Northern Ireland Local Government Officers' Superannuation Committee Stewardship Report 2021

NILGOSC
NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION COMMITTEE

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Stewardship Report 2021

For the Year Ended 30 June 2021

Approved by the Northern Ireland Local Government Officers' Superannuation Committee at its meeting
On
21 March 2022

Contents

NILGOSC's history with the UK Stewardship Code

The overriding obligation of the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC/the Fund) is to act in the best financial interests of the pension scheme beneficiaries. Within this fiduciary role, NILGOSC takes its responsibilities as an asset owner seriously and believes that effective stewardship can have a positive impact on the performance of its investment portfolios.

Stewardship, as defined by the UK Stewardship Code, is 'the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.'

In July 2010, the Financial Reporting Council (FRC) published the first version of the UK Stewardship Code (the 'Code'). In response, in September 2010, NILGOSC published its first UK Stewardship Code Statement of Adherence, which laid out how the Fund applied the Principles of the Code. Following the publication of a revision to the Code in September 2012, NILGOSC updated its Statement of Adherence and continued to be a signatory until the 2012 Code was discontinued. When the FRC began to assess signatories' Statements of Adherence in 2016, classifying signatories as 'Tier 1' or 'Tier 2', NILGOSC was assessed as a Tier 1 signatory. The tiering distinguished between signatories who reported well and demonstrated their commitment to stewardship (Tier 1), and those to whom reporting improvements were needed. As well as striving for overarching adherence at a Fund level, NILGOSC also required its appointed Investment Managers share copies of their Statements of Adherence to the Code before appointment and as requested.

The UK Stewardship Code was substantially revised in 2019 and the new UK Stewardship Code 2020 took effect from January 2020. The new Code focuses on the activities and outcomes of stewardship, rather than only policy statements. To become a signatory, organisations are required to produce an annual Stewardship Report explaining how they have applied the Code in the previous 12 months. More information about the UK Stewardship Code is available at www.frc.org.uk/investors/uk-stewardship-code.

NILGOSC's first annual Stewardship Report covers the 12-month period ending 30 June 2021. Please note that NILGOSC's financial statements are prepared as at 31 March year end. Therefore, figures provided as at 30 June 2021 are unaudited.

The Principles

The Code comprises a set of 12 'apply and explain' principles for asset managers and asset owners, and a separate set of six principles for service providers.

The principles for asset managers and owners are split into four sections:

Purpose and Governance

Principle 1: Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Principle 2: Signatories' governance, resources and incentives support stewardship.

Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Investment Approach

Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Principle 8: Signatories monitor and hold to account managers and/or service providers.

Engagement

Principle 9: Signatories engage with issuers to maintain or enhance the value of assets.

Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers.

Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers.

Exercising rights and responsibilities

Principle 12: Signatories actively exercise their rights and responsibilities.

Purpose and Governance

Principle 1: Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

NILGOSC's purpose

The Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) is a non-departmental public body (NDPB) sponsored by the Department for Communities (Northern Ireland). It was established on 1 April 1950, by the Local Government (Superannuation) Act 1950, to administer and maintain a fund providing pension benefits for employees of local authorities and other admitted bodies.

NILGOSC's corporate vision is "to provide an excellent and sustainable pension scheme" and its mission statement is "to operate the pension scheme efficiently and effectively while enhancing the quality of service provided to stakeholders". In order to achieve this aim, NILGOSC has set six corporate aims which drive its business priorities and activities:

Aim 1	To provide an effective service complying with the pension scheme regulations, good practice, other legislation and stakeholder expectations.
Aim 2	To deliver an effective investment strategy in line with the actuarial profile of the Fund.
Aim 3	To promote the scheme and inform members and employers of their pension options.
Aim 4	To influence and inform the debate on the future of the Local Government Pension Scheme.
Aim 5	To undertake business in an efficient, effective and accountable manner as required of a public body.
Aim 6	To promote equality of opportunity, good relations and to fulfil Section 75 obligations.

As at 30 June 2021, 172 bodies were contributing to the pension scheme and the Fund had a membership of 143,451. More detail is provided under Principle 6.

Investment strategy

As set out in NILGOSC's Funding Strategy Statement (prepared in accordance with the Local Government Pension Scheme Regulations (NI) 2014), NILGOSC aims to invest the assets of the Fund prudently over the long-term, ensuring an appropriate balance between risk and return so that the benefits promised to members can be provided, and to provide reasonable stability in contribution rates for the employers.

The Regulations require NILGOSC to maintain a fund to provide for the payment of current and prospective benefits to members of the Scheme. In order to ensure that this objective is achieved, NILGOSC must determine a suitable investment strategy.

NILGOSC sets its long-term investment strategy by taking into account the nature and timing of the Fund's liabilities identified through the triennial actuarial valuation and its investment aims and objectives.

NILGOSC's primary concern is to act in the best financial interests of the Fund and its beneficiaries, seeking a return that is consistent with a prudent and appropriate level of risk. This includes the risk that environmental, social and governance (ESG) factors, including climate change, negatively impact the value of investments held if not understood and evaluated properly.

Investment Beliefs

NILGOSC's investment beliefs are set out in its Statement of Investment Principles, Statement of Responsible Investment and Climate Risk Statement. All three documents are available on the NILGOSC website. These beliefs include the following:

- NILGOSC believes that ESG issues can affect the financial performance of investments.
- NILGOSC considers there to be a risk of underperformance relative to expectations as a result of ESG issues not being reflected in asset prices and/or not considered in investment decision making. Accordingly, NILGOSC believes that these factors should be taken into account when managing the Scheme's assets, subject to the overriding fiduciary duty to maximise the financial return on investments.
- NILGOSC believes that responsible ownership is about recognising that the impacts of corporations on the environment, on workers and on communities can

seriously affect shareholder value. It also places a high value on companies' own good governance.

- NILGOSC believes that, as a responsible investor, it has a legitimate interest in the management and corporate governance of the companies in which it invests and supports the use of voting as a means of expressing concern over ESG issues. By exercising its right to vote at company meetings, NILGOSC seeks to improve corporate behaviour and protect shareholder value by maintaining effective shareholder oversight of the directors and company policies, a process on which the current system of corporate governance depends.
- NILGOSC believes that engagement is a key part of any responsible investment strategy and engages with companies both directly and via its asset managers.
- NILGOSC believes that active engagement is the most effective way to bring about change, both at a policy level and in respect of individual investments. NILGOSC also participates in collaborative initiatives with other like-minded investors and groups, which seek to improve company behaviour, policies or systemic conditions.
- NILGOSC considers divestment can be a blunt instrument which removes the ability to engage effectively with a company or government. NILGOSC does not therefore exclude investments or divest solely on environmental, social and governance grounds.
- NILGOSC believes that climate change presents a material financial risk to the Fund and will therefore take climate risk considerations into account as part of its investment policy. NILGOSC considers that this approach is consistent with its legal duty to act in the best long-term interests of its members and to deliver the long-term returns necessary to ensure an affordable and sustainable pension fund.
- NILGOSC supports the aims of the Paris Agreement and will work with others to encourage the action necessary to limit global temperature rise to 2°C degrees or below as per the Agreement.
- NILGOSC believes that robust management of climate risks, together with sound governance practices and responsible behaviour can contribute significantly to the long-term performance of investments.

