

Implementation Statement for 2023

**Shell Pensions Trust Limited, Trustee of the Shell
Contributory Pension Fund**

July 2024

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1. Introduction

Background

This document sets out the actions undertaken by Shell Pensions Trust Limited ("the Trustee"), the trustee of the Shell Contributory Pension Fund ("SCPF", "the Fund"), to implement its stewardship policy set out in the Statement of Investment Principles ("SIP"). The document includes information on voting and engagement undertaken on behalf of the Trustee and an overview of how the voting and engagement policies within the SIP have been implemented during the reporting period.

This implementation statement covers the year ending 31 December 2023. In preparing it, the Trustee has had regard to the guidance on [Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement](#), issued by the Department for Work and Pensions ("DWP") in June 2022.

The SIP was last updated in March 2022, but no changes were made to the voting and engagement policies. The SIP is publicly available and can be found here: <http://pensions.shell.co.uk/scpf/resources/scpf-library>.

Sale of equities

The Trustee made the decision at the end of 2023 to sell the Fund's holding of physical Listed Equity holding in full. The Fund had already removed its economic exposure to equities through the use of offsetting derivative overlays, so this was an implementation decision to improve investment efficiency, rather than a strategic one.

This change in investment holdings will be reflected in next year's implementation statement. However, while the SCPF has lost a key lever of influence in terms of voting its equity holdings, engagement with companies in which the Fund holds debt remains important and in line with the Trustee's policy of being a responsible asset owner.

It is currently expected that some exposure to Listed Equity will be restored as the Fund's holding in illiquid assets reduces. However, this is not expected to be to previous levels of equity holding.

2. Summary of the Trustee's stewardship approach and policies

The Trustee aims to be a responsible steward of the assets in which it invests. The Trustee's primary concern is to act in the best financial interests of its beneficiaries, seeking the best return over time that is consistent with a prudent and appropriate level of risk. The key elements of the Trustee's Responsible Ownership Policy, and a

description of how environmental, social and governance ("ESG") considerations are taken into account in the various investment processes that the Trustee oversees, are as follows:

- In taking material financial factors, including corporate governance, environmental and social considerations into account, the Trustee expects both to protect and to enhance the value of the SCPF's assets over the long term.
- The Trustee is a signatory to the Principles for Responsible Investment ("PRI").
- The SCPF does not make investments in companies that undertake certain type of business activities. At present, this pertains to companies that are involved in cluster munitions or anti-personnel mines, as well as additional case-by-case exclusions pertaining to controversial business conduct.
- The Trustee believes that in most cases engagement with enterprises is a more effective long-term approach than divestment.

To effect these objectives, the stewardship policies set out in the SIP require the SCPF's Investment Manager to:

- Use its influence to engage with underlying managers to ensure the SCPF's assets are not exposed to undue risk; and
- Report to the Trustee on its ESG activities, which supports the Trustee in determining the extent to which the SCPF's engagement policy has been followed throughout the year.

And either directly or through a third party Stewardship Services Provider to:

- Exercise its delegated voting rights in all practicable cases in accordance with the corporate governance principles agreed between the Trustee, the Investment Manager and Stewardship Services Provider.
- Report to the Trustee on stewardship activity regularly as required by the Trustee.

Key parties in the Trustee's stewardship activity

The Fund's assets are managed by Shell Asset Management Company B.V. ("SAMCo"), either directly or indirectly through external fund managers.

As required by the occupational pension scheme regulations and consistent with the prudent management of the Fund, the SCPF has a highly diversified portfolio. For example, prior to the sale at the end of 2023, the listed equity part of the portfolio had holdings in several thousand issuers. No single holding was material in relation to the total assets of the Fund and the Fund does not hold a significant proportion of the equity or debt of any listed enterprise. Although for private assets, the level of control in terms of ownership is usually larger, the level of actual influence is limited as well. This is due to the indirect nature of ownership through a

lead investor, for which the influence of other investors is relevant as well, and the limited ability to alter exposure once capital has been committed. In consequence, the main way in which the Fund can have an influence on enterprises in which it invests is through collective action.

