

MEETING OF THE CHICHESTER DIOCESAN FUND AND BOARD OF FINANCE (INCORPORATED)

Agenda item 1

Mrs Lesley Lynn (Chair) to move that "This Synod re-affirms that care for God's creation is foundational to the Christian gospel and central to the church's mission and, recognising

- (a) the importance of working towards a future which does not depend on fossil fuels;
- (b) the need to both develop alternative energy supplies and reduce the demand for energy before freedom from fossil fuels can be achieved; and
- (c) the central role that large energy companies have to play in developing alternative energy supplies,

agrees that it will continue to invest in Shell and BP only while those companies have a clear strategy aligned with the Paris Agreement goal to limit the increase of average global temperature to 1.5 degrees Celsius above pre-industrial levels."

Decision to be made

This motion allows Synod to make a decision about the DBF's fossil fuel investments:

- either Synod agrees that DBF should remain invested in certain fossil fuel companies – those that state that they are committed to alignment with the Paris Agreement,
- or Synod wishes the DBF to sell all fossil fuel stocks.

For several years past the DBF have not been invested in fossil fuel companies that were not engaged in the transition to a carbon net zero world, and we have held our investment managers to account on this point.

However, a majority of the Assets Committee believe that engagement with those companies who are working and investing in transition away from fossil fuels is the right thing for us to do.

Continuing investment does **not** mean that we endorse everything that these companies do. That is far from the case. However, there is real evidence, as has been acknowledged by the National Investing Bodies of the Church of England ("NIB's"), that engagement with these companies works.

As investors, we are therefore pleased to be able to vote with other concerned shareholders to support motions at AGMs that are consistent with our views on climate change. In contrast, if we sell our shares these will be picked up in the market by shareholders who are more likely to encourage the companies to continue expanding oil production and our voice to management encouraging transition would be lost.

What investments do we have?

The Appendix sets out the holdings that the DBF funds (excluding any funds held on behalf of individual parishes) have in four fossil fuel companies. In aggregate as at 31 October 2023 our investment was £2.49 million and over the prior 12 months the gain to the DBF on these holdings was approximately £200,000.

Our portfolios of investments in a range of green/transition/renewable businesses is roughly of the same value as that in fossil fuels.

Assessments of alignment with the Paris Agreement

Earlier this year the NIBs took the decision to sell out of the fossil fuel industry entirely. They based that decision on analysis performed by the Transition Pathway Initiative ("the TPI") that concluded that no fossil fuel company was aligned with the Paris Agreement.

However, there is no established standard for aligning an energy supplier's decarbonisation targets with the temperature limit goal of the Paris Agreement. I believe the TPI analysis is flawed in one major respect and also unsatisfactory because it fails to address future plans:

- TPI analysis is performed by the London School of Economics (LSE); it is a very rigorous approach in that they are determined to be consistent in the data input so that they can ensure comparability between companies. This leads them to include a major flaw in their methodology since they include oil and gas trading in their scope 3 calculations. Trading is a normal part of the business of most oil companies - an oil/gas cargo can be bought and sold multiple times, equally the same cargo can be bought and sold by many different companies, but each company has that same cargo allocated to their scope 3 figures. TPI end up counting one cargo multiple times. TPI don't have a clear answer on how to deal with this.
- TPI also analyses each company on their position today (2023) against the pathway to Net Zero, but take no account of plans and projections into the future made by the companies. That is how TPI and the NIBs can say next year or the year after some fossil fuels may "become" Paris aligned. Since Paris is all about plans to get to a point in 2030 or 2050, taking a snapshot today is unsatisfactory.

No other global independent analysis company by company is available to the DBF. The Science Based Targets initiative ("SBTi") is a partnership between Carbon Disclosure Project (CDP) which is an independent charity, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). At present they have excluded Oil and Gas companies from their analysis, but intend to finalise their methodology for the Sector at some point in 2024, when they will provide a company by company analysis.

WBA, using CDP, data provide a company by company scoring and rank the top 100 oil and gas companies. There is a significant negative correlation between the size of the enterprise and its ranking (implying that it is easier for smaller companies to perform well on this analysis) but it is consistent and well researched. However, WBA does not attempt to confirm whether individual companies are “aligned with the Paris Agreement” or otherwise. What their report shows is that not all fossil fuel companies are on the same path when it comes to transition.

