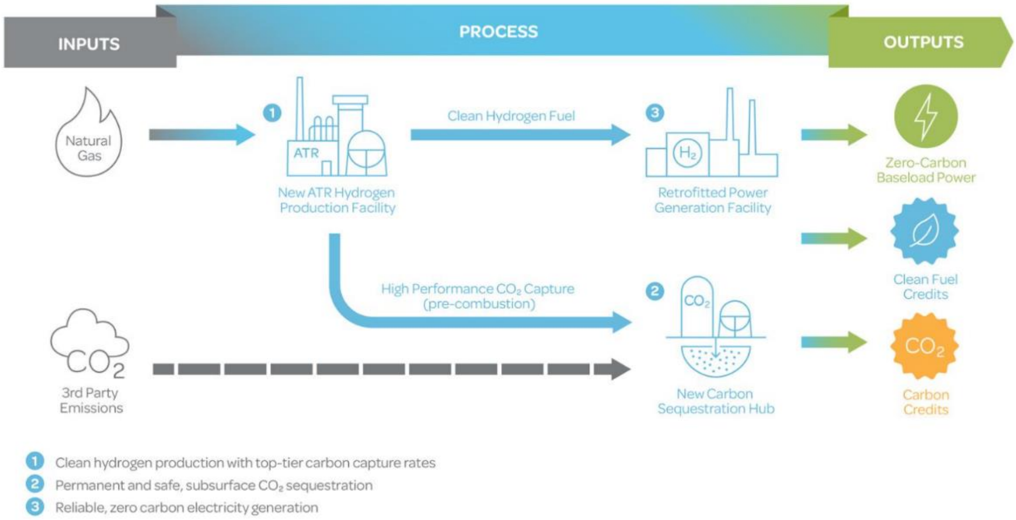
Company Name	Geography	CA100 Focus	Benchmai	Benchmai	Co. pathw	CBD (%)
Enel	Italy	Yes	Electricity	4.253	2.4	- 44.6

Net eletricity generation by source (2023)

Heartland Generation

- Heartland Generation is a privately-owned independent power generation company with critical infrastructure assets located in Alberta and British Columbia.
- The company's website suggests 2022 was the first year in which it was 100% coal free in its operations.
- *Note - This company has been highlighted by the investment manager as coal exposure due to the GICS categorisation, which shows the complexity in identifying these exposures.*
- *Heartland Generation aim to produce environmentally responsible electricity by reducing emissions, managing air quality and preserving water quality*
- Heartland Generation carry out coal to gas conversions which are anticipated to reduce greenhouse gas emssions by 35% across the Heartland portfolio. This is the equivalent to taking one millon cars off the road.

Example of coal conversion to clean hydrogen in under a decade – Battle River Carbon Hub



Portland General Electric

- Portland General Electric is a fully integrated investor-owned utility that generates, transmits and distributes electricity.
- 35% of the power is generated though renewable sources
- 8% power is generated through one power station which it plans to close before 2030.
- They have plans for 80% carbon emission reduction by 2030 and 100% by 2040.
- TPI have assessed the company has having a management quality score of 3 – Integrating into Operational Decision Making
- TPI consider Portland to be aligned to national pledges in the short term. Below 2 degrees in the medium term and aligned to 1.5 degrees in the long term
- Carbon emissions are below the sector average