To achieve this, the services of EOS at Federated Hermes ("EOS"), a leading stewardship services provider, are used for the SCPF's listed equity and corporate bond holdings. The Trustee and SAMCo use a third-party stewardship services provider for a number of reasons, including:

- Harmonising the voting approach across all mandates with all investment managers;
- Optimising the Trustee's monitoring capabilities;
- Allowing the Trustee to impact ESG and other issues through collective action with other asset owners;
- Enhancing knowledge of ESG issues through collaboration and by being part of a larger network; and
- Alleviating the resource burden on the Trustee and employ greater expertise for all stewardship activities.

EOS has been appointed by the Trustee to support in fulfilling its stewardship responsibilities such as:

- Ensuring the companies in which the SCPF invests are taking appropriate steps to produce sustainable financial returns and identifying the most material issues to be escalated for action;
- Assessing companies for breaches of generally recognised responsibilities and engaging or signalling the infeasibility of engagement as appropriate if a breach is identified;
- Engaging with companies in pursuit of meaningful objectives, through meetings, discussions with other shareholders, participation in collaborative investor initiatives or submission of shareholder resolutions;
- Exercising the Trustee's voting rights in all practicable cases based on its Responsible Ownership Principles, its Global Voting Guidelines and in accordance with the Shell General Business Principles¹;
- Informing companies ahead of meetings if voting against or abstaining from voting on a management resolution;
- Preparing annual and detailed evaluations of its voting and engagement work on the Trustee's behalf
- Integrating stewardship into investment decisions; and

¹ The Shell General Business Principles set out the Company's responsibilities to shareholders, customers, employees, business partners and society.

- Advocating for necessary changes in public policy and market best practice.

The Trustee and SAMCo monitor and review the stewardship activities of EOS through regular interaction and voting and engagement reports.

SAMCo is charged with monitoring and engaging with the external fund managers which have been appointed to run part of SCPF's investments, such as private equity managers, with oversight by the Trustee.

Further information on the Trustee's monitoring, engagement and voting policy is set out in the Trustee's Responsible Ownership Policy. This is publicly available and can be found here: <http://pensions.shell.co.uk/scpf/resources/scpf-library>.

3. Trustee stewardship activity over the year

ESG Forum

In 2023, the Trustee established an ESG Forum to strengthen its focus on ESG-related matters, including climate change. In 2023, the Forum is comprised of three Trustee Directors (including the Chair of the Board), as well as having representation from both SAMCo and the TSU. The ESG Forum meets quarterly and provides support to the Board. Input to the ESG Forum is provided by the ESG adviser, Stewardship services provider, investment adviser and other third parties as appropriate.

The ESG Forum's responsibilities in relation to climate risk include the following:

- Oversee the monitoring and delivery of the Trustee's climate policy and provide recommendations to the Board on any future revisions to the climate policy.
- Oversee the engagement and voting undertaken on behalf of the Fund by the Stewardship service provider, SAMCo and external managers; provide direction and monitor engagement activities to ensure alignment with the Trustee's beliefs and areas of priority, taking action to address any concerns identified.
- Monitor the alignment and engagement of investee companies, with delegated authority to enforce the Trustee's exclusion policy as appropriate.
- Act as custodian of the Trustee's climate and ESG-related documentation, including the Responsible Ownership Policy, Implementation Statement, and this annual Climate Report, recommending to the Board for approval.
- Commission climate scenario modelling for the Fund from its ESG adviser.

Stewardship priorities

In 2023, the Trustee formalised its stewardship priorities to guide its oversight of the stewardship undertaken on its behalf. These are areas on which SAMCo and the Trustee more closely monitor the activities of its stewardship services provider and

external, illiquid asset managers to ensure alignment with its stewardship expectations.

The priorities chosen by the Trustee are:

- Climate change;
- Governance (Board effectiveness and ethical culture); and
- Human capital and labour rights.

Voting

Prior to the sale of its equity holdings, the Trustee used EOS as its proxy adviser. On behalf of the SCPF, EOS made recommendations on votes at company meetings and undertook voting-related engagement with companies, in accordance with principles agreed with all of its clients, unless its contact with the company or its interpretation of the company's disclosures suggest that voting differently would better support the achievement of stewardship objectives and the sustainability of the company. EOS's recommendations were based on the unique circumstances of each company, taking local best practice and regulation into account, and made in accordance with the Trustee's interests as a long-term owner.