Alignment with third parties

NILGOSC will only appoint investment managers and investment advisors who have demonstrated that they meet an acceptable threshold for ESG capabilities and have the necessary expertise in assessing climate risk.

During the reporting period, NILGOSC undertook a procurement exercise to appoint an investment advisory service provider. The tender questionnaire was extensive, including a section on how the prospective advisor would support NILGOSC in implementing its Statement of Responsible Investment and Climate Risk Statement in the delivery of investment advice, against which prospective parties and their capabilities were assessed. The tender evaluation process concluded during Q3 2020, and in September 2020, the Committee approved the appointment of Aon Solutions UK Ltd (Aon) as the pension scheme's investment advisor. A substantial portion of the agreed expert advice which Aon are contracted to provide to NILGOSC includes providing NILGOSC with ongoing advice in respect of:

- ESG issues in the investment strategy;
- Incorporating risks and opportunities presented by climate change in the portfolio; fulfilling its obligations as a signatory to the United Nations Principles of Responsible Investment (PRI);
- the ESG capabilities of current and potential managers; and
- suitable opportunities for responsible investments, particularly in relation to low carbon and climate resilient investments.

Similarly, during the reporting period, NILGOSC also completed the appointment of a new Emerging Markets Equity Manager. The tender process included a Responsible Investment (RI) section, made up of nine detailed questions, covering beliefs, practices (including the application of PRI principles in the investment process), engagement and conflict policies. A minimum quality threshold was applied to this section, and any tenderer's submission which failed to meet the minimum score was not considered for appointment. Following success in the tender, the manager endured a drawn-out Due Diligence process (extended due to the Covid-19 pandemic) to verify the information provided. William Blair were appointed at the end of the reporting period in May 2021.

More information on the appointment and monitoring of managers and investment advisors can be found at Principles 7 and 8.

Principle 2: Signatories' governance, resources and incentives support stewardship.

The Committee

NILGOSC is a non-departmental public body (NDPB) sponsored by the Department for Communities ('the Department'). NILGOSC is the corporate body responsible for the administration of the Local Government Pension Scheme (LGPS) in Northern Ireland (NI) and is managed by a Management Committee (the Committee), which is similar to a board of directors or trustees. The Committee consists of a Committee chair, five members nominated by employers' organisations, five members nominated by employees' organisations and two independent members. In addition, the Department has appointed an observer who may attend the meetings of the Management Committee and Audit Committee.

The Committee members are appointed by the Minister for Communities for a four-year term and may be reappointed for a second four year term at the Minister's discretion. Members meet on a monthly basis with the exception of April, July and October. Training days are held biannually, one of which is focused on Investment-related matters. Minutes of all Committee and sub-committee meetings are recorded. When approved, copies of the minutes are published on the NILGOSC website.

The Committee is responsible for approving and monitoring NILGOSC's Investment Strategy (which is formally reviewed triennially). Additionally, the Committee regularly reviews the:

- Statement of Investment Principles;
- Funding Strategy Statement;
- Responsible Investment Strategy;
- Statement of Responsible Investment;
- Climate Risk Statement; and
- any significant changes to the Proxy Voting Policy.

The Committee also oversees the appointment, monitoring (via the use of a balanced scorecard) and removal of external investment managers. Although the quarterly monitoring process includes financial returns, given that the target for most investments is to deliver over a five year plus investment horizon, it is important that undue concern is not placed on short term returns and volatility. Instead, a key part of

the ongoing monitoring focuses on consistency with the mandate's core investment philosophy, the retention of suitably skilled personnel, risk management, ESG practices and business strength, as these factors are considered to be the key drivers of future performance. NILGOSC also takes advice from its investment advisor, Aon, and therefore retains conviction in the underlying investment process adopted by its external asset managers. The Committee receives an annual briefing report on each investment manager, which includes a dedicated section on ESG performance.

All new Committee Members receive mandatory induction training and are provided with a Committee Member Handbook (available on the website), which contains key documents, policies and guidance relevant to NILGOSC and their role. A Committee Member Knowledge Framework is in place that sets out the skills and knowledge a Committee Member should possess or acquire to be an effective Committee Member, and they are also required to complete The Pension Regulator's Public Service Toolkit.

All Committee Members are encouraged to meet an annual target of 40 hours continual professional development. Training records are maintained and updated on a quarterly basis. The Committee receives regular training on responsible investment, including climate risk, through a combination of in-house training and attendance at external conferences. For example, an investment training day was held on 13 October 2020 to provide new members with training on the fundamentals of investing which included a session on NILGOSC's response to Climate Risk.

Administration of the Scheme

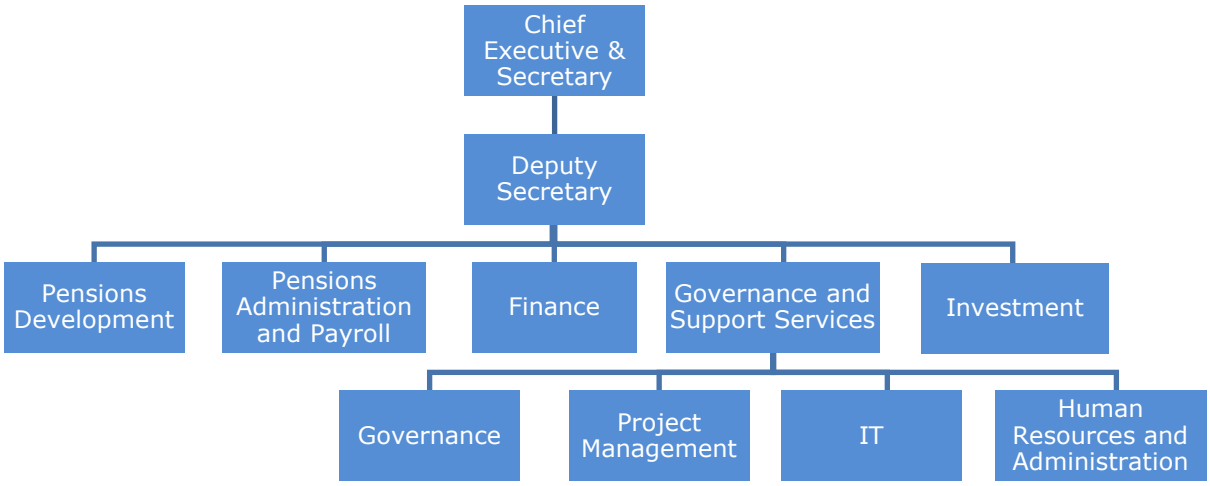
NILGOSC publishes its Corporate Plan over a rolling three-year period. The purpose of the Corporate Plan is to set out the aims, objectives and service standards of the Committee, taking into account external factors such as government policy and stakeholder needs. The Corporate Plan is reviewed and revised annually. NILGOSC's corporate plan includes the strategic objective to invest scheme funds in accordance with the Statement of Investment Principles and the Statement of Responsible

Investment; as well as the operational action to implement both the Statement of Responsible Investment and Climate Risk Statement.

The Chief Executive & Secretary is responsible for the operational management of the organisation and for providing strategic advice to the Committee.

Day-to-day administration of the Scheme is performed by the Secretariat (the Chief Executive & Secretary and Deputy Secretary), who report to the Committee at each of their regular Management Committee meetings. Neither are Committee members.

