QUILTER CHEVIOT

RESPONSIBLE INVESTMENT

Taking the Temperature 3.0

Assessing progress on climate transition plans

Across Quilter we have identified three thematic engagement priorities. This is part of our climate change theme.

Climate change is the defining issue of our time and we are at a pivotal moment. From shifting weather patterns that threaten food production, to rising sea levels that increase the risk of catastrophic flooding, the impacts of climate change are global in scope and unprecedented in scale. Without drastic action today, adapting to these impacts in the future will be more difficult and costly.

SDG Alignment

> *"What humans do over the next 50 years will determine the fate of all life on the planet."*
>
> David Attenborough

Climate remains a topical subject in 2026, during our third iteration of our biennial climate transition plan engagement. This engagement focuses on the most material companies in our universe, which are responsible for >85% of our total financed emissions (inclusive of direct, Scope 1 and 2, and indirect / supply chain emissions, Scope 3). This year's engagement featured familiar faces – nine of the 20 companies selected were in our 2024 engagement and we held engagements with 12 companies over the course of Q2-Q3 2026 (eight companies failed to respond to our request).

The aims of the engagement are twofold. For new entities, it is to gauge their climate transition plans, target commitments, and general climate risk management, and identify whether these align with our expectations. For returning names, it is revisiting their transition plans and evaluation progress to date, focusing on examining those areas proving difficult to decarbonise or where progress has been more limited. Our expectations of companies' climate governance and action are aligned to our voting policy. Where companies do not engage, cannot justify a lack of robust transition plans in place, or demonstrate a marked reversal of previous climate commitments, we will consider escalation measures including further discussions and exercising our voting rights to vote against non-executive directors with sustainability responsibilities.

What makes a 'good' climate transition plan?

Our understanding of best practice in climate transition plans has evolved since our last iteration of this engagement, informed in large part by the research undertaken to create our internal climate alignment tool (CAT). The criteria forming the CAT are outlined below:

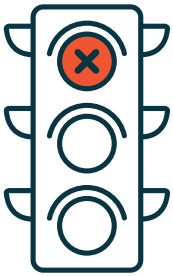
1. **Committed and consistent**. We expect companies to publicly acknowledge their contributions towards climate change and commit to addressing these impacts (ideally aligning their approach with Just Transition principles) and properly resourcing these efforts (i.e. committing funds and building staff capacity in climate).

2. **Sound strategy**. Commitments should comprise comprehensive targets and a clear transition plan. Targets must cover both medium-term and long-term and be inclusive of material emissions across both operations and supply chain. Targets should ideally be externally validated and in an appropriately rigorous format (i.e. absolute versus intensity-basis). The accompanying climate transition strategy must clearly explain how a company intends to achieve its targets, with sufficient evidence to demonstrate thorough evaluation of dependencies, a clear policy on offsets, and scenario analysis affecting the company's decarbonisation trajectory. Both elements should be complemented by effective governance over climate risk, with evidence such as executive remuneration targets linked to climate and the use of an internal carbon price in management decision-making.

3. **Progress**. Companies are expected to have annual emissions disclosures and demonstrate progress against targets year-on-year. We especially value disclosure against recognised climate reporting frameworks (e.g. Task Force for Climate-related Financial Disclosures [TCFD] aligned) and where companies are able to evidence their emissions trajectory aligning with global climate commitment thresholds.

Transition traffic light – Differing levels of enthusiasm, and action

The companies we engaged with were concentrated in the Materials, Energy, Industrials and Utilities sectors, across UK, European and American markets. Approach and attitude towards the global transition varied across these companies: some were increasingly coming to a stop on their transition ambitions, others had a marked cautiousness on the forward view, while a third cohort was steaming ahead.



Red Light

Companies in the Energy sector demonstrated the clearest retrenchment and reversal from previously pro-transition strategies. This has been put plainly in written statements by some (TotalEnergies, Shell) and elaborated in actions by others (BP). Both Shell and TotalEnergies were clear in our discussions that the companies' positions on the transition have evolved away from feeling responsible for progressing the global energy transition.

