



The Church of Scotland Investors Trust

Constituted by Act of Parliament 1994

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Following the Chairman's Statement in May and the Quarter End factsheets for each fund, we thought it was important for our Investors to know that although we had not published further commentary in these challenging times, ESG is still very firmly at the root of our decision making.

2020 has seen our Trustees and staff forced to deal with more strategic and operational issues than could ever have been anticipated but we are pleased to share details of some of the initiatives we have supported in addition to monitoring the ESG engagement undertaken by our Fund Managers.

This year the Church of Scotland Investors Trust has individually endorsed projects run by CCLA, Global Ethical Finance and CIG dealing with issues such as Modern Slavery, Mental Health and COP26. Should you be interested in finding out more about these initiatives please contact our Secretary, Mrs Nicola Robertson at investortrust@churchofscotland.org.uk.

Fresh News

Climate Change Affects All Sectors

In September, IIGCC (Institutional Investors Group on Climate Change) launched a framework for investment funds to assess alignment of portfolios with 1.5 degree net zero targets – this service is being tested with large portfolios at present. Transition Pathway Initiative is one of the advisers to this service, and COSIT is a member of both organisations. This service will cover **all industrial sectors in a portfolio** not just the Oil and Gas sector, which the trustees believe is essential if Climate Change is to be addressed comprehensively. Up to now, many commentators have focussed only on the producers of fossil fuels, while those companies and sectors which are profligate and wasteful in the use of fossil fuels (such as airlines and plastics producers) escape attention.

We will publish the results of such scrutiny of our investments when the service is fully operational.

BP Strategy Welcomed by Environmental Activists

BP made headline news in August by announcing details of its Climate Change strategy and received strong endorsements from environmental campaigners such as Friends of the Earth and Greenpeace. The independent analyst Carbon Tracker issued a statement as follows:

“BP has radically changed the game. In the arms race of emissions announcements, most oil and gas peers have conveniently ignored the global need to produce and use less oil and gas – BP's production cut of 40% by 2030 makes them unquestionably the industry leader.”

BP's plans to achieve a 40% reduction in carbon emissions by 2030 exceeds the Carbon Tracker target of 30% by 2040.

Shell announced in April 2020 a goal to achieve net zero emissions by 2050 or earlier in response to pressure from Climate Action 100+. The company also aims to align Shell's carbon footprint with the Paris

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Agreement process, limiting increase in temperatures to 1.5%. This means reducing the carbon footprint of products sold to Shell customers by 30% by 2035 and by 65 % by 2050. This is more ambitious than its previous position, but still well short of the plans subsequently announced by BP. Expect continued pressure to be put on Shell by engagement groups such as Climate Action 100+ (which we support) to follow the stance taken by BP!

Please note that Shell is the Oil major calling most loudly for carbon taxes to be introduced by governments, which is an altruistic position. However, this would require much greater co-ordination of policies by the governments of the world, and there is little sign of this happening.

In May 2020 **Total** announced a planned zero emission target by 2050 – also in response to a Climate Action 100+ resolution at its AGM. This equates to a 60 % reduction in carbon intensity by 2050 and is claimed to be a net zero position. It is welcome that Total has reduced its target for greenhouse gas production, showing the impact of investor engagement. However, we suspect that it needs to go further, particularly to reduce its planned fossil fuel production and to switch more resources to sustainable energy production – a sector in which it has the potential to do more.

Overview. The slowdown in world economies this year has reduced the rate of production of greenhouse gases, but this is likely to be a temporary lull. Unfortunately it has also interrupted the planned sequence of international meetings to co-ordinate activities between governments. Without agreement by major governments to act together, the credibility of high level plans remains in doubt. In September the Chinese government announced plans to reach net zero by 2060, probably in response to disappointment that China has been slow to make real progress – even to the extent of authorising this year over 200 new coal-fired power stations. As the producer of 25% of greenhouse gases (bearing in mind that its population makes up only 18% of the world's population), China's actions will be critical in achieving the tighter Paris target. COP 26 has been rescheduled to November 2021, in Glasgow, and needs to be successful in achieving substantial agreements and commitments by major countries if the Paris targets are not to slip beyond our reach.

In the absence of agreed international standards and scientific measurements, it is difficult to assess whether high level announcements by companies and governments are consistent with the Paris targets. We are likely to see claims made of alignment with the Paris targets, but expert agencies will be required to test the credibility of these claims and to exert public pressure on the laggards, but the process would be much better if international agreement could be reached.

However, in respect of the companies we can influence as investors, we are heartened by the BP strategy developed under its new Chief Executive this year. We think that Shell and Total (the other companies which we hold) will respond to pressure from investors to plan more ambitious targets and to build on the work they have already undertaken - look for further announcements in 2021. Consequently engagement is working for the Oil companies we hold, but needs to be extended across the world's economies as a whole very quickly – meaning heavy users of fuel and plastics in particular. Climate Change remains at the heart of our concerns as investors of the church's money.

Brian Duffin
Chairman
October 2020

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