EOS made voting recommendations that were, where practicable, engagement-led and involved communicating with company management and boards around the vote. This ensured that its rationale would be understood by the company and that the recommendations would be well-informed and encourage change where necessary. When recommending votes at companies with larger client holdings or which bear higher reputational risk, or if it would expect to oppose a resolution or a material agenda item, such as opposing the election of a director, EOS would endeavour to write to the company in advance to explain its concerns. If the company was willing, EOS would discuss the matter further and explore potential for any changes that the company might make which would enable them to support the resolution.

The Trustee has adopted EOS's voting policy in respect of public equity investments. Implementation of this voting policy was monitored throughout the year by the ESG Forum. Over the year, the Trustee followed and reviewed EOS's voting recommendations, but did not engage with EOS on any votes ahead of them being cast. It relied on EOS to notify companies ahead of votes in the circumstances outlined above.

Voting Statistics

Over the year to 31 December 2023	SCPF Equity holdings
Number of meetings eligible to vote during the period	2029 (unique meetings)
Number of resolutions eligible to vote on over the year	21,343 (votable resolutions)
% of resolutions voted on or abstained for which the fund was eligible	21,335 (99.96%) (votable resolutions with voting instructions)
Of the resolutions on which the SCPF was eligible to vote, % that voted with management	17,531 (82.14%)
Of the resolutions on which the SCPF was eligible to vote, % that were voted against management	3,804 (17.82%)
Of the resolutions on which the SCPF was eligible to vote, % that were abstained from	409 (1.92%)
% of meetings with at least one vote against management	1371 (67.57%)

The Trustee notes that the percentage of eligible resolutions on which the SCPF votes or abstains is expected to be below 100%, as some slippage occurs, for example due to administrative hurdles and (last-minute) additional voting requirements.

Examples of the voting activity carried out by EOS over the year on behalf of the Fund are provided in the Appendix.

Engagement Policy

Together with voting, EOS undertakes engagement on behalf of the Trustee with companies in whose publicly traded equity and debt securities the SCPF invests. In illiquid asset classes, stewardship activities are undertaken by external asset managers, with oversight from SAMCo. Through engagement, the Trustee aims to achieve both improved long-term financial returns on investment as well as fostering better, more sustainable outcomes.

Engagement by EOS on public market assets

EOS's engagement objectives are described in the EOS Engagement Plan which is refreshed each year². Progress is monitored by reference to a system of milestones to ensure that satisfactory progress is made over a reasonable period of time.

EOS has in place a four-step milestone system which allows the Trustee to track the progress of engagements relative to the objectives that have been set. These steps are:

1. Raising the concern with the company at an appropriate level.

² The Plan for 2024-2026 can be accessed [EOS Engagement Plan 2023-2025 \(hermes-investment.com\)](https://hermes-investment.com)

2. Company acknowledging the issue as a serious investment concern worth exploring.
3. Company develops a strategy to achieve the objectives, or stretching targets are set to address the concerns.
4. The company implements the strategy or meets the concerns.

The Trustee and SAMCo review quarterly reports on EOS's engagement activities on behalf of the SCPF. Examples of EOS's engagement the Trustee's priorities are included in the Appendix.

Report on EOS's activity on behalf of the SCPF

Each year, EOS produces a report for the SCPF setting out its activities including an overview of voting and examples of how it has engaged with companies on behalf of its clients, including the SCPF. The [2023 Annual Review](#) for the SCPF is available to our members on our website and provides rich and comprehensive material on voting and engagement.

EOS engaged with 828 companies in the Fund's portfolio in 2023, covering 3,678 identified objectives or issues. At least one milestone was advanced for about 53% of objectives during the year.

The EOS report should be read as a companion to this Statement.

Engagement with external managers

SAMCo engages with prospective and existing external managers on the expectations set out in a SAMCo-administered framework on sufficient level of ESG incorporation. Engagement meetings with external managers served to ascertain their performance in relation to the four elements of the framework: 1) ESG policy, 2) governance, 3) investment and risk management processes and 4) reporting. A score of at least 3 out of 5 denotes 'sufficient level of ESG incorporation'. Relevant funds scoring 'insufficient' would trigger further review and/or engagement by the investment teams.

In 2023, 82% of SCPF's externally managed funds (measured by Net Asset Value; 59% in 2022) were engaged. For the avoidance of doubt, this includes both funds scoring below as well as funds scoring at or above expectations.

SAMCo reports to the Trustee on the engagement activity it undertakes with external managers of illiquid assets on quarterly and an annual basis.

