

## **SHELL PENSIONS TRUST LIMITED**

### **RESPONSIBLE OWNERSHIP POLICY & PROCESSES**

#### **Background**

Shell Pension Trust Limited (SPT) is the Trustee of the Shell Contributory Pension Fund (SCPF) in the UK. SPT believes that environmental, social, economic and governance performance are fundamental to a company's success and thereby its long-term financial returns. SPT also believes that the goal of any company should be to produce sustainable long term financial value, which will be helped by having long term owners to whom the company is accountable and by having owners who are clear about their expectations. SPT wishes to invest in companies which embrace these objectives and are able to demonstrate that they do so.

SPT's assets are managed by Shell Asset Management (SAMCo), either directly or indirectly through external fund managers; the monitoring, voting and engagement processes described below apply in principle to all of these assets, although implementation may be phased.

#### **SPT Responsible Ownership Policy**

SPT has adopted the UN Global Compact Principles (see Annex 1) as its Responsible Ownership framework for the SCPF assets<sup>1</sup>. SPT has also signed up to the UN Principles for Responsible Investment (UNPRI, see Annex 2) as an investment management framework for giving consideration to environmental, social and corporate governance issues.

It is SPT's policy to implement Responsible Ownership with no positive selection or a priori exclusion of investments. SPT has employed a recognised third party service provider, Hermes Equity Ownership Services Limited, ("Hermes EOS") to assist in the implementation of this policy. There are three major elements to this implementation: monitoring of SCPF investments, engagement with investee companies as appropriate, and voting of SCPF shares.

#### **Monitoring**

Hermes EOS will monitor the companies in which SPT invests in order to ensure that they are taking appropriate steps to produce sustainable financial returns for shareholders. Hermes EOS will also seek to identify any situation where long-term shareholder value may be compromised due to unsatisfactory environmental, social and ethical performance or risk of governance or strategic failure. Hermes EOS will also take account of the extent to which companies are demonstrating alignment with the general principles of the United Nations Global Compact.

Hermes EOS will assess all companies in SPT's portfolios for breaches of generally recognised responsibilities and norms under UN treaties and for other behaviours which are deemed unsustainable. . Hermes EOS may if desired use an external screening agent to review all companies in the portfolio.. The screening process will be supplemented

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<sup>1</sup> As a Royal Dutch Shell plc company, SPT has adopted the Shell General Business Principles

with an in depth assessment of a company's activities by a member of the Hermes EOS team. In assessing companies' governance practices, reference will be made to the Hermes Principles, the Hermes Corporate Governance Principles, and the regional Hermes Principles, as periodically updated.

Where a company's activities are found clearly to conflict with English law or with international treaties ratified by the British parliament this will be reported by Hermes EOS to SAMCo on behalf of SPT. This may result in one of two outcomes:

- A decision to engage with the company with a view to having the company desist from that activity. Such engagement should be held at an appropriate level and be subject to ongoing review as to its progress. If after a reasonable time engagement has been unsuccessful then divestment might be the response.
- In exceptional circumstances where conduct is overtly unacceptable, an immediate decision to divest from the company

The SPT portfolio will be screened by Hermes EOS to identify those companies creating an immediate risk to the portfolio through involvement in the activities and behaviours identified above, and other pertinent governance and ethical issues as agreed from time to time with Hermes EOS

## **Engagement**

Where concerns are raised through the monitoring processes, or through another channel, Hermes EOS will consider engagement with the company in question. Such consideration will be based around an assessment of the likely impact of the engagement and the ultimate benefit to the value of SCPF's holding. This engagement may involve:

- Meetings with executives and non- executive directors
- Discussions with the other shareholders of the company
- Participation in collaborative investor initiatives
- Submission of shareholder resolutions at general meetings as appropriate

Hermes EOS shall monitor the risk of "acting in concert" in the various jurisdictions and shall warn SAMCo (on behalf of SPT) of any such risk.

Company specific engagements will normally be undertaken by Hermes EOS where it believes that:

- Engagement may prevent or limit a decrease in the value of a company's shares
- Engagement may lead to an increase in the value of a company's shares

Proposals for engagements may be initiated as a result of Hermes EOS' research or at SAMCo's or SPT's request and will usually be prompted by some breach of the social, environmental, ethical, governance, and strategic principles agreed with SPT and referenced in the Hermes Principles. Unless SPT requests otherwise, engagements with companies will be undertaken in Hermes EOS' name and will typically take the form of a private dialogue between Hermes EOS and the engagee company.

Engagements may range in scope. Intensive engagements may relate to longer-term environmental, social or governance issues, which may not have immediate stock-specific benefits, for example where the company's shares are already fully valued and the intent

is to preserve that value. Engagement will be escalated according to the nature and severity of the concerns. Where engagement does not result in a satisfactory outcome, then SPT or SAMCo on behalf of SPT will consider whether to retain its investment in the company.

