ClientEarth
The Joinery
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8th November 2022

Subject: Concerns regarding Shell's energy transition strategy in light of ClientEarth's anticipated derivative claim against the Board of Directors of Shell plc in the High Court of England and Wales

I am writing on behalf of the National Employment Savings Trust (Nest) who currently hold publicly traded shares in Shell plc (**Shell** or the **company**). We are a UK defined contribution pension scheme with currently more than 11 million members and our assets under management stand at just over £25 billion. We have a fiduciary duty to act in the interests of our members when making investment decisions. How investee companies are governed and run is a concern to our members as it will be a determinant of the performance of our funds and therefore members' incomes in retirement. Climate change is one of the world's biggest challenges, posing a significant threat not just to the environment but to social and economic stability. We strongly believe that companies that identify and manage climate-related risks will be more sustainable in the long-run and a better investment for our members.

In light of your anticipated claim against Shell's Board of Directors, we would like to take the opportunity to set out our concerns with Shell's Energy Transition Strategy, and the way in which it is being implemented.

1. Our expectations

Nest has set out its ambition to align its investment portfolio with the goals of the Paris Agreement by reaching net zero financed emissions by 2050 or sooner. We have set out our expectations of companies in our **voting and engagement policy**, which is updated annually. We expect companies to be transparent about their approach to addressing climate change risk, including how their business model is aligned with the goals of the Paris Agreement.

It is critical that the companies in which we invest are well-positioned for the energy transition. Tackling climate change by meeting the goals of the Paris Agreement is the best way to protect Shell and its investors from climate-related risk, and wider systemic economic risks from climate breakdown.

2. Our concerns with the management of climate risk at Shell

We welcome the progress that Shell has made over the last years in developing its energy transition strategy, but we are concerned by a number of aspects of the climate risk management at Shell. Nest voted against Shell's Energy Transition Report at the 2022 AGM for the reasons set out below:

› **Lack of transparency regarding the scenarios used to determine Paris Alignment:** Although the Board has stated that the company's strategy is aligned with the 1.5°C goal of the Paris Agreement, the Board does not disclose material information in relation to the scenarios it has chosen as a basis for its claim. This makes it difficult for investors to decipher whether the Board's assumptions and findings are consistent with a Paris-aligned strategy. Furthermore, independent third-party assessments such as the Transition Pathway Initiative have found that the strategy Shell's short- and medium-term targets are not aligned with the projected pathway for the energy sector to limit warming to below 2C. We are therefore concerned that Shell's claims that its strategy is aligned with the goals of the Paris Agreement may be misleading shareholders.

- **Short and medium-term emissions targets**: The Board has not set absolute targets for scope 3 emissions in the short- or medium-term, notwithstanding that scope 3 emissions account for over 90% of the company's total emissions. The absence of (i) absolute emissions targets and/or (ii) disclosures in relation to how and whether the company's intensity targets lead to absolute emissions reductions falls short of our expectations. We are concerned that the company's existing intensity-based targets are inadequate, and Shell has indicated in its CDP reporting that its 2030 and 2035 intensity targets will lead to a 0% decline in the company's absolute emissions.
- **Target implementation**: We are concerned that the Board's decarbonisation strategy is not on track to deliver its net zero target by 2050. For example:
  - the Board does not quantify the approximate proportion of emissions reduction each action in its strategy will contribute to meeting its overall greenhouse gas reduction targets;
  - the decarbonisation strategy does not include medium- and long-term fossil fuel production decline targets that are aligned with a 1.5°C scenario; and
  - the strategy appears heavily reliant on carbon offsets by way of nature-based solutions.
- **Continued development of fossil fuel assets:** Shell has not met any (sub)criterion under the critical "capital alignment" indicator of the CA100+ Net Zero Company Benchmark which is cause for concern. The company's new oil and gas projects in development pose risks to investors in terms of carbon lock-in, stranded asset risks and associated costs. According to the International Energy Agency's (IEA) Net Zero Scenario, to limit warming to 1.5C there can be no new oil and gas fields approved for development after 2021.
- **Compliance with the Dutch Order:** We understand that the Hague District Court in the Netherlands has ordered Shell to reduce its group-wide absolute scope 1, 2 and 3 emissions by net 45% by 2030. It appears that the Board has responded by setting a 50% absolute emissions reduction target for scope 1 and 2 emissions by 2030. However, in respect of scope 3, we do not understand whether and how Shell's carbon intensity reduction target (of 20% by 2030) ensures timely compliance with the Dutch Order, particularly if Shell anticipates this target to lead to no decline in its absolute emissions (as above).

For the reasons set out above, we will follow your claim with significant interest. We share your hope that the Board will recognise that changing course is of the utmost urgency and importance – both for the climate and for the long-term financial and commercial viability of the company.

Yours sincerely

Mark Fawcett
Chief Investment Officer

This letter shall not be used, disclosed or exploited in any way except for the Purpose as defined below.

*"**Purpose**" means providing a letter setting out Nest's concerns, as an investor, in relation to Shell's climate change strategy in support of the litigation claim made by ClientEarth against the directors of Shell in the English High Court in December 2022. For the avoidance of doubt, this means that Nest is content for the letter to be disclosed to Shell, its directors and to the court, but not for the letter to be disclosed to any other party or used for any other purpose, including by publication on ClientEarth's website (without Nest's express prior consent).*"