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20 May 2010

Dear Member

**TAR SANDS UPDATE – SHELL AGM:**

Last month I responded to member requests for the LPFA's position on the tar sands resolution at the BP AGM. As you know, a similar resolution will be put before Shell at its AGM later this month.

As promised in my earlier letter I'm writing to confirm that – based on further consultation with LAPFF, our fund managers and the company – our position has not changed and that we will be supporting the management of Shell for the reasons set out in my original letter, which I have included below. As before, this letter will be made available on the LPFA website at: <http://www.lpfa.org.uk/investment/responsibleinvest.aspx>

Yours sincerely

Mike Taylor  
Chief Executive

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12 April 2010

Dear Member

Thank you for your recent enquiry regarding Canadian tar sands and the related shareholder proposals at the BP and Shell annual general meetings this year.

This letter provides an explanation of our position on the proposed resolutions and sets out how we came to our final decision on the vote at the BP annual meeting, which takes place this month. We are still in discussions with the relevant parties on the resolution at the Shell annual meeting in May, but our position is unlikely to change.

I have also provided some brief additional information on our general approach to responsible investment which I hope addresses your general concerns around climate change and the Fund's portfolio of investments.

## 1. Canadian tar sands resolutions

### Our Process

The BP and Shell AGMs are taking place in April and May 2010 respectively. The special resolutions at both meetings are calling for a report to be provided to investors on the investment risks – including environmental and social risks – associated with developing tar sands projects in Canada.

In determining our voting decision we have obtained the views of our fund managers as well as those of the Local Authority Pension Fund Forum. The reasons for this are set out below.

- **LPFA's fund managers:** The LPFA instructs its external fund managers to vote at company meetings, not least as our fund managers are more familiar with the operations of each company in the LPFA's equity portfolios.

In addition, most of our equity fund managers have in-house responsible investment teams that conduct voting on a range of environmental, social and corporate governance (ESG) issues, including the current resolution on tar sands. In our discussions with these teams we have highlighted the LPFA member interest in the resolution and have listened to the managers' views, including on the extent of their engagement with both companies, which in some cases has been extensive.

- **The Local Authority Pension Fund Forum (LAPFF):** In addition to the views of our fund managers, we have discussed the resolutions with LAPFF. The LAPFF is an independent, pension fund-led group through which we are able to address ESG issues that are relevant to our investment strategy and long term objectives. (For more information on LAPFF please visit its website: [www.lapffforum.org](http://www.lapffforum.org))

LAPFF has been actively monitoring the tar sands issue on our behalf since 2008. In that time LAPFF has engaged directly with BP and Shell – including face-to-face meetings in 2010 between the LAPFF Chairman and both companies. LAPFF has also engaged with the organisations filing the resolutions. LAPFF issued voting guidance to its members on the BP meeting at the end of March, and will be doing the same for the Shell meeting in due course. The LAPFF guidance is attached and will be made available on our website along with this letter.

We also met with FairPensions to hear their views and discuss the resolutions. Overall, we have considered the extent to which these resolutions support or detract from the long term objectives of your fund (i.e. to ensure that over the long term the assets are sufficient to meet all pension liabilities as they fall due). We have also considered whether the proposed resolutions could help to improve corporate best practice on ESG issues more generally.

### **Our decision**

Whilst tar sands developments highlight important issues around global energy use and climate change, the resolutions are about transparency – they are asking both companies to provide more information to shareholders. We have therefore focused on the issue of transparency when coming to our decision.

In reaching our decision we put considerable weight on the guidance provided by LAPFF as well as the views of our fund managers as both groups have conducted in depth and face to face engagement with both companies on our behalf.

However, we have considered the merits of the resolutions and I would like to highlight the following points in support of our decision.

1. The proponents of the resolutions focus on the investment risk associated with BP and Shell's decisions to develop tar sands operations. BP and Shell represent less than half a percent of the total assets of your Fund, and therefore the investment risk in this sense is negligible. Nevertheless we have given the resolutions serious consideration for the reasons already discussed.
2. The LPFA recognises that extracting oil from tar sands has both environmental and social impacts, some of which can be significant if not properly managed. There are two elements to this:
  - a. Carbon emissions: Extracting oil from tar sands is more carbon intensive than for conventional oil – due largely to the energy required to remove the deposits from the ground and to process the oil into a useable form. What is extremely unclear is how much more carbon intensive tar sands operations are versus those for conventional oil. Estimates vary wildly depending on the source and we have seen them range from 5% to 300% more intensive.

In order to navigate the considerable complexity of this and other long term ESG

issues, investors require transparency from the companies they own. Based on the efforts of our fund managers and separately LAPFF, we believe that both BP and Shell have responded well to requests for further information. Our continued support for management relies on further openness in future.

- b. Direct impacts: Tar sands operations also have localised environmental and social impacts. The LPFA expects any company it invests in to manage its operations in a way that mitigates environmental and social impacts as much as possible. Through membership of groups like LAPFF we seek to use our influence as an institutional investor to encourage best practice on ESG issues. Both companies have done enough at this stage to convince us that they will manage the local environmental and social impacts of their tar sands activities proactively. However, this is an evolving issue and as these operations increase in scale (as is likely) investors will need to keep monitoring their investee companies to ensure that expectations continue to be met.

The LPFA has decided to support the management of BP at its annual meeting this month and will vote against the resolution on tar sands. Our view is that BP has met the spirit of the resolution and has been open to engagement with investors and therefore deserves support from investors. It is very unlikely that we will change this view for the Shell annual meeting in May but as engagement with this company is still ongoing we will confirm our position nearer to the meeting.

I am pleased that members are interested in the way that we approach the ownership responsibilities entrusted to us and I hope that this summary provides sufficient information to answer your questions about the resolutions.

## **2. LPFA and responsible investment**

In addition to the tar sands resolutions your letter asked about the greenhouse gas exposure of the LPFA portfolio and what steps we are taking to reduce this exposure.

The LPFA takes a positive approach to supporting the move towards low carbon technologies and cleaner energy supplies by investing in a range of clean and renewable energy projects, sustainable forestry and listed companies that are providing solutions to the environmental (and social) problems that we face. In particular, we believe that by supporting the technologies and industries that will reduce the net level of greenhouse gas emissions in the economy, we are part of the solution.

These investments currently account for around 6% of the Fund's total assets and are performing well. So we are also helping to secure the pension fund payments of current and future members of the LPFA.

The LPFA is also active in the wider debate on responsible investment and the practical means with which to protect the Fund's assets long into the future through good ownership practices i.e. ensuring that our fund managers and the companies we invest in are adopting best practice on ESG issues wherever possible.

We do this by participating in collaborative initiatives such as the LAPFF. In addition, the LPFA is an active member of the Institutional Investor Group on Climate Change and the Carbon Disclosure Project. Both of these initiatives are focused on improving investor and company understanding of the risks and opportunities from climate change. The LPFA is also

a signatory of the UN Principles for Responsible Investment (UN PRI) and a member of the UK Sustainable Investment and Finance association which provide further opportunities to engage with companies and policy makers on ESG and investment issues.

For more information on our approach to responsible investment – including the latest report on how we are implementing the six principles of the UN PRI – please visit the following page on our website: <http://www.lpfa.org.uk/investment/responsibleinvest.aspx>

I hope this letter goes some way to addressing your concerns and provides some background as to how we are assessing the implications of ESG risks on your pension fund more generally.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mike Taylor', with a long horizontal flourish extending to the right.

Mike Taylor  
Chief Executive