Policy advocacy

The ESG issues that are most likely to represent material financial factors for the SCPF tend to be systemic or market-wide in nature and require action by governments or regulators as well as companies and investors. Therefore, to protect and enhance the value of the SCPF's assets over the long term, EOS also undertakes engagements with legislators, regulators, industry bodies and other standard-setters on behalf of the Trustee. These engagements are targeted at helping to shape capital markets and the environment in which companies and investors operate to be more sustainable.

4. Summary

Based on the activity over the year by EOS and SAMCo, the Trustee considers that the stewardship policy has been implemented effectively during the year.

The Trustee expects improvements in disclosures over time as stewardship reporting and, in particular, climate change reporting matures. The Trustee will also continue to refine its approach to stewardship as the Fund's portfolio evolves in future.

Appendix: Voting and Engagement Examples

Given the number of votes exercised by the Trustee during the year and the small individual size of the holdings, it is difficult to classify individual votes by the SCPF as particularly or 'most significant' on their own. The impact comes from collective voting and pressure across entire sectors. The SCPF EOS [2023 Annual Review](#) includes further specific examples of voting.

The following votes have been chosen as the 'most significant' votes because they demonstrate EOS's integrated approach to voting and engagement, on the SCPF's behalf, and because they were viewed to be the 'most significant' in relation to the Trustee's stewardship priorities, or in relation to the vote's importance for the direction of the relevant company. There is a description of the engagement activity carried out and the votes related to that engagement.

1. National Grid

Trustee priority: Climate change

National Grid has worked closely with policymakers to support the energy transition and maintain community relations. EOS expected better disclosures on climate-related lobbying – a priority concern – and indicated that a failure to do so would reflect in its voting advice. Shortly before the recommendations were issued, the company updated its responsible lobbying policy and committed to reviewing industry association alignment with its climate strategy, leading EOS to support management in all items.

2. Diageo

Trustee priority: Governance

EOS praised Diageo's sustainability efforts, including management of water stress and progress towards its emissions targets, but advised against the directors' remuneration report, directors' remuneration policy, and the adoption of the Diageo 2023 long-term incentive plan at the 2023 AGM. In line with the expectation communicated in previous years, EOS wants the company to revise its remuneration policy, particularly concerning share options which could overly focus management on share price, and high variable pay.

3. UniCredit

Trustee priority: Governance

The proposed remuneration policy attracted considerable coverage. Following extensive engagement with the company and internal discussion, EOS recommended supporting the proposal, by exception to its policy. It considered various mitigating factors, which led to a finely balanced decision to support. These included the fact that the package is structured so that total pay is the same at target as in the current policy, the introduction of higher minimum shareholding requirements, and because performance targets under the variable pay are materially more stretching.

4. Volkswagen AG

Trustee priority: Climate change, human capital and labour rights

EOS expressed serious concerns about Volkswagen's climate change management and gender diversity, leading to a recommendation against multiple items on the agenda, including the Supervisory Board's discharge. Key concerns relate to the continued lack of disclosure on climate-related lobbying, concerns over the misalignment of targets with a 1.5°C trajectory and female representation on the Board, which at 11% falls below expectations for Germany.

Post-AGM, Volkswagen sought clarity on investor expectations for 1.5°C alignment. EOS suggested using the Transition Pathway Initiative's assessment until a science-based target methodology is available. It would welcome an assurance from the company that it is working on 1.5°C-aligned targets, so that these can be set swiftly after the science-based target methodology is published. EOS offered further dialogue in the context of the investor collaboration initiative, Climate Action 100+.

5. United Parcel Service

Trustee priority: Climate change, governance, human capital and labour rights

EOS backed five out of seven shareholder proposals file at the 2023 AGM, including the adoption of independently verified science-based greenhouse gas reduction targets, request to integrate emission reduction targets into executive remuneration metrics and a report on the effectiveness of diversity, equity and inclusion efforts. Post-AGM, UPS improved data analysis for diversity strategies and discussed clearer environmental metrics with EOS.

6. Starbucks

Trustee priority: Human capital and labour rights

Following engagement with the company, as part of its voting recommendations EOS restated its concern that Starbucks has interfered with the rights of employees to unionise and recommended support for the shareholder proposal on a third-party assessment of its worker rights commitment. Given the company's willingness to engage on the issue, this action was proposed instead of recommending a vote against the governance chair this year. EOS indicated that its continued support for the governance committee chair would be conditional on the company providing evidence that it is complying with its global human rights statement.