Shell removed its 2035 near-term target due to concerns it was out of reach, nearly a decade before being due. It framed this as a simplification drive, pointing to other missed interim targets and citing an overriding need to rebuild trust with shareholders. Shell has received vocal shareholder objections

to its climate strategy in 2024[1] and 2025. The company received a sharp rebuke in a 2025 resolution, where over 20% of votes supported a shareholder resolution calling for disclosure in how its pivot into liquid natural gas (LNG) is consistent with its climate targets[2], which many investors saw as fundamentally incompatible with the company's decarbonisation commitments. Quilter Cheviot agreed with this view, voting for this resolution in 2025.

The **growth of gas** in energy companies' portfolios was a common theme, with Shell, TotalEnergies, and BP all projecting a significant role for natural gas in the next 20 years. Both Shell and TotalEnergies acknowledged the increased use of these fuels will balloon the unabated emissions of the companies in the near-term – and that they lack any plans to mitigate this over the longer-term. Although we see the value in natural gas where it displaces more heavily polluting fuels (e.g. thermal coal), we believe the prominent place energy companies are giving to LNG suggests a reflexive instinct for easier near-term fuel substitution, distinctly lacking the longer-term view and consideration we would expect from a significant strategic decision.

BP has similarly aimed to retreat from its previous climate stance, putting forth special resolutions proposing a removal of climate reporting requirements established during the height of its 'beyond petroleum' pro-transition era. It suffered a bruising defeat on these resolutions, as well as further indications of shareholder discontent as indicated by nearly 20% voting against the election of the then-new chair, Albert Manifold[3]. More surprisingly for the previous climate champion, the company refused to include a shareholder resolution about the commercial viability of its pivot back towards fossil fuels, which sparked concern and frustration from many investors[4].

TotalEnergies was most direct, and perhaps most diplomatic, in its rebuttals, articulating its **rejection of the 1.5°C threshold** for climate targets as well as demands for it to set meaningful supply chain (Scope 3) emissions targets in its sustainability report[5]. This was driven more by legal compliance, however, as the company could no longer describe its climate transition plan as such due to changes in EU regulation requiring adherence to the 1.5°C threshold of the Paris Agreement. An evaluation of the business, however, with its growing integrated power (electricity) segment becoming a cornerstone of its commercial strategy, indicate the company's 'walk' is indeed in a different direction to some of its peers.

These retreats are particularly troubling when companies do not clarify strategic shifts or **significant changes to their climate strategies**. NextEra Energy has removed its 2045 net zero target, in further recognition of the American political context shifting the company's previously strident approach to sustainability and climate. There was a shareholder resolution at this year's AGM seeking clarification from NextEra on how it was going to align its now targetless strategy to the goals of the Paris Agreement, which received 35.5% support. Although unlike in the UK where a vote of more than 20% against management means that shareholders should be consulted with, the same does not apply in the US. This signals significant dissent from shareholders with the company's failure to articulate its forward strategy after removing climate targets.

Others in this 'red' category are losing momentum due to technological developments – or rather, the perpetual **delay of transition-enabling technology**. Materials and Industrial leaders such as Rio Tinto and Linde are facing several sizeable 'roadblocks' preventing progress particularly on industrial processes. For Linde, water electrolysis processes remain unreliable when compared to traditional 'grey' (natural gas)-produced hydrogen. These systems require much more extensive maintenance and incur much more non-operational 'down' time than existing processes, making the company reluctant to incorporate these into its plans at this stage. Rio Tinto is starting to electrify and reconfigure some of the long-established processes and tools used in its material refining business, many elements of which have no clear 'green' solution. Although it continues to trial battery-operated earth movers and heavy plant in mining operations in Australia[6], the team we engaged with emphasised these technologies are not likely to be mature before the late 2030s – and points to the fundamental site redesign necessary to facilitate the broader use of electrified plant in the longer-term.

1 More than 20% of shareholders vote against Shell's climate strategy at tense AGM | Euronews
2 First LNG-focused resolution at oil major backed by fifth of shareholders
3 BP suffers heavy defeat in investor climate vote
4 Green investors threaten BP with legal action over rejected resolution
5 Sustainability and Climate Progress Report 2026; see pages 21-22
6 BHP, Rio Tinto and Caterpillar launch battery-electric haul truck trial in the Pilbara | Global

Amber Light

Uncertainty is a familiar theme of the climate transition and continues to dominate our discussions with corporates navigating increasingly unpredictable times. Some companies pointed to dependencies behind their hesitation to pursue more progressive targets or build upon their climate approach today. Melrose Industries, owner of GKN Aerospace, is reluctant to set use-phase (Scope 3, category 11) targets without more concrete commitments from its customers to adopt sustainable aviation fuel (SAF) broad-scale. If customers will not use lower-carbon fuel in the engines GKN produces, GKN itself is limited in its ability to lower the sold engines' emissions over time. Similarly, Linde does not feel comfortable setting supply chain (Scope 3) emissions targets because of high variability in supplier submitted emissions data. Significant, often unexplained year-on-year changes of these figures would leave Linde with little recourse if its targets were not progressing.

Some corporates highlighted policy uncertainty as a destabilising force affecting strategic decision-making. Chevron raised the mixed messaging in US domestic policy, both national-level and regional (state by state), around emissions reporting and biofuel demand has been unhelpful to its renewable biofuels business. The company purposefully built in a high degree of flexibility to its renewable-capable refineries, such as El Segundo in California which can produce both traditional fossil fuels and renewable diesel and SAF. However, **inconsistency in policy signalling** – in this case, between California state and national-level policies – makes it challenging for the company to forecast and meet future fuel needs.

Other companies pressing 'pause' on implementing their transition plans seem to be refocusing on the road ahead, by critically assessing successes to date and **applying lessons learnt** to its next steps. For Rio Tinto, this has resulted in revising capital guidance around climate downwards, based on the company deliberately concentrating on commercial partnerships and non-capital options to finance the research and development necessary for novel low-carbon technologies and processes. Rio has numerous partnerships across academia (e.g. Tsinghua University in China, research programme around reducing emissions in steel value chain), and customers and clients (e.g. InoBat, developing programme to trace critical minerals in battery manufacture from mine to end of life). While we appreciate the value of synergistic partnerships in reducing considerable upfront costs of technology research – particularly of long-established and complex processes found in mineral extraction – we would flag our concern that shifting capex beyond 2030 may serve only to further delay development of these technologies.

Shell has similarly changed its investment outlook in the near-term, with an explicit emphasis on **future investment being contingent on existing investments** producing positive, commercially applicable results. The company has invested billions in its Renewables and Energy Solutions business since 2022 and considers these assets to be underperforming relative to its traditional fossil fuel assets. With the change in CEO in 2023, Shell sees its near-term (to 2030) goal as reshaping these assets towards higher profitability – from returning close to no return, towards at minimum a 10% return on investment. Its strategy to accomplish this is two-pronged: firstly, to focus on markets where commercial advantages already exist, and secondly to invest in distinct product offerings in mature markets. Notably in August 2026, Shell agreed to sell the European onshore renewables portfolio to TotalEnergies. This winnowing of its renewables business is meant to be strategic – expanding its biogas business in South America, for instance, where there is broader consumer demand, better access to suitable feedstocks, and policy support in many countries.

We welcome strategic resets where companies can demonstrate continued ambition in climate - and especially appreciate where companies are actively applying learnings. TotalEnergies offers a useful demonstration of this, in its new approach on its electric vehicle (EV) charging infrastructure. After seeing low utilisation rates affect the profitability of these in motorway forecourts, the company now partners with local land banks in France to split the installation costs of new EV chargers, to facilitate ongoing adoption and expansion of EV charging infrastructure while sharing the upfront installation costs with regional partners.

Green Light

For many companies we spoke with, it was 'all systems go' on their transition plans – many of which are moving solidly beyond the 'planning' phase into more action than words. As we learned in our last cycle of this engagement, there are many companies for whom **the global energy transition represents the commercial opportunity of our time** – and are actively capitalising upon it.

SSE, like many European utilities, is accustomed to promoting the growing role of renewable energy in our grids, having increased renewable power inputs across its network by over 70% since 2020[7]. While renewable power infrastructure retains consistently high support within the UK market, the company has adapted its messaging around the future of the grid to incorporate energy security and energy affordability, as these elements of grid upgrades receive even broader support. The company has refocused its narrative for both consumers and policymakers to focus on the cost-savings and control which renewable energy arrays provide, particularly as overall electricity demand continues to grow globally. The company has extended this to its policy outreach, where it has convincingly made the case that renewable energy is the fastest and cheapest way to meet British energy consumers' demand while encouraging policymakers to remove pricing restrictions which increase consumers' energy prices overall[8]. The UK government has introduced energy pricing reforms in July 2025 and April 2026 which suggests policymakers are listening to SSE's position[9].

Some companies are **building and growing their markets** with innovative, transition-enabling products and services. CRH is using its sector-leading knowledge and market access to develop and trial new road surfacing materials, using collaborations with its clients to demonstrate both the feasibility and the value of newer lower-carbon products and methods. A recent road surfacing trial with partners in Ireland reached new heights in material circularity, using 70% reclaimed asphalt pavement (RAP), naturally derived lignin in place of bitumen, and lower-carbon methods (e.g. use of biofuels in plant, application using Warm Mix Asphalt reducing energy needs). Critically, these demonstrations highlight not just the climate-relevant emissions savings, but also the technical suitability – in many cases, superiority – of these methodological and product replacements. In the case of the RAP trial, the company highlights the high stiffness and water sensitivity of the new surfacing as familiar indicators of high performing road surfaces, alongside its 94% lower carbon footprint relative to a conventional asphalt surface[10].

Similarly, Melrose Industries' GKN Aerospace is **seizing opportunity through innovation** in its product designs. A redesign of its fan case mount ring enabled savings in material use (titanium), energy consumption, and product weight – reducing the emissions both in production and, by virtue of a lighter end product, during its use life by customers. This reduced the 'buy to fly ratio' of this component three-fold, a metric used in aerospace to communicate the material efficiency – essentially, how much material is 'bought' compared to how much of that material ends up in the final manufactured product ('flown', as it were)[11]. This is an excellent example of mutually beneficial innovations, benefiting the manufacturing company, the customer purchasing components, *and* global climate systems.

Some companies are **embedding material savings and synergies into their business model** as they embrace the commercial opportunities of the global transition. CRH has been integrating material circularity into its businesses, driven by the obvious commercial and financial benefits of 'becoming their own biggest supplier.' Its growing network of partnerships relies on local synergies – working with businesses near its facilities to exploit opportunities to reuse waste materials and generate mutual benefit: diverting preventable waste from landfill, avoiding waste disposal costs, and building resilience into regional supply chains. Core to this is its investments in supplementary cementitious materials (SCMs), which lowers the emissions of its cementitious product range while affording the commercial and material waste benefits outlined. To this end, CRH has acquired a number of SCM-related companies such as Eco Materials Technologies in 2025, expanding its existing network of SCM suppliers in the Americas and applying lessons from its experimentation with different SCMs to its broader global portfolio of companies.

Decarbonising production powering continues to be a primary driver for many companies and similarly presents material circularity opportunities. SigmaRoc has sought material reuse opportunities in the repowering of its kilns, its largest source of emissions in its operational footprint. The company has already converted its first lime kiln in Czechia to run on biofuels late last year and is preparing to convert several in Germany this year. Extensive development

7 sustainability-report-2020.pdf

8 powering-affordable-secure-energy.pdf

9 Review of electricity market arrangements (REMA): Summer update, 2025 (accessible webpage) - GOV.UK; Energy-UK-Price-cap-Q2-26-1.pdf; Reformed National Pricing (RNP): delivery plan - GOV.UK

10 Next-Generation Asphalt Technology - CRH

11 Melrose Transition plan 2023, see page 22.

has gone into this conversion, to ensure biofuel feedstocks achieve the technical requirements (i.e. thermal profile) while meeting regulatory requirements (e.g. EU's Renewable Energy Directive II biofuel sustainability criteria). The company is now forming a joint venture company explicitly for biofuel feedstocks, to ensure adequate supply for its full portfolio of kilns and enhance material circularity opportunities where present.

Some of the companies we spoke with are on the cusp of realising years of diligent and disciplined execution of thorough climate transition plans. Multiple companies highlighted this shift for their climate transition plans, from feasibility risk to pure execution risk. CRH and TotalEnergies both pointed to their 2030 near-term targets as being entirely based on confirmed projects and with tried-and-true technologies – meaning their path towards achieving these targets is visible and demonstrably achievable, a significant and noteworthy tone shift from our last cycle of this engagement. This is not the case for all companies, as many continue to await technological developments critical to their near-term targets, but is certainly a welcome development.

Transition traffic: congestion ahead, or a clear route?

Given recent geopolitical headwinds in climate globally, this engagement cycle has shown a notable consistency to corporates' transition plans and the resources they are committing towards their climate decarbonisation targets. Although there are certainly some companies which have encountered roadblocks on their transition plans, we are thoroughly heartened to see the emergence of commercially driven climate champions among our investments. Several themes emerged across all of our discussions, with applications to all corporates regardless of their momentum on their climate transition plans.

- **Flexibility is key**: as the last few years have vividly demonstrated and is oft repeated, the global transition will not be linear. Designing in flexibility – whether in processing / manufacturing facilities, energy production and power supply, or through commercial structures (e.g. joint ventures, separating business lines) – is critical to weathering the uneven pace and patchwork policy landscape most global companies operate in, and the challenges posed to corporate transition plans. Examples of this include Chevron's dual-fuel-capable El Segundo refinery, able to produce either traditional fossil fuel products or biofuels to support California's transportation transition. BP has also introduced greater flexibility in its assets by separating out its renewable businesses (e.g. Lightsource) as joint ventures with other operating partners.
- **Collaboration unlocks progress**: many companies highlighted flagging or slower-than-hoped progress on transition-enabling technology or upskilling necessary for the transition. SSE has introduced its Powering Net Zero Pact[12] as a forum specifically geared towards knowledge sharing and problem-solving critical challenges in the global transition for companies across the power sector (including broader partner organisations such as construction/engineering firms, shipping providers). The deep-dive topic sessions SSE convenes through this forum have proven very popular among its members, providing supportive and open environments for constructive, solutions-oriented discussions around the challenges faced. Rio Tinto has pointed to its industry collaborations as critical to achieve cost-sharing and continued momentum in the development of capital-intensive technological processes.
- **Control the controllables**: even where companies are continuing to make gains against their climate commitments, many were open in acknowledging a near-term focus on operational, owned and controlled emissions. We found this to be the case even where operational emissions do not make up the largest proportion of a company's climate impact. While we certainly would like to see movement on supply chain emissions (Scope 3) where these are significant, we recognise the merit in companies decarbonising what is 'nearer to home' first – and indeed, in taking any action towards reducing global emissions.

We note that within our target company list, several companies are undergoing significant M&A activity – including NextEra and Dominion Energy (the latter being acquired by the former) and Anglo American (acquiring Teck Resources). We have noted where there are discrepancies or a divergence in approach between some of these companies. For instance, Anglo American has several significant points of difference from Teck's climate approach around use of climate offsets and format of targets (the former having the 'better' approach on both of these fronts). We continue to encourage corporates to demonstrate consistency in climate approach, especially in M&A contexts and in joint venture arrangements.

Needless to say, challenges remain between now and when the next round of near-term targets will be reaching maturity. We hope to see further gains despite the structural and geopolitical challenges ahead.

12 net-zero-pact-2024-v3.pdf

Red	Amber	Green
NextEra / Dominion	Linde	CRH
Shell	Rio Tinto	SSE
BP	Anglo American*	TotalEnergies
Chevron		SigmaRoc
		Melrose/GKN

* This is very much dependent on the outcomes of its merger with Teck; our questions to the company focused on some significant differences in the two companies' approaches to climate, particularly around use of offsets and rigour of targets.

Margaret Schmitt
Responsible Investment Analyst

Quilter Cheviot
Senator House
85 Queen Victoria Street
London EC4V 4AB

+44 (0)207 150 4000 **enquiries@quiltercheviot.com** **quiltercheviot.com**