The Secretariat is supported by a team of five senior managers across five functions (Investment, Finance, Pensions Development, Pensions Administration and Payroll, and Governance and Support Services) and a workforce of approximately 80 staff within those functions, as shown in the chart below:



Implementation of NILGOSC's responsible investment strategy is delegated to the Secretariat and the Investment team. The Investment team is responsible for managing the investment of the pension fund, which includes aiming to maximise performance of the Fund whilst managing risk and appropriately considering responsible investment.

NILGOSC has a small, experienced investment team, made up of: the Head of Investment Services; the Investment Services Manager, and two Investment Officers.

The Head of Investment Services and Investment Services Manager (in addition to the Secretariat, to whom they report) are all Chartered Accountants. Holding the professional qualification is a mandatory requirement of each of the four roles, and in order to retain membership, each is obligated to develop and maintain professional

skills relevant to the nature of their work. Each undertakes annual continued professional development, which includes staying up to date on developments in topics that are relevant to delivery of their roles, such as responsible investment.

Within the Investment team, one of the Investment Officer roles is heavily weighted towards the delivery of implementing the Committee's responsible investment aims, particularly: the implementation of the Committee's proxy voting process; reviewing and maintaining the Committee's responsible investment policies in line with ESG best practice; and ensuring NILGOSC adheres to its responsibilities as a signatory to the United Nations supported Principles of Responsible Investment (PRI), amongst other duties. That Investment Officer reports directly to the Investment Services Manager, who is charged with leading and advising the Committee on NILGOSC's responsible investment strategy; promoting transparency around NILGOSC's stewardship activities; and leading on the development of NILGOSC's climate mitigation strategy, amongst other duties, and who in turn reports to the Deputy Secretary.

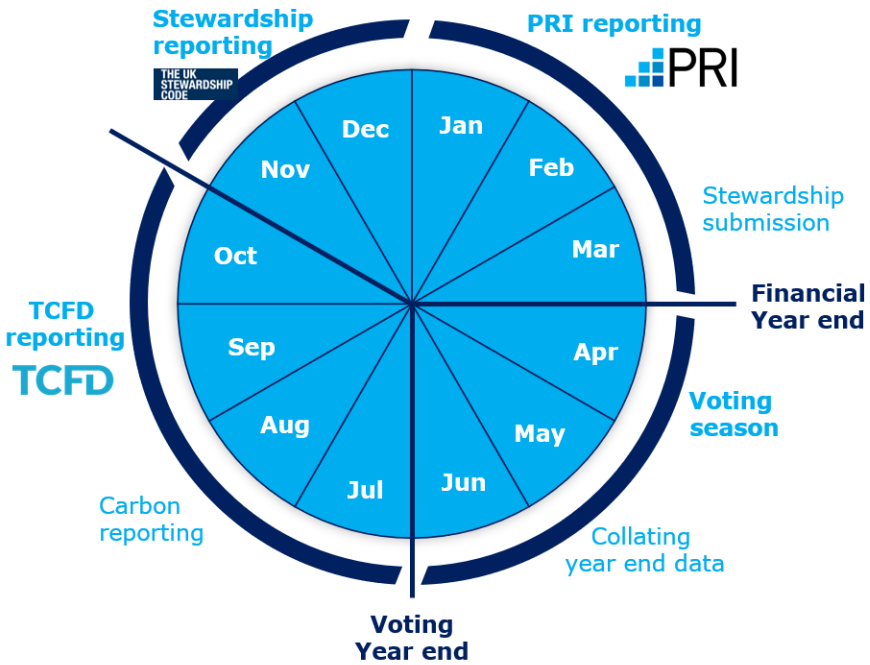
All parties are responsible for implementing the policies that are in place, and adhering to the strict review timelines (under the instruction of NILGOSC's internal Governance team) at which point all parties review and agree updates, which are in turn reviewed and agreed by the Committee. Responsible parties meet regularly to discuss updates and progress. More information on the review of policies can be found at Principle 5.

The Investment team undertake activity, such as:

- Voting (*Principle 12*): NILGOSC believes that there should be no grey area when it comes to voting and have adopted a policy of not abstaining from votes to ensure that dissension from management recommendations is accurately recorded. Peak voting season runs from April to June, and stewardship activity is reported for the 12 months to 30 June each year.
- Direct engagement (*Principle 9*) with UK companies in which NILGOSC holds shares: writing to outline rationale for voting against resolutions at AGMs.
- Performance monitoring (*Principles 7 and 8*): NILGOSC requires its investment managers to monitor best practice and ensure that ESG considerations, where relevant, are taken into account. The investment managers report quarterly, and both NILGOSC and Aon review the managers' quantitative and qualitative performance quarterly. Infrastructure managers are reviewed annually.

- Collaboration with other likeminded investors (*Principles 4 and 10*): NILGOSC does what it can to use its influence in respect of its holdings. One way to amplify its voice is to collaborate with other likeminded investors and groups, and is a signatory/member of initiatives including: the PRI; the Carbon Disclosure Project (CDP); Climate Action 100+; the Institutional Investors Group of Climate Change (IIGCC); Task Force on Climate-related Financial Disclosures (TCFD); and Occupational Pensions Stewardship Council (OPSC).
- PRI reporting (*Principle 10*): At the beginning of each calendar year, NILGOSC reports on its implementation of the PRI's Principles through mandatory annual reporting, and the assessment results are then published on the website.
- TCFD reporting (*Principle 4 and 7*): although TCFD reporting is not yet mandatory for NILGOSC, as an official supporter NILGOSC prepared its first climate related disclosures report in alignment with TCFD recommendations for the year to 31 March 2021, and committed to doing so annually.
- Class actions (*Principle 11*): NILGOSC partakes in class actions against investee companies where there have been corporate governance failings, which serves the benefit of both maximising income from scheme assts, but also to influence investee company behaviour aligned with our Statement of Responsible Investment.

The team's annual reporting responsibilities can be mapped as follows:



External management

NILGOSC's assets are externally managed. The table below sets out the asset type and managers in place as at 30 June 2021, in addition to the (unaudited) percentage of assets invested with each manager at this date:

Asset Class	**Manager**	**30.06.2021 unaudited allocation**
Global Equity	Baillie Gifford Unigestion	9.27% 4.42%
Emerging Market Equity	William Blair	2.5%
Passive Funds	Legal & General Investment Management	43.9%
Absolute Return Bonds	Royal London Asset Management T. Rowe Price	6.85% 6.89%
Multi Asset Credit	BlueBay PIMCO	6.92% 6.82%
UK Traditional Property	LaSalle Investment Management	4.46%
Index Linked Property	LaSalle Investment Management	2.74%
Global Property	CBRE Global Investment Partners	1.26%
UK Residential Property	M&G UK Residential Property Fund	1.03%
Infrastructure	Antin Infrastructure Partners KKR Infrastructure DIF Capital Partners Copenhagen Infrastructure Partners	1.02% 0.51% 0.32% 0.04%
Other (*including co-Investments and cash*)	Various	1.12%

NILGOSC requires its managers to monitor investee companies and engage with company management where ESG practices fall short of best practice. The Investment team are responsible for monitoring the ESG performance of external managers. Investment Managers are monitored and assessed against the same pre-determined qualitative and quantitative criteria (quarterly), which includes the assessment of ESG. Please refer to Principle 8 for more information on how managers are monitored.