7. Ameren

Trustee priority: Climate change, governance

EOS opposed the governance committee chair due to due to inadequate management of climate-related risks from exposure to coal. The company plans to phase out coal in 2042 which is much later than its peers. Its current and projected reliance on coal for power and revenue generation is not considered to be aligned with the Paris Agreement. EOS also supported a shareholder proposal asking the company to disclose greenhouse gas emission reduction targets. The company has set a 2045 net zero target, but sector-based short- and medium-term pathways and targets for decarbonisation were lacking. Post-AGM, during a meeting with EOS Ameren discussed some progress, including the decision to retire several coal-related assets.

EOS also recommended support for the chair of the audit committee by exception to its policy on auditor tenure. PwC has been the company's auditor for more than 90 years, whilst EOS expects regular auditor rotation. EOS warned the company that it would be recommending a vote against if there is no change on this issue. This was later discussed with the company, who agreed to deliver the feedback to the audit committee.

8. General Electric Company

Trustee priority: Governance, climate change

EOS appreciated the board's responsiveness to shareholder concerns following two consecutive years of low say-on-pay support, resulting in EOS support for the management's executive compensation proposal.

It urged the company to consider separating the chair and CEO roles and indicated it would be recommending support for the independent chair shareholder proposal. It also urged further progress on setting a Scope 3 target for the aerospace business, which the company said was unlikely this year. EOS decided to support the shareholder proposal for an audited report on the review of the impact of the IEA Net Zero emissions by 2050 scenario. EOS found the proposal to be challenging as both the proponent's rationale and the board's response against the proposal had merit. On balance EOS felt the information requested is decision-useful to investors regarding the company's net zero by 2050 commitment warranting support.

9. AT&T

Trustee priority: Human capital and labour rights

Following previous engagement on the issue, EOS recommended a vote for a director by exception to its policy on board gender diversity. Currently, board gender diversity is at 20% which is below the expected 30% threshold. However, during an earlier meeting EOS learnt that the company was working on increasing the diversity on the board. EOS would reconsider its position next year accordingly. On the shareholder proposal asking for a third-party racial equity audit, following earlier engagement on the topic and high materiality for the company, EOS recommended to support the proposal, emphasising its importance for board effectiveness.

10. Berkshire Hathaway, Inc.

Trustee priority: Climate change, human capital and labour rights

EOS supported shareholder proposals on climate and diversity at Berkshire Hathaway. It also opposed the chair and members of the board's governance, compensation, and nominating committee over the committee's approach to gender diversity, the corporate structure and the company's poor climate change response. Regarding the latter item, EOS explained that it had not seen any discernible progress in the company's reporting on how climate is being considered in the financial statements and by the company's auditor. EOS sought engagement on climate risk in financial reporting and will continue dialogue on decarbonization efforts. During a meeting later that year, the company indicated it was working on more thorough climate reporting.

11. Toyota Motor

Trustee priority: Climate change, human capital and labour rights, governance

EOS recommended supporting a climate lobbying reporting proposal at Toyota, citing slow progress and the company lagging far behind market best practice. It also advised against the election of new directors due to independence concerns and anticipated improved reporting by year-end. During later engagement, the company agreed to issue a detailed report on board independence, addressing the concern that some of the independent directors do not classify as independent. On climate lobbying, following the shareholder proposal the company stated that it was aware of pressure from the investors to disclose more about its lobbying activity and was confident that it was be able to release an improved lobbying report by the end of 2023.

12. Kraft Heinz

Trustee priority: Climate change

EOS recommended to vote against the shareholder proposal requesting a report on water risk due to ongoing engagement with the company on water risk management and the enhancements provided to date. The company was already working on regionalising water risk strategies and reporting on risks with greater nuance for investors. Later, EOS met with the company to discuss water risk management and deforestation updates. The company decided to delay the planned publication of its global water risk policy due to other priorities. EOS reminder the company of its earlier decision to not support the shareholder resolution on water risk reporting given earlier improvements in this area but emphasized that it needed to see value chain risks and opportunities being addressed. Potential improvements to water risk management in the company's supply chain were discussed.