The Appendix also shows the climate sustainability Score and Rank out of 100 awarded by The World Benchmarking Alliance (“WBA”) to three of the four companies. (Diversified Energies is too small to be covered by the WBA.) The ranks and scores set against other companies are also set out below.

RANK		SCORE
1	Neste	56.0
2	Engie	49.6
3	Total	45.3
4-10	European/ South Korean companies	43.9-31.8
11	Shell	31.7
12	BP	31.1
13	Equinor	29.6
.....		
29	Chevron	19.7
.....		
39	Exxon	16.7
....		
65	Phillips 66	8.6
.....		
76	Enterprise	5.2
96	Petroleos de Venezuela	0.3

Diversified Energy produces, transports and markets primarily natural gas and natural gas liquids from existing assets in the U.S. Appalachian and Central regions. Their strategy is responsible energy production that’s protective of the environment, acquiring old technology operations, investing in them to dramatically reduce carbon emissions.

What do the companies say?

The other fossil fuel companies in which the DBF are invested have recently made the following public statements.

Shell

"... we will contribute to a net-zero world, where society stops adding to the total amount of greenhouse gases (GHGs) in the atmosphere. We reduced carbon emissions from our operations by 30% by the end of 2022 compared with 2016, our reference year, on a net basis. This is more than halfway towards our target of a 50% reduction by 2030."

"We believe our targets are aligned with a 1.5°C pathway derived from the scenarios used in the Intergovernmental Panel on Climate Change ("IPCC") Special Report on Global Warming of 1.5°C (SR 1.5), most of which show the global energy system reaching net zero between 2040 and 2060."

BP

"Our aim....to make a positive contribution to the world meeting the Paris goals and getting to net zero...We are confident that our approach is science based and see the IPCC as the most authoritative source.... for the science of climate change and use it."

"We believe that BP is best positioned for success if we are heading for net zero – working to build and participate in the net zero value chains...."

Total

"By diversifying our energy sources, reducing our carbon footprint and methane emissions, and choosing to work with like-minded stakeholders, we will be able to meet our goal of becoming a carbon neutral company by 2050"

Can we believe them?

These companies have not been rewarded (in share price or valuation terms) by the financial markets for stating that they are trying to align with Paris. Fossil Fuel companies with lower scores and rankings from WBA trade on higher multiples. These businesses are extremely transparent - everything that the boards say, every investment, every strategy shift and goal adjustment is made public and scrutinised by analysts all over the globe. The argument that the boards are being disingenuous when they claim to have a strategy to become carbon net zero does not really bear scrutiny. If they don't mean it, they have no incentive to say it and the DBF should be willing to accept that their strategy is Paris aligned.

How does engagement work?

Our engagement with these companies is not passive. While no DBF employee or volunteer engages with BP, Total or Shell directly, the Asset Managers who hold those assets on our behalf do engage with them on a regular basis. Our Asset Managers themselves employ environmental experts, and are active members of the

IIGCC and Climate 100+ both of which use the aggregate holdings of concerned investors to ensure that the environmental emergency is addressed.





The combined holdings of these shareholder groups give them considerable influence over strategy. The NIB's have acknowledged that engagement does work (although not fast enough) and they also accept that disinvestment will have no impact on these companies at all.

We are not alone in believing that engagement is a more effective strategy than divestment. Mark van Baal of "Follow This" has established a global charity based exclusively on the idea that shareholder engagement is the best way to protect the environment. Follow This presents climate change motions at shareholder meetings of all the publicly quoted oil majors. This is what he recently said:

"US and UK investors apparently believe they must choose between profits and climate, but this is a false dilemma", and

"The decline in the vote can also be explained by the fact that the most responsible investors who voted for our resolutions last year have sold [their shares] to, apparently, less responsible investors,".

Because we own stock in BP, Total and Shell, the DBF is able to vote on the resolutions tabled by Follow This, and we are proud to do so.

	DBF holdings as at 31 October 2023	Statements from recent reports	WBA Score	WBA Rank
	£1,130,166	"We believe that our net zero ambition and aims, taken together, set out a path for BP that is consistent with the goals of the Parish Agreement."	31.1	12
	£1,196,267	"The world needs urgent action to achieve net-zero emissions. We believe our climate targets are aligned with the more ambitious goal of the UN Paris Agreement on climate change."	31.7	11
	£128,710	"Our climate ambition: net zero emissions by 2050"	45.3	3
	£39,603		N/A	N/A

£2,494,746