London CIV

London, 27 January 2023

Dear ClientEarth,

ClientEarth's anticipated derivative claim against the Board of Directors of Shell plc regarding climate risk mismanagement

Over the next few years one billion lives[1] and trillions of pounds will be at risk due to a single issue: climate change.

Recognising the dual materiality of this global emergency and the associated financial opportunities associated with the green transition, London LGPS CIV Limited ('London CIV') has a fiduciary duty to its 672,000 beneficiaries[2] to understand climate risk, maximize associated opportunities and reduce its carbon footprint.

Due to our future liabilities and long-term investment strategy, we support the Paris Agreement and must consider the financial implications of global warming, encouraging emissions reductions now, rather than later. Furthermore, recognizing that funding the transition is likely to mobilise over £240tn[3] in capital by 2050, more investment in renewables would be a significant competitive advantage.

In light of this, we are writing both to express our support for your anticipated shareholder claim and to set out our shared concerns with Shell's Energy Transition Strategy in light of the Board's responsibility of managing climate change risk.

1. London CIV

London CIV, established in 2015 by London Local Authorities manages London Local Government Pension Scheme ('LGPS') assets. London CIV is one of eight UK LGPS asset pooling companies. The London Boroughs and City of London who are the 32 shareholders, are also our clients ('client funds').

With combined assets under management of £48.9bn in client funds, of which £14.0bn are invested in public markets collective investment schemes managed by London CIV ('LCIV Funds')[4] LCIV

[1] With 3.3 billion – 3.6 billion living in regions highly vulnerable to the impacts of climate change cited by the UN Intergovernmental Panel on Climate Change (IPCC), *Sixth Annual Assessment Report*, available here: https://www.un.org/en/global-issues/climate-change#:~:text=Approximately%203.3%20to%203.6%20billion,substantially%20among%20and%20within%20regions.

[2] Beneficiaries (current and former London Local Authority employees) across 32 client funds as of 31st March 2021, plus LPFA as a client of the London Fund.

[3] Taken from $275tn cited in the column *What Will It Cost to Get To Net Zero* by McKinsey, available here:https://www.mckinsey.com/mgi/overview/in-the-news/what-it-will-cost-to-get-to-net-zero - based on 1 USD to GBP of 0.8969 on 30th September 2022.

[4] £48,894m and £14,043m as of 31 March 2022 per London CIV data and client fund data.

Funds hold 484,260 common stock shares in Shell plc ('Shell'), with a market value of £11,379,290.92.[5]

As at 31st December 2022 Shell plc contributed 2.31% to the total carbon footprint of LCIV Funds, across scope 1, 2 and 3, with an absolute footprint of 102,422 tCO2e and in a high 2030 carbon price scenario, we calculate that the company's profit margin would be reduced by 2.59%. Thus, it presents a significant portion of our own footprint and is a primary hotspot of risk and exposure within our portfolio. With a net zero target for our investment portfolio by 2040, London CIV are committed to ensuring that all our investee companies are able to manage material climate-related risks and leverage opportunities. We are sending engagement letters on this matter to the top ten contributors exposed to fossil fuels in our portfolio. However, our more pressing concern lies with Shell at present.

2. Our concerns with Shell's Energy Transition Strategy

We wrote our concerns and recommendations to Shell in a letter dated **21 October 2022**, asking for a response to notify us if the Board intends to change course to reduce its impact on the climate. We strongly believe that our recommendations will benefit Shell in the long-term. Regrettably, we did not receive a response.

Our key concern is that we do not believe the Board has adopted a reasonable or effective strategy to manage the risks associated with climate change affecting Shell, which includes the Board's approach to compliance with the order of the Hague District Court dated 26 May 2021.

We understand that our concerns are consistent with the matters upon which ClientEarth rely in their claim:

- **Scope 3 absolute emission targets and compliance with the Dutch Order**: In our letter, we asked the Board to set short- and medium-term absolute scope 3 emission reduction targets that are consistent with the goal of the Paris Agreement. We strongly encourage emission reductions now rather than later. We recall that Shell was ordered by the Hague District Court to reduce its scope 3 emissions by 45% on an absolute basis by 2030 (the 'Dutch Order'). In response to the Dutch Order, a spokesperson for the Board stated that a 45% absolute reduction for scope 3 was 'unreasonable.' This does not indicate a willingness to try. We expect Shell to try and make 'significant best efforts' to implement a plan that achieves such absolute scope 3 emissions reductions.

- **Proposals to off-set emissions are not realistic**: We are concerned by Shell's over-reliance on off-sets (such as nature-based solutions and carbon capture and storage) to try and make up for continued high emissions. We believe emissions to the level and scale emitted by Shell cannot be reduced to the extent necessary by such means.

- **Underinvestment in renewables:** We consider that more investment in renewables would be a significant competitive advantage in light of the foreseeable changes in the global energy market. In our assessment, Shell is presented with a unique opportunity now to invest in renewables and take a significant stake in the energy market of the future. We

[5] As of 31st December 2022.

mentioned this opportunity in our letter to Shell, yet Shell's investments are far too low and in stark contrast with its continued overinvestments in fossil fuels.

- **Insufficient decarbonisation and continued overinvestment in fossil fuels:** Shell continues to invest heavily in fossil fuels. Its future oil and gas project pipeline indicates a business-as-usual approach for an oil and gas company in the coming years. Neither is such an approach in line with the need to diversify Shell's portfolio to stay commercially viable in the long-term, nor is it in line with the global consensus that no new oil and gas fields should be approved for development past 2021 to stay within the 1.5-degree Celsius temperature goal.

- **Paris-alignment**: As mentioned above, we support the Paris Agreement. We expect our investee companies to align their plans with the Paris Agreement. Shell's plans and targets, in particular in the critical short-and medium-term, are clearly not putting it on a path of alignment with the goal of limiting the global temperature rise to 1.5-degrees Celsius. This is confirmed by independent third-party assessors.[6]

- **Adverse effect on Shell's financial performance:** Overall, investors are concerned that the effect of the Board's climate strategy is that Shell is exposed to materially greater risk than if the Board had adopted a reasonable and effective strategy to manage that risk, and that this will or is likely to have a serious adverse effect on Shell's financial performance.

3. The derivative claim against the Board of Shell plc

In light of the above concerns with Shell's energy transition strategy, we understand that ClientEarth's anticipated claim alleges that the Board of Directors has failed to adopt a reasonable or effective strategy to manage the risks associated with climate change affecting Shell, and to ensure compliance with the Dutch Order, and that this falls short of the Boards' duties to promote the success of the company and to act with reasonable care, skill and diligence, pursuant to the UK Companies Act 2006.

In our view, a Board of Directors of a high-emitting company has a fiduciary duty to manage climate risk, and in so doing, consider the impacts of its decisions on climate change, and to reduce its contribution to it.

For the reasons set out above, we consider that ClientEarth's claim is in our client funds' interests as a shareholder of Shell, and we support it.

Yours sincerely

Jacqueline Jackson
Head of Responsible Investment

6 See Transition Pathway Initiative, "Shell", available here: ; and CA100+, "Shell plc", available here: https://www.climateaction100.org/company/royal-dutch-shell/.