Management Quality

Number of assessments: 4

3 ↗

Integrating into Operational Decision Making

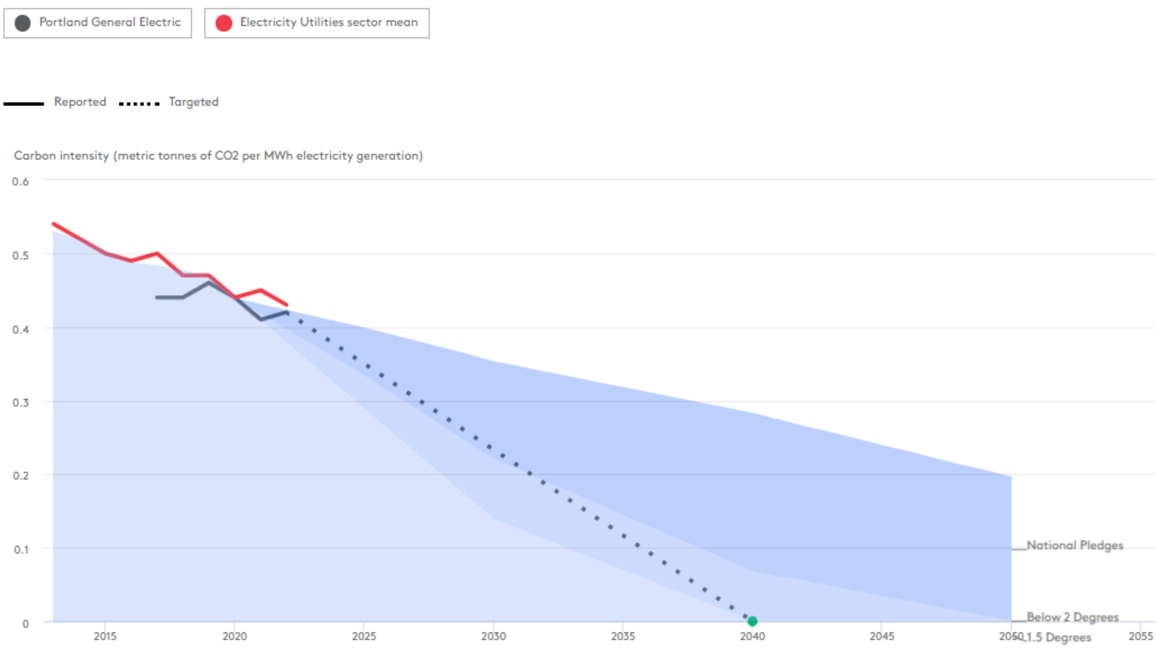
Carbon Performance

Number of assessments: 4

Short-term alignment in 2025	Medium-term alignment in 2035	Long-term alignment in 2040-50
National Pledges	Below 2 Degrees	1.5 Degrees

Carbon Performance Portland General Electric

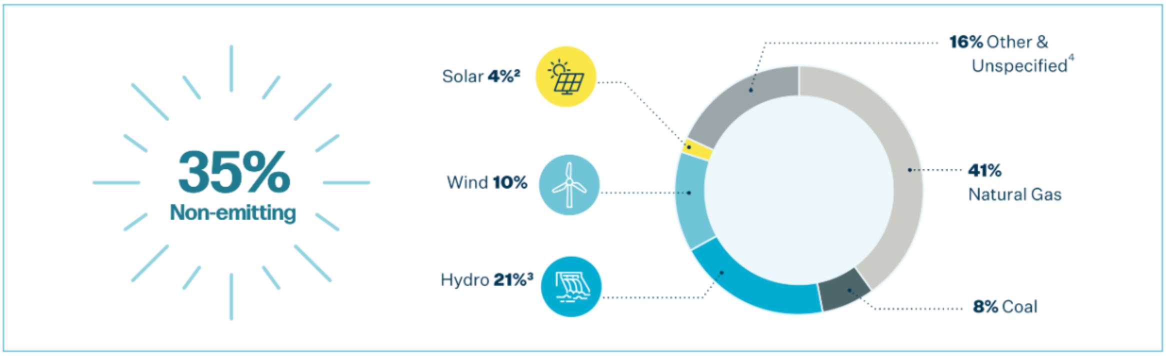
Assessment Date: 04 July 2023



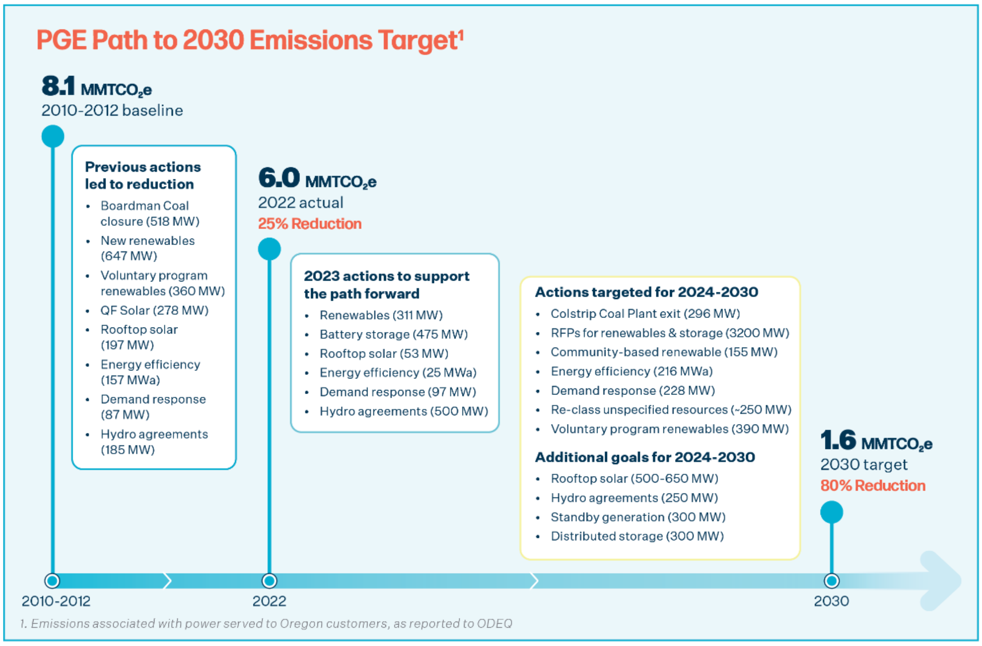
TPI notes:

The company has set additional targets to reduce its emissions intensity, but they could not be included in this assessment because they were inconsistent with TPI's methodology. When interpreting TPI Carbon Performance data, it is important to bear in mind that climate science shows temperature change is proportional to cumulative absolute CO_2 emissions.

2023 resources and emissions at a glance

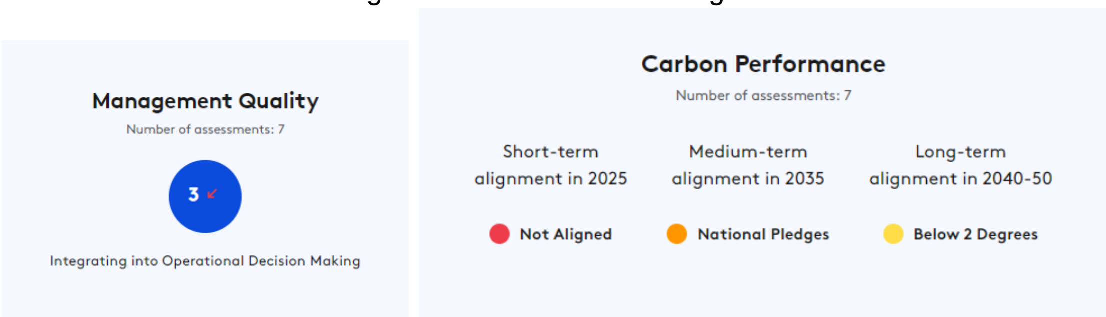


1. Percentages above represent 2023 resource mix from PGE's total system load, inclusive of wholesale volumes. The percentage of 2023 retail load, excluding wholesale sales, served by non-emitting resources is 32%. Refer to the appendix for additional information. 2. Represents utility-scale solar generated for Oregon retail load, does not include 274,678 MWh of customer rooftop solar resources. 3. Hydro amounts include purchases from Bonneville Power Administration, which may have an immaterial amount of emissions associated with them, per ODEQ rules. 4. Unspecified is purchased power for which a specific generating resource is not defined and could be any of the generation types (e.g., wind, hydro, gas).



