



Shell Pensions Trust Limited
Shell Centre
London SE1 7NA
United Kingdom

Mary Creagh MP
Chair of the Environmental Audit Committee
14 Tothill Street
London
SW1P 3JA

26 March 2018

Dear Ms Creagh,

Thank you for your letter dated 28 February 2018. I am pleased to respond to your request for information about how the Shell Contributory Pension Fund (SCPF) considers environmental risks such as climate change. To help frame the answers to your specific questions, I think it is perhaps helpful to start by reflecting on certain aspects of the SCPF and the role of the Board of Shell Pensions Trust Limited (the Trustee).

SCPF is closed to new members but open to accrual for existing members. The Trustee Board comprises four Company Nominated and four Member Nominated Directors. Further details about the SCPF can be found at our website <http://pensions.shell.co.uk/scpf.html>.

The Trustee has wide investment powers derived from statute and the SCPF Trust Deed. The Trustee has a fiduciary duty to exercise this power in the best interests of the SCPF's members and this generally translates into seeking the best possible financial return over time, judged in relation to the risks of the investments in question. This is, of course, subject to certain, primarily statutory, limitations (such as the restriction on employer-related investment) and the need for diversification of the asset portfolio. However, within the relevant parameters, the Trustee retains broad discretion as to the investment strategy, after weighing appropriate professional advice.

We note the Law Commission's report on Pension Funds and Social Investment and its statement that the central purpose of a pension fund must be to ensure there are sufficient assets to pay pensions on time and in full. The Law Commission outlines two tests to be met before trustees may choose to make a social impact investment that involves some financial sacrifice. First, the trustee should have good reason to think that the fund members would share the concern, and second, the decision should not involve a risk of significant financial detriment to the pension fund.

Every three years, the Trustee reviews and updates its statement of investment principles for the SCPF, a key step in its integrated risk management framework. When doing so, the Trustee considers the extent to which it should take into account social, environmental and ethical factors in choosing, keeping and realising investments, as required by The Occupational Pension Schemes (Investment) Regulations 2005. The Trustee sees this particular thought-process as an important strand of its assessment of the short and long-term risk profile of the SCPF's asset portfolio.

1. Do the trustees accept the TCFD conclusion that pension funds are potentially exposed to financial risks through climate change?

The Trustee accepts that pension funds are potentially exposed to financial risks through climate change.

We consider the TCFD proposals helpful in terms of providing information to asset owners such as the Trustee of the SCPF and through the development of comparable and reliable disclosures encouraging improved responses to climate change risk. However, we also note that the study highlights that much of the impact on future assets will come through weaker growth and lower asset returns across the board. This suggests that investors may not be able to avoid climate-related risks by moving out of certain asset classes as a wide range of asset types could be affected.

2. Which climate-related financial risks are you most concerned about?

The Trustee is especially interested in the implications of the energy transition and climate related financial risks in two areas: investment strategy and the financial strength of the SCPF's Sponsor in the short and long term.

When considering our investment strategy, we consider a number of Environmental, Social and Governance factors (ESG) including climate-related financial risks. Further details are provided in the response to question 4.

As part of the 2017/2018 SCPF valuation exercise and in line with its annual exercise, the Trustee has recently reviewed the strength of the Covenant. The Covenant is the extent of the Sponsor's ability to support the SCPF now and in the future. The review considered in depth the strength of the Sponsor over different time periods and its resilience to different risk factors, one of which is the energy transition and climate change. Given the complexities and uncertainties of the energy transition and responses to climate change and given the strength of the current covenant, we think the right approach is to monitor political, technological and commercial developments carefully for signals of their impact on the strength of the covenant and react accordingly

3. Has your pension scheme formally considered climate change risk at Board (or Investment Committee) level?

As described above the Trustee Board and its Investment Committee have considered climate change risk as part of its investment approach and monitoring, and the Covenant assessment. Indeed it does so regularly.