Details of all intensive engagements undertaken by Hermes EOS will be formally reported to SAMCo and SPT on a quarterly basis. Additionally, Hermes EOS will provide it with interim and ad hoc updates as to its progress with specific companies, and will make it aware of other engagements on issues which may be of relevance or are likely to be particularly sensitive. Given the need for much of this work to remain confidential, Hermes EOS will report to SPT as fully as possible on the outcome of its engagement with companies.

In addition to the engagement with companies Hermes EOS may from time to time lobby with Governments and/or Regulators to promote the interests of institutional investors.

Hermes EOS will work with SPT to assist it to implement such controls and measures as are necessary for SPT to fulfil its obligations as a signatory to the UNPRI.

### **Collective engagement**

By appointing Hermes EOS, SPT is signalling its commitment to the potential benefits of collective shareholder engagement. Hermes EOS pools together investors' resources to create a 'best in class' engagement service which protects and enhances shareholder value.

Hermes EOS represents us at many national, regional and global organisations through which SPT seeks to enhance its effectiveness by working collaboratively with other institutions. Among these are: the UNPRI and its Clearinghouse for engagements (as well as a number of more localised UNPRI initiatives); the International Corporate Governance Network; the Asian Corporate Governance Association; Regnan, Eumedion and Assogestioni.

### **Voting**

It is SPT's policy to exercise its voting rights in all practicable cases, based on its Responsible Ownership principles. SPT has delegated voting on entities that it invests in to Hermes EOS. As part of its ongoing monitoring process, Hermes EOS (or for logistical reasons in share blocking countries SAMCo) will vote at company general meetings in accordance with its published corporate governance principles, unless its contact with the company or interpretation of its disclosures suggests that voting differently would better support the achievement of its engagement objectives and the sustainability of the company.

Where Hermes EOS decides to vote against or abstain from voting on management resolutions (whether directly or through SAMCo), Hermes EOS will inform the company's management of the reasons for so doing, where practicable in advance of the general meeting. In so doing Hermes EOS shall not mention the name of SPT or SCPF, unless SPT's prior consent has been acquired. However, for the avoidance of doubt, SPT will disclose how its votes have been cast on request.

Votes cast by Hermes EOS will be informed by company-specific research on environmental, social, governance and other issues which might impact on voting and engagement decisions. Hermes EOS will make voting recommendations based on the unique circumstances of each company, taking local best practice and regulation into account. It will execute the vote in accordance with SPT's interests as a long-term owner and undertake voting-related engagement with companies.

Hermes EOS will provide notification of votes to be cast in "blocking"<sup>2</sup> markets, and will report on votes cast on a weekly and quarterly basis, providing alerts in advance of upcoming meetings that may be of particular relevance or sensitivity by virtue of either industry or geography.

### **Evaluation and Reporting**

SAMCo, SPT and Hermes EOS will evaluate the impact of its monitoring, voting and engagement programmes on an ongoing basis. Hermes EOS provides quarterly reports to SPT on voting and engagement activities for the SCPF holdings.

Hermes EOS will prepare annually a detailed evaluation of its engagement work on SPT's behalf, such assessment to include an analysis of sector relative share price performance.

### **Conflicts of Interest**

SPT has a Conflicts of Interest protocol where directors and key senior management are required to declare outside duties or interests that might conflict with their duties with regard to SPT. Hermes EOS has a Conflicts of Interest policy where actual or potential conflicts of interest between Hermes EOS and its clients or between different clients of Hermes EOS are identified and managed appropriately. This policy is available at [http://www.hermes.co.uk/files/pdfs/Conflicts\\_of\\_interest\\_policy.pdf](http://www.hermes.co.uk/files/pdfs/Conflicts_of_interest_policy.pdf).

Hermes EOS will not vote on behalf of SPT at company meetings of or engage with Royal Dutch Shell plc or its listed subsidiaries on behalf of SPT. It is SPT policy not to vote on Royal Dutch Shell plc resolutions, except where a resolution relates to the SCPF, in which case, SPT retain the right to determine which way votes are cast.

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<sup>2</sup> Markets where voting cannot be delegated to a service provider.

## **Annex 1: The Ten Principles of the UN Global Compact**

### **Human Rights**

1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. make sure that they are not complicit in human rights abuses.

### **Labour Standards**

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. the elimination of all forms of forced and compulsory labour;
5. the effective abolition of child labour; and
6. the elimination of discrimination in respect of employment and occupation.

### **Environment**

7. Businesses should support a precautionary approach to environmental challenges;
8. undertake initiatives to promote greater environmental responsibility; and
9. encourage the development and diffusion of environmentally friendly technologies.

### **Anti-Corruption**

10. Businesses should work against corruption in all its forms, including extortion and bribery.

## **Annex 2: UN Principle for Responsible Investment**

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.