The Investment team are also responsible for liaising with the Investment Advisor to ensure that ESG and stewardship are taken into account when setting the investment strategy, and when selecting individual funds and managers. Please refer to Principle 7 for more information on how NILGOSC selects managers and advisors.

Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Asset managers

More than half of NILGOSC's assets are managed by Investment Managers, with whom NILGOSC holds segregated mandates. The exceptions being LGIM who manage the passive holdings of the Fund, M&G who manage the Fund's exposure to UK residential property and the infrastructure managers. One of the benefits of a segregated mandate is that NILGOSC can negotiate the terms that will apply to how those managers hold and manage NILGOSC's assets, including specifying responsible investment clauses.

For example, managers are asked to incorporate ESG factors into their investment and stewardship activities, and are required to comply with responsible investment communication and reporting obligations, including on stewardship activities and their results. NILGOSC does not require managers to operate exclusion lists, although some of our managers do.

One of NILGOSC's other requirements, is that its investment managers have and maintain an effective conflict of interest policy which addresses real or potential conflicts of interest. The processes for identifying, managing and recording conflicts of interest are incorporated into the Investment Management Agreement (IMA) for each manager. Managers are permitted to effect transactions which involve or may involve a potential conflict as long as NILGOSC's interests are not negatively affected, or at a risk of damage. A sample of the template IMA goes on to stipulate:

> *Under the FCA Rules, the Manager is prohibited from accepting and retaining any fees, commission or monetary benefits, or accepting any non-monetary benefits other than minor non-monetary benefits, where these are paid or provided by any third party or a person acting on their behalf.*
>
> *The Manager's Conflicts of Interest Policy sets out the types of actual or potential conflicts of interest which affect the Manager's business, and provides details of how these are managed. Conflicts, if any, which the Manager is not able to manage effectively, are disclosed. The Manager will notify the Customer of any additional*

conflicts of interest to which it or any Associate is or may become subject in relation to the Fund and which the Manager is not able to manage effectively in accordance with its Conflicts of Interest Policy.

NILGOSC's Investment team have copies of the managers' policies, covering how the managers identify conflicts and potential conflicts of interest, and the procedures and controls that have been adopted to prevent or manage the conflicts. Potential conflicts may arise when managers are trading for multiple clients (including order execution, order allocation and cross-trade policies). Managers have various processes for mitigating such risks or potential risks such as: independent oversight by an Investment Stewardship Committee; or formal escalation processes to make sure conflicts are managed in the long-term interests of the client.

As part of the revised Shareholders Right Directive 2 (SRD II) which was introduced in June 2019 with the aim of encouraging effective and long-term focused stewardship and transparency, our managers, such as Baillie Gifford, report annually (or biannually as required), including their procedures for dealing with conflicts of interest:

Extract of: *SRD II reporting*

Investment Manager: *Bailie Gifford*

The SRD II also introduces enhanced reporting for us as an asset manager. Rather than change the format of your existing reports, we have created a new report which will provide the information you need from us

Conflicts of Interest

Baillie Gifford maintains a firm-wide Conflicts matrix, which identified conflicts and potential conflicts of interest that exist within the firm, and the procedures and controls that have been adopted to manage these conflicts. We recognise the important of managing potential conflicts of interest that may exist when we engage with or vote at a company with whom we have a material business or personal relationship, and the Governance and Sustainability team is responsible for monitoring these possible material conflicts of interest.

LGIM manage NILGOSC's passive funds (accounting for 43.9% of Fund assets as at 30 June 2021), and provided the following case study, examining a conflict:

Engagement Case Study: *Deliveroo - one share, one vote*

Investment Manager: *Legal and General Investment Management (LGIM)*

Deliveroo is engaged in delivering food to consumers from restaurants and grocers. The company is also a client, as LGIM runs its pension scheme.

What is the issue?

LGIM believes that one share, one vote is paramount to good governance, as it embeds fair and equal treatment of all shareholders by allocating control in direct proportion to the level of economic interest and exposure to risk. Over the years there have been continued efforts by policymakers and regulators to weaken these key rights. However, LGIM assert that if allocation of control is uneven, this raises the risk of a controlling group entrenching its positions and acting to the disadvantage of non-controlling shareholders. When Deliveroo was floated on the UK stock market in 2021, it listed with a dual-class share structure.

In the past when large companies have listed with multiple voting rights (for example, SNAP and LYFT), LGIM has been public in reiterating their stance and engaging with policymakers and governments, to highlight the importance of 'one share, one vote' and to support stewardship activities in this space.

What was the resolution?

LGIM have added external directors to its Investment Stewardship Committee to oversee these types of conflicts, when dealing with ESG issues that pertain to clients, and to ensure their principles are applied consistently. In the case of Deliveroo, LGIM chose not to participate in the company's IPO as a result of their concerns and announced this decision publicly.

While LGIM understand the business implications of such decisions, the manager asserts that the integrity of their investment stewardship activities must be maintained. LGIM believe going public with concerns is needed to improve the market for all clients. This also helps other corporate boards, regulators and policymakers understand their views on the topic.

Investment Advisor

During the tender for the Fund's Investment Advisor, NILGOSC required all prospective tenderers to declare any possible or perceived conflicts of interest in relation to either the personnel proposed to deliver the investment advice, or the type of work involved. Given that Aon, who were appointed during the reporting period (1 January 2021), may provide services to other pension funds in the same markets, and therefore have policies and procedures in place to identify and manage any potential conflicts of interest. NILGOSC has not been notified of any conflicts in the period to 30 June 2021.

NILGOSC

In respect of conflicts of interest within NILGOSC, Committee members adhere to a code of conduct which includes express provisions on the disclosure and handling of actual and potential conflicts of interest. In addition, in order to achieve the maximum degree of openness and impartiality, NILGOSC maintains a Register of Members and Officer's Interests. The Register is available for inspection by appointment at the Committee's offices and is published on the NILGOSC website in compliance with Freedom of Information legislation. Members and senior officers are required to register their interests on appointment and, thereafter, at the beginning of each financial year. Prior to participation in any procurement tender exercise, all panel members must complete a declaration of interests form.

All Committee members must comply with the Code of Conduct for Committee Members, complete the Register of Interests and declare at the start of each meeting any potential Conflict of interest relevant to the matters under discussion. Committee members with a potential conflict of interest should not participate in the discussion or determination of the matter of which a potential conflict of interest exists and should normally withdraw from the meeting. During the year to 30 June 2021, two conflicts of interest were noted. At the November 2020 Management Committee meeting, three members left for the discussion of a Stage II review (ie. the second stage of NILGOSC's complaints/dispute resolution procedure). All three members had submitted this conflict in writing in advance of the meeting and confirmed that they had received no correspondence about the review. Similarly at the June 2021 Management Committee meeting, two members left the meeting during the discussion of a Stage II review due to a conflict.

In the absence of specific direction in the Standing Orders or the Code of Conduct for Committee Members, the Chairperson shall determine the method of managing the potential conflict of interest.

The Committee Code of Conduct can be found on NILGOSC's website under Member handbook.

Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Corporate Risk Register

NILGOSC has put in place a robust risk management framework as a means of identifying, recording and managing those risks which could prevent it from achieving its strategic objectives. NILGOSC has a single corporate risk register which is subject to formal quarterly reviews to ensure it remains relevant and accurately reflects the risks facing the organisation. Risks are classified into one of six categories: Investment; Financial; Reputational; Political/Strategic; Compliance; and Operational. Each category has its own risk appetite, which is the amount of risk NILGOSC is willing to accept to achieve its objectives. In recognition of the unprecedented and rapidly evolving challenges presented by the pandemic, during the year ended 30 June 2021 a COVID-19 Risk Register was also created that sat alongside the Corporate Risk Register and was subject to the normal risk review and reporting process. Ultimate responsibility for the Risk Register sits with the Management Committee.

NILGOSC's Risk Management Policy sets out the organisation's risk control framework and appetite to risk. The ongoing system of internal control is designed to: identify and prioritise the risks to the achievements of the Committee's policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. A dedicated risk owner is assigned at management level to each risk to provide clear lines of accountability across the organisation. Risk owners review the risks that have been assigned to them on a quarterly basis and submit a Statement of Assurance to confirm that the existing controls are still effective, and whether or not the risk score needs to be re-assessed. The senior management team considers these Statements during its quarterly review of the Risk Register and makes changes to the risk scores, if necessary. A report and any revisions are considered by the Audit and Risk Assurance Committee (ARAC) which is a subcommittee of the Management Committee, prior to submission to the full Management Committee for approval.

NILGOSC outsources its internal audit function to ASM to provide assurance on the effectiveness of the governance, risk management and control environment in the

organisation. ASM works to an agreed audit plan, carried out in accordance with the Public Sector Internal Audit Standards. The work of Internal Audit concentrates on areas of key activities determined by analysis of the areas of greatest risk. Findings from work carried out during the year are presented to the ARAC and copies of all final reports are sent to the Chief Executive & Secretary. In addition, Internal Audit provides an annual written statement to the ARAC, setting out a formal opinion on the adequacy and effectiveness of NILGOSC's risk management, control, and governance processes.

Investment Risk

There are two risks on the Risk register that relate specifically to responsible investment, the second of which was added as a specific risk to the Risk Register in June 2021:

- Responsible investment considerations are not taken into account in the implementation of the investment strategy, which would have the impact of reduced investment returns; reputational risk resulting in loss of confidence in the pension scheme; and adverse publicity.
- Inaction to address and limit exposure to climate change risk will adversely affect investment returns, with the primary impacts listed as: sub-optimal returns; reduced investment returns; increasing deficit; and insufficient funds to pay retirement benefits and pensions.

The Statement of Investment Principles and Statement of Responsible Investment set out NILGOSC's approach to incorporating responsible investment considerations, including systemic risks such as climate risk, into its investment strategy and decision-making process. The Climate Risk Statement acknowledges the individual importance of climate risk as an investment issue and sets out the steps which will be taken to address it, both at a policy and portfolio level. In addition to setting out how climate risk is taken into account across the range of assets in which it invests, the Statement also sets out how NILGOSC will consider the opportunities that the changing climate presents.

Investment Strategy

The focus on long term Scheme sustainability and the achievement of steady long term returns from a suitably diversified investment portfolio is an important part of NILGOSC's on-going risk management process. In addressing its strategic theme of long-term Scheme sustainability, NILGOSC commenced its triennial review of its investment strategy in 2020/21 at the same time closing out on the actions arising from the 2017 Investment Strategy Review, which delivered a rebalancing of the portfolio away from more volatile equity investments. The last major operational action from this review concluded in May 2021 with the funding of a new emerging markets equity mandate. Risk based statistics, primarily Value at Risk (VaR) formed a key component when modelling and selecting the preferred investment strategy.

Sustainability was a key focus at the triennial investment strategy review, which was undertaken in 2021. This review critically assessed NILGOSC's existing investment strategy in the context of current economic conditions and expected future investment returns. An inherent part of the strategy review ensured that NILGOSC's responsible investment policy remains embedded in decision making, with climate risk mitigation a key factor for consideration.

Investment Managers

As described in Principle 8, a robust quarterly investment monitoring process is in place, assessing both the managers' quantitative performance and the supporting qualitative features of each mandate. Risk is reflected in the balanced scorecard through the inclusion of the information ratio as a criteria which assesses the risk-adjusted return relative to the relevant benchmark. Different managers and mandates have been selected as a result of their overall fit with NILGOSC's investment objective and will perform differently in certain market cycles. NILGOSC's primary concern is to act in the best financial interests of the Fund and its beneficiaries, seeking a return that is consistent with a prudent and appropriate level of risk.

NILGOSC instructs its active investment managers to take account of climate risk considerations in their decision-making processes, provided the primary financial obligation is not compromised. Where climate change produces a financial risk for a particular investment, NILGOSC expects this to be a fundamental part of the investment decision making process and will monitor such decisions accordingly.

Unigestion manages a low volatility global equity portfolio for NILGOSC, managing 4.42% of the Fund's assets as at 30 June 2021. Their approach to Climate Risk is described below:

As described in our investment process, we believe climate risks are very different from other investment risks. We have therefore developed an approach to explore the different low carbon transition pathways at the company level, which allows us to better understand the risk exposure of every stock in the portfolio. This has also included enhancing our engagement questions to understand the resilience of portfolio companies.

Stranded assets is an example of transition risk. We started our journey of decarbonisation by creating portfolios that are resilient to climate change; divestment from fossil fuel production or other carbon intensive activities are not only aligned with a 2°C global objective, but also, we believe, make sound financial sense. With this in mind, and in line with the aims of the Paris Agreement to reduce greenhouse gas emissions, we exclude any company from all Equity portfolios where more than 10% of their revenue is derived from thermal coal production.

In order to better understand companies' plans on transitioning and mitigating risk, we are working on developing a carbon scenario analysis methodology to identify the impact of different trajectories on our portfolios in terms of allocation, risk/return profile and carbon intensity control. We are in the process of evaluating the portfolio's level of alignment with global climate goals based on a transition pathway approach in which the rate of decarbonisation of each holding is assessed against rates required to achieve a 2°C, or below 2°C, of warming (trajectory data).

Collaboration as a form of risk management

In June 2020, NILGOSC became an official supporter of the Task Force on Climate-related Financial Disclosures (TCFD), an initiative created to improve and increase the reporting of climate-related financial information. In the same month, NILGOSC joined other organisations in co-signing letters to the UK Government and to EU heads of state calling for a sustainable resilient recovery. During the reporting period, NILGOSC continued its support for various global climate initiatives including the CDP's 2020 Non-Discloser, Climate Change, Water and Forests campaigns. In January 2021 NILGOSC, in conjunction with some of the UK's largest pension fund investors, wrote

to the Prime Minister expressing their strong support for the aims of the Paris Agreement and seeking a meeting to discuss how the financial sector can contribute to the UK's decarbonisation efforts. More information about collaborative engagements can be found in the response to Principle 10.

NILGOSC believes that such engagement with governments and policy makers is the key to establishing long-term policies which will ultimately shape a low carbon future. It accepts that there are differing views as to how to expedite the carbon transition but continues to believe that the best way to bring about change in corporate behaviour is to remain an active and influential investor. Throughout 2020/21 NILGOSC continued to use its voting rights (as disclosed under Principle 11) to encourage the disclosure of carbon emissions as well as the inclusion of climate risk mitigation within the business strategy of investee companies. The value of having a seat at the table at a company or within an industry that has the power to address climate change should not be underestimated if the goals of the Paris Agreement are to be met.

In order to facilitate reporting aligned with TCFD disclosures, NILGOSC undertook a portfolio-wide carbon analysis in the first half of 2021. NILGOSC will utilise the outputs of this initial portfolio analysis to highlight areas for further risk management and monitoring, and use the understanding gained to carry out scenario analysis for the Fund assets. NILGOSC will also continue to support increased coverage of carbon datasets and the continued development of target-setting methodologies, keeping the development of appropriate climate targets under review. Doing so, will help NILGOSC determine the next steps in assessing and managing NILGOSC's exposure to various climate outcomes.

Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities.

As noted in response to Principle 2, NILGOSC's Management Committee is responsible for approving and monitoring NILGOSC's investment strategy (which includes its responsible investment strategy) triennially, as well as the formal policy statements that support them. The last investment strategy review took place during 2021, as reflected in the recently updated Statement of Investment Principles:

	Frequency of formal review	Last reviewed
Statement of Investment Principles	Triennially	November 2021
Funding Strategy Statement	Triennially	March 2019
Statement of Responsible Investment	Triennially	June 2020
Climate Risk Statement	Triennially	November 2019
Proxy Voting Policy	Annually	June 2021

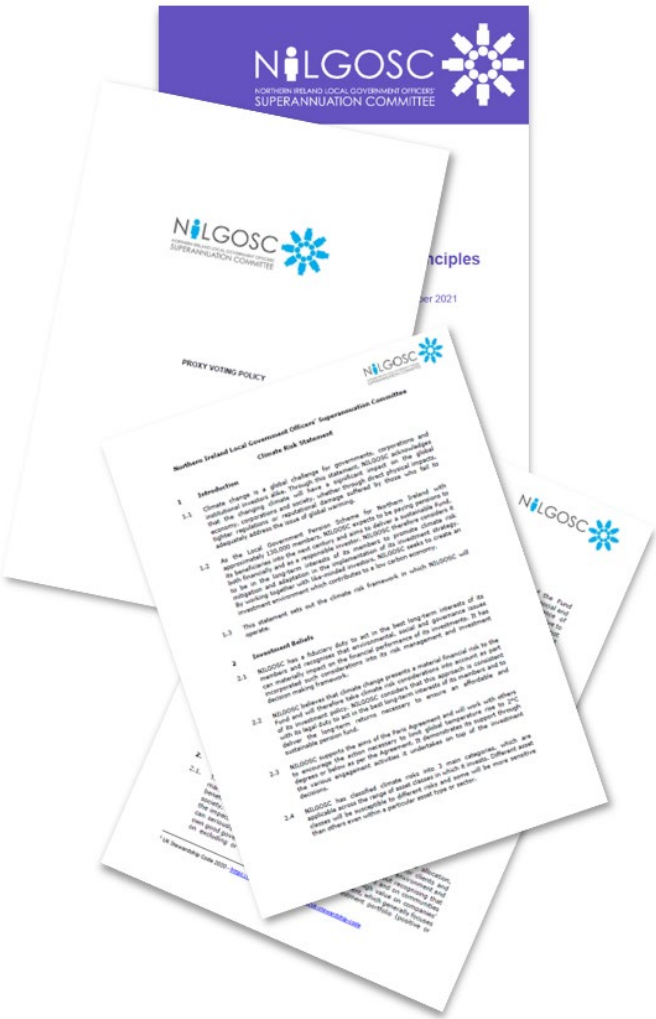
As laid out, all responsible investment related policies are reviewed at least every three years (or more frequently as required). Policies are initially reviewed by the Investment team and approved by the Secretariat. Any significant changes to policy are approved by the Management Committee.

NILGOSC's Proxy Voting Policy is reviewed annually to make sure it stays up to date with global best practice. To assist with this process, NILGOSC's proxy voting provider, Minerva Analytics Ltd (Minerva), conducts a comprehensive review of global governance and voting guidelines to ensure that the Minerva Voting Template system accurately reflects current good practice. This entails a review of each market for which Minerva offers customised analysis / voting for and of global good practice developments. NILGOSC uses this to review both its Voting policy and operational Voting guidelines manual and ensure that they continue to be in line with best practice. The Proxy Voting Policy was most recently reviewed in June 2021 and approved by the

Secretariat. As no significant changes to policy were made, Committee approval was not required.

NILGOSC recognises that policies may have to be reviewed more often to keep up with the changing landscape and evolving best practice in terms of Stewardship and ESG integration. Therefore, although the Statement of Responsible Investment is not due to be reviewed until 2023, NILGOSC plans to commence a review in 2022 in light of increased regulation in the area, as well as to capture NILGOSC's response to the new Stewardship Code and TCFD recommendations.

The review of the Climate Risk Statement in 2019 focused on the potential impact of Climate Change on the Fund and its beneficiaries. The Statement committed NILGOSC to support of the TCFD recommendations and the aims of the Paris Agreement. This prompted NILGOSC to commit to reporting in line with the TCFD recommendations for the year ended 31 March 2021 and to commission a carbon analysis of its portfolio in order to help it do so. NILGOSC's first Climate-related Disclosures Report, prepared in alignment with the recommendations of the TCFD, for the year ending 31 March 2021, was approved by the Committee on 23 November 2021 and published on NILGOSC's website on 29 November 2021. The report is available at: [Climate-related-Disclosures-Report-31-March-2021.pdf]



Investment Approach

Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

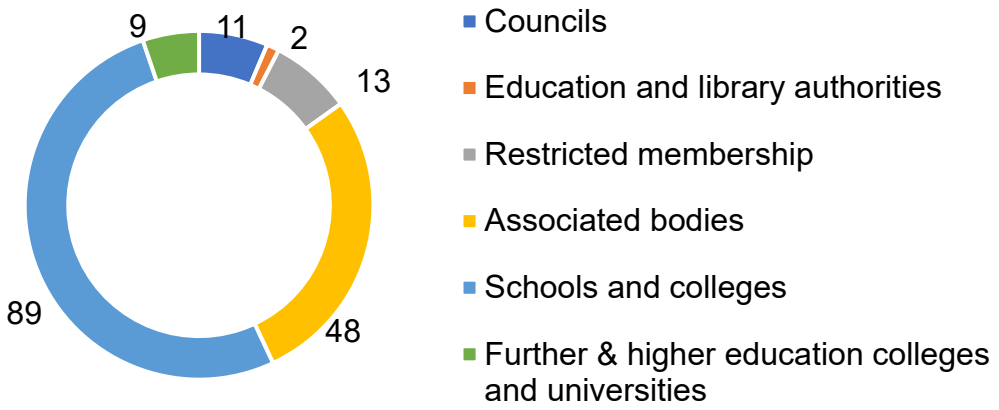
NILGOSC's background and membership profile

NILGOSC was set up in April 1950 to operate a pension scheme for the local councils and other similar bodies in Northern Ireland. The pension scheme is a defined benefit scheme, providing retirement benefits on a 'career average revalued earnings' basis from 1 April 2015. Prior to that date benefits were built up on a 'final salary' basis.

NILGOSC is the administrator of the pension scheme. Although it is a NDPB, it receives no funding from central government. It seeks to maximise income and minimise expenditure. The scheme is funded by contributions made by both employees and employers admitted to the pension scheme. All contributions are paid into a fund, the 'Fund', which is used to pay scheme benefits and other payments, as well as the costs of administering the pension scheme and investment fund.

The value of the Fund at 31 March 2021 was £9.795bn (audited).

Most of the 172 employers contributing to the pension scheme as at 30 June 2021 are public sector, however a small number are private sector in nature:



At 30 June 2021, the pension scheme had: 70,747 contributing members; 40,325 pensioners; 30,558 deferred members; and 1,821 unclaimed refunds.

As at 30 June 2021, the fund is currently cashflow positive, meaning the pension scheme's income is greater than its expenditure, and the fund was in surplus, meaning that the fund's assets are in excess of its liabilities.

NILGOSC's asset allocation

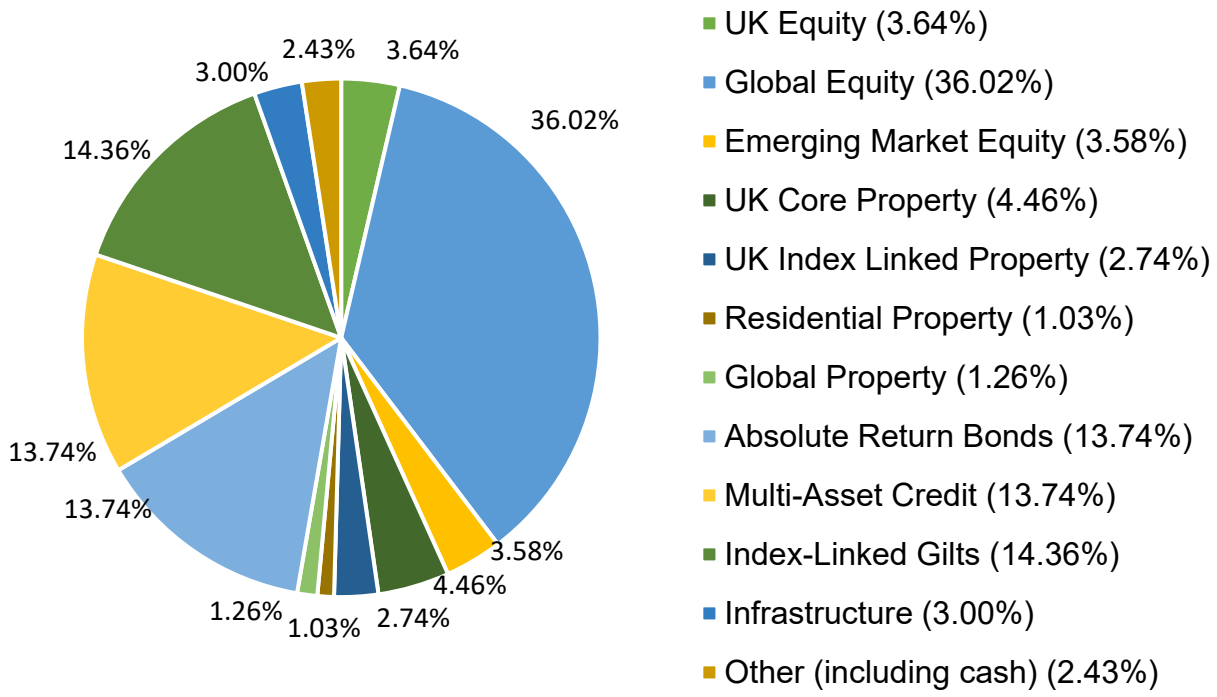
NILGOSC aims to invest the assets of the Fund prudently, ensuring an appropriate balance between risk and return so that the benefits promised to members can be provided, and to provide reasonable stability in contribution rates for the employers.

In setting the Fund's investment strategy, NILGOSC first considers the lowest risk strategy that it could adopt in relation to meeting the Fund's liabilities. The investment strategy is designed to achieve a higher return than the lowest risk strategy, while maintaining a prudent approach to meeting the Fund's liabilities.

The strategy is formally reviewed every three years, taking into account the nature and timing of the Fund's liabilities identified through the triennial actuarial valuation. The Fund Actuary has estimated the time period in which the pension scheme is expected to become cashflow negative, at which point, a shift towards increased access to more liquid asset classes will be necessary. In determining its asset allocation, NILGOSC, considers this time horizon, as well as:

- A full range of asset classes and suitability of each;
- The risks and rewards of a range of alternative asset allocation strategies; and
- The need for appropriate diversification.

The chart below shows the Fund's unaudited asset allocation as at 30 June 2021:



The Fund's investments are diversified across various asset classes in order to increase the overall expected returns while reducing the overall level of expected risk. A mixture of passive and active mandates is also used to capture the returns required to meet the Fund's objectives. More information as to the managers and mandates is disclosed at Principle 2.

Stakeholder considerations

Communication and member engagement remains a strategic priority for NILGOSC, and it continues to monitor member satisfaction and behaviour. Engagement has been strengthened by the use of online platforms, particularly the member self-service facility 'My NILGOSC Pension Online' which provides 24/7 access for members to view their pension records. Utilisation of the platform has continued to grow, with over 29,827 unique members registered at 30 June 2021. Pension benefit statements were delivered to active and deferred members electronically for the first time in 2021.

A stakeholder satisfaction survey was undertaken in March 2021 to measure the satisfaction levels of active members, pensioners and employers. The total satisfaction rating for the year was 90% (2019/20 91%). However, NILGOSC does not explicitly take into account the views of members and beneficiaries in relation to ethical considerations, social and environmental impact. With that said, the Committee, as disclosed in Principle 2, includes five members nominated by employers' organisations and five members nominated by employees' organisations. As a result, by default, beneficiaries' views are represented at Committee level, which is the decision making body for investment policy, including responsible investment.

As employers bear the investment risk of the Scheme, responsible investment and more recently climate risk has formed a key part of employer engagement. Employer roadshows following the 2019 valuation included a separate session on 'Responding to Climate Change'. In May 2021, the Chief Executive & Secretary attended the Northern Ireland Local Government Association's All Council Executive to present and engage with elected members on ethical and responsible investment. In 2021, NILGOSC's Chief Executive & Secretary engaged with local councils directly with respect to calls for divestment from fossil fuel holdings.

NILGOSC also produces annual newsletters aimed at active, deferred and current pensioner members, which include a section on responsible investment, summarising NILGOSC's activity in this sphere during the year, and directing members to the website where they can find a dedicated Responsible Investment section with information on Stewardship, Voting activity and Climate Risk. The latest newsletters (published in Q2 2021) can be found on NILGOSC's website at: Member newsletters. More information on NILGOSC's approach to Responsible Investment can be found at Being a responsible investor..

Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Asset Management

NILGOSC's primary concern is to act in the best financial interests of the Fund and its beneficiaries. It sets a long-term investment strategy, which is reviewed and evaluated every three years, taking into account a range of factors, including: the nature and timing of the Fund's liabilities; required return levels; and appropriate levels of risk (which includes the risk of failing to understand and evaluate ESG risk).

As discussed in Principle 6, NILGOSC's assets are externally managed. NILGOSC delegates the selection of investments to its managers and does not currently impose any investment restrictions with respect to ESG issues. However, when appointing a new manager, NILGOSC assesses the manager's ability to include ESG issues within the investment decision making process. Any manager not able to demonstrate such a capability will be excluded from the next stage of the selection process.

Once appointed, NILGOSC requires its managers to monitor investee companies and engage with company management where ESG practices fall short of best practice.

NILGOSC's Climate Risk Statement also requires that, where climate change produces a financial risk for a particular investment, NILGOSC expects this to be a fundamental part of the investment decision making process and will monitor such decisions accordingly.

Furthermore, NILGOSC has instructed its Investment Advisor to consider the impact and opportunities presented by climate change in the provision of advice, both at an overall strategy level and individual investment level.

NILGOSC also has a bespoke Proxy Voting Policy which sets out its expectations for good corporate governance, including how companies manage their impact on society and the environment. This policy sets out how NILGOSC addresses sustainability related resolutions, including specific reference to climate risk and climate related financial disclosures. Full disclosure of NILGOSC's voting policies and records are available on the website.

NILGOSC seeks to collaborate with like-minded investors and shares knowledge and resources on managing climate risk through its membership of industry initiatives including: the Principles for Responsible Investment (PRI); the Institutional Investors Group on Climate Change (IIGCC); the CDP (formerly the Carbon Disclosure Project); the Occupational Pensions Stewardship Council (OPSC); and Climate Action 100+. More information is provided under Principle 10.

Monitoring effectiveness

The Investment team are also responsible for liaising with the Investment Advisor to ensure that climate risks and opportunities are taken into account when setting the investment strategy, and when implementing it (for example in the selection of individual funds and managers), as described in Principle 1.

Once appointed, the Investment Team are responsible for: monitoring the ESG performance of external managers, specifically managers' compliance with NILGOSC's Climate Risk Statement. Quarterly reporting requirements, including engagement activity, are set out in contractual arrangements and are subject to ongoing review. For example, as laid out in Principle 8, the Investment team has been working with managers to develop and enhance the level of bespoke RI reporting provided.

The Committee reviews performance on a quarterly basis by way of a balanced scorecard, which assesses investment managers against a range of qualitative criteria, one of which relates to the inclusion of ESG factors in the decision-making process.

Asset Managers

NILGOSC asked its asset managers to provide some further information as to how ESG considerations have or will impact their investment decision making, a sample of which follows:

- Listed Equity

Investment Manager: *Baillie Gifford*
Climate has been an influencing factor in several investment decisions. For example, it is a key element supporting the holdings in electric vehicle manufacturers Tesla and Nio (4.7% and 1.3% of fund respectively as at 31 March 2021), along with the decision to buy plant-based burger company Beyond Meat in the third quarter of 2020 (1.1% of fund as at 31 March 2021).

- Fixed Income

Climate considerations have impacted decisions in the BlueBay portfolio, which are illustrated in the following two examples at both a country and corporate level:

Engagement Case Study: *Brazilian government - deforestation concerns*
Investment Manager: *BlueBay*
Brazil is home to a third of the world's rainforests. These carbon sinks are critical ecosystems, contain an important source of global biodiversity and provide a home and livelihood for many communities. BlueBay's key climate concern is for Brazil is deforestation. Although Brazil has a good record on combating deforestation in conjunction with providing favourable conditions for business and investments, BlueBay currently co-chairs an engagement program (Investor Policy Dialogue on Deforestation) with the Brazilian government. In June 2020 an open letter was issued to embassies expressing concerns over escalating deforestation, which secured dialogue with central bank representatives and members of the Amazon Council, as well as key officials in the Congress. In July 2020 the Brazilian government announced a 120-day moratorium on forest fires in response to the initiative. BlueBay continue to co-chair the formal two-year engagement programme.

Engagement Case Study: *PEMEX*
Investment Manager: *BlueBay*
Pemex is a 100% Mexican state-owned energy company. BlueBay assign the company a Fundamental ESG Risk Rating of 'Very High'. A call was held with management in January 2020 to discuss Corporate Social Responsibility, Health and Safety performance, transparency and disclosure of ESG metrics and climate change. In March 2020, BlueBay joined the Climate Action 100+ agreeing to co-lead on engagement with PEMEX, and in July 2020, the co-leads wrote to the PEMEX board providing formal notice of their inclusion in the CA100+. The company responded to the letter, stating it is currently reviewing the best way to respond and engage with investors. BlueBay are continuing to review and monitor, to inform next steps. Given that valuations are currently compelling relative to the sovereign, Pemex is currently a core position in several funds, which BlueBay consider gives them increased ability to engage with management.

- Property

NILGOSC's property managers must also consider stewardship in their management of the Fund's assets, with examples of the UK property managers below:

Investment Manager: *LaSalle Investment Management*
LaSalle's European Sustainability Strategy is built around four pillars: climate change, responsible consumption, social value and rewilding. The manager has created a suite of tools that ensure that these pillars are addressed throughout the asset life cycle (for example: Sustainable Investment Principles against which the Investment Committee should assess any ***new acquisitions****; Sustainable Development Standards, against which all* ***new developments*** *and* ***refurbishments*** *should address key sustainability risks and opportunities; and a series of asset specific guidance documents designed to provide asset managers and property managers with a menu of* ***sustainability initiatives*** *to consider when setting business plans and agreeing budgets.*
Demonstration of the managers' integration of ESG into asset management include: development projects at Tottenham and Basildon aligned with Sustainable Development Standards and BREEAM Excellent targets; and a rewilding project at Burgess Hill, where wild flower meadows were planted in the landscaping, received an award and encouraged community engagement at the asset.

Investment Manager: *M&G*
In relation to acquisitions M&G have declined several opportunities where they didn't feel the ESG aspects stacked up. The manager rejected a site that wasn't located near public transport, meaning occupiers would be reliant on car usage, and have also rejected buildings with a lack of amenity space, which they believe is important for customer satisfaction and to engender a sense of community. In 2020, M&G targeted all apartments to be built to EPC B+ (houses C+) which was subject to review at due diligence.

Principle 8: Signatories monitor and hold to account managers and/or service providers.

NILGOSC's formal monitoring in the year to 30 June 2021

Over the 12 months to 30 June 2021, the Committee were presented with the following papers for note or approval:

August 2020	• CBRE Manager presentation (G*lobal property*) • Annual review of Alternative Investments
September 2020	• T. Rowe Price Manager presentation *(ARB)* • 2020 Q2 Investment Advisor's report on quarterly performance • 2020 Q2 Monitoring scorecard for investment managers
November 2020	• PIMCO Manager presentation (*MAC*) • Performance Assessment of Investment Advisors
December 2020	• Unigestion Manager presentation (*Global equity*) • 2020 Q3 Investment Advisor's report on quarterly performance • 2020 Q3 Monitoring scorecard for investment managers
January 2021	• BlueBay Manager presentation (*MAC*)
February 2021	• LGIM Manager presentation (*Passive funds*)
March 2021	• 2020 Q4 Investment Advisor's report on quarterly performance • 2020 Q4 Monitoring scorecard for investment managers
May 2021	• RLAM Manager presentation *(ARB)* • Baillie Gifford Manager presentation (*Global equity