4. If you have considered climate change related risks, what actions have you taken in response to these risks? We are interested, for example, in the development of specific investment strategies on this issue, whether you have taken formal advice, any changes in your investment strategy made or planned, and the exercise of your ownership responsibilities on this issue (either directly, or through your investment managers).

ESG factors - including climate change related risks - are an integral part of the Investment Principles of the SCPF. The Trustee strives to be a responsible steward of the assets in which it invests, taking all material factors, including ESG considerations, into account. The Trustee expects this approach to both protect and enhance the value of the SCPF in the long term. The Trustee does this in a manner which is consistent with its investment objectives, legal duties and other commitments.

The Trustee has adopted the UN Global Compact Principles as its Responsible Ownership Framework for the SCPF's assets and signed up to the UN Principles for Responsible Investment. It has appointed Hermes Equity Ownership Services Limited (Hermes) to assist in implementing its policy of Responsible Ownership of investments. ESG considerations are taken into account in excluding companies and sectors that do not meet legal or regulatory requirements.

There are three major elements to Hermes' role:

- monitoring the SCPF's investments for any long-term value impact due to unsatisfactory ESG factors;
- engaging in dialogue with senior executives of investee companies and challenging strategy and policies appropriately; and
- actively voting shares at several thousand AGMs each year on behalf of the Trustee, in accordance with agreed themes.

The SCPF's Investment Committee receives and reviews reports every quarter from Hermes on its stewardship activities. These cover themes that have informed some of their engagements with companies as well as specific reports for the SCPF showing how Hermes has voted. The Investment Committee also meets annually with Hermes for a review of its engagement plan, an overview of the developing ESG landscape and to track emerging global trends and specific investor activity. All such information and commentary is shared with the Trustee Board.

The SCPF's Investment Manager, Shell Asset Management Company Limited carries out and reports to the Investment Committee ESG analysis of the equities and bond portfolios. In 2018, the SCPF's Investment Committee will, together with its Investment Advisor, Aon Hewitt, undertake the triennial SCPF's Strategic Asset Allocation exercise and preparation of Statement of Investment Principles. Recommendations will be made to the Trustee for approval, with due weight given to ESG factors as an intrinsic part of the process.

5. Are you planning to adopt the TCFD recommendations in your scheme's reporting? If so, please indicated your planned timing.

In the context of reporting to our members we are assessing the TCFD recommendations. Our main communication is an annual newsletter, the Source, in which we cover topics of interest and importance to our members.

6. How would you suggest the Government and regulators implement the recommendations on climate-risk reporting? Is a voluntary approach sufficient to ensure widespread adoption? and
7. Would guidance from Government or regulators on climate-risk reporting be helpful for pension funds?

We think it would be premature for regulatory guidance to be issued at this stage. It would be better to allow different funds to report as they see fit to meet their member needs and reflect the particular circumstances of their fund. Furthermore, pension funds are users of climate change financial disclosure and, as the TCFD points out, progress on enterprise reporting is the first necessary step. Because of the international nature of pension fund investments, progress needs to be made in multiple jurisdictions.

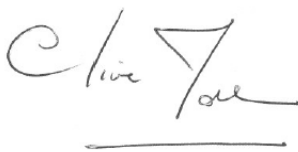
8. Have you discussed climate change with your actuarial advisors, having regard to the Risk Alert that the Institute and Faculty of Actuaries (FoA) issued to its members last year.

We have discussed the potential impact of climate change with our Actuarial Advisors, Aon Hewitt.

9. Please share with us any other information you think may be relevant as we develop our understanding of the approach UK pension funds are taking to climate change and, more generally, green finance.

In line with our fiduciary responsibility and the Pension Regulator's guidance, we believe it is essential that an integrated approach is taken to risk management, incorporating the management of climate change risk into the overall risk management approach of each fund.

Yours sincerely

A handwritten signature in cursive script that reads "Clive Mather". The signature is written in black ink and is positioned above a horizontal line.

Clive Mather
Chairman