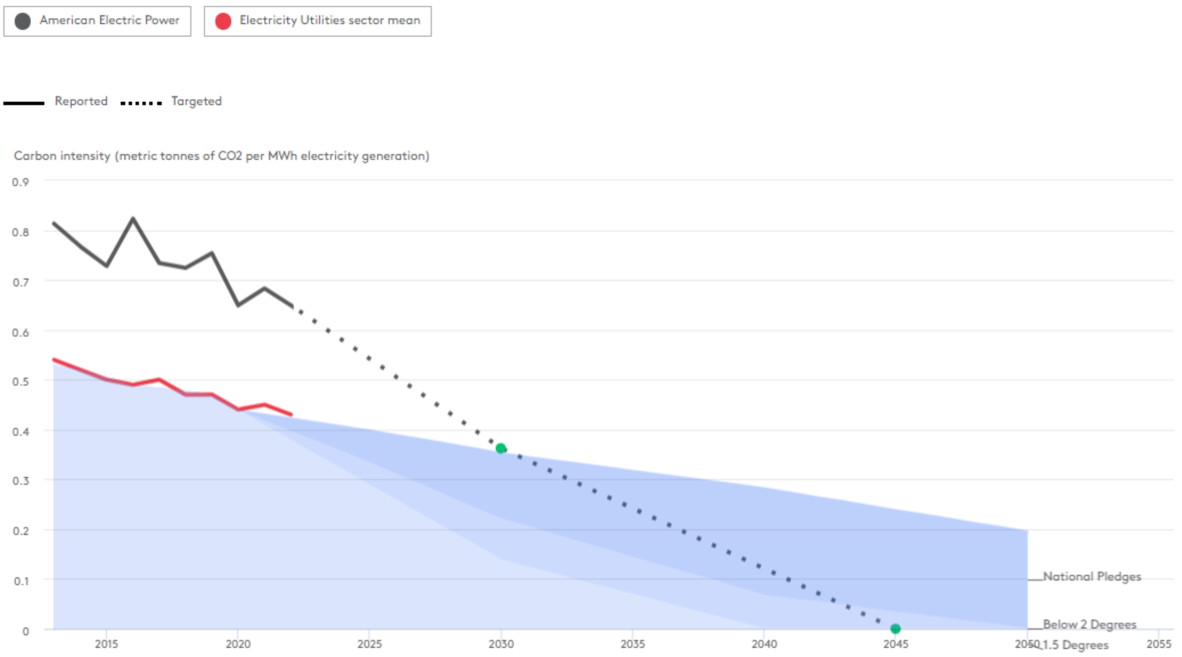
American Electric Power

- The company generates, transmits, and distributes electricity.
- It produces power using coal, lignite, natural gas, wind, solar, nuclear, and hydro sources.
- AEP builds smarter energy infrastructure and delivers new technologies and custom energy solutions.
- The company generates 13% of its revenue from coal fired generation which is planned to stop by 2030.
- TPI have assessed the company has having a management quality score of 3 – Integrating into Operational Decision Making
- TPI do not consider Portland to be aligned to a transition pathway in the short term, but assess them as aligned with national pledges in the medium term and below 2 degrees in the long term
- Carbon emissions are higher than the sector average



Carbon Performance American Electric Power

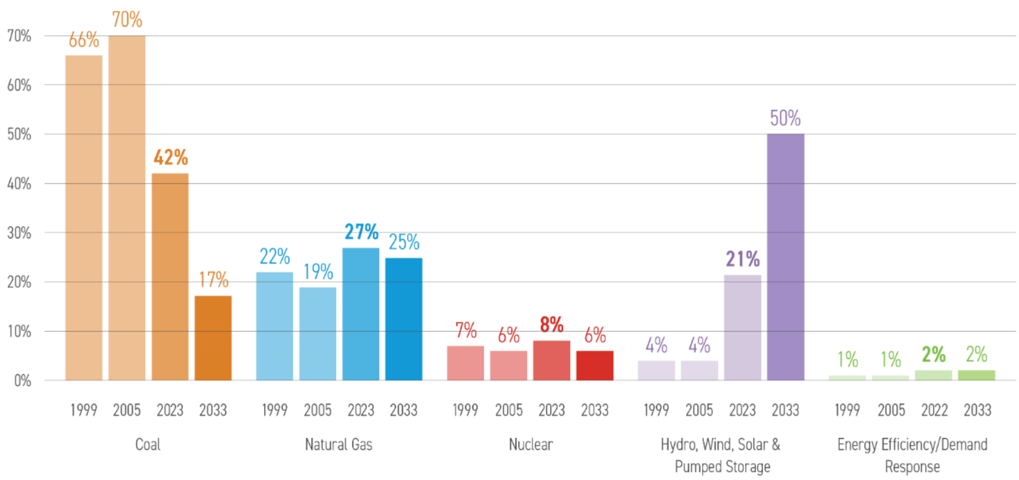
Assessment Date: 04 July 2023



TPI notes:

The company has set a target to reduce its absolute emissions. To calculate this company's targeted emissions intensity, TPI assumes that the company's electricity generation grows according to the national or regional electricity growth rate projected in the IEA's 2020 World Energy Outlook's Stated Policies Scenario (STEPS). When interpreting TPI Carbon Performance data, it is important to bear in mind that climate science shows temperature change is proportional to cumulative absolute CO2 emissions.

TRANSFORMING OUR GENERATION FLEET - AEP'S GENERATING RESOURCE PORTFOLIO



Coal Retirements*

Unit	Fast Transition	BAU
Amos 1	2035	2040
Amos 2	2035	2040
Amos 3	2035	2040
Dolet Hills		2021
Flint Creek	2033	2038
Mitchell 1	2035	2040
Mitchell 2	2035	2040
Mountaineer	2035	2040
Northeastern 3		2026
Pirkey		2023
Rockport 1		2028
Rockport 2		**
Turk	2040	2067
Welsh 1		2028
Welsh 3		2028

* Retirement occurs by end of listed year and dates prior to 2030 same across both cases

** Lease of unit assumed to be terminated per I&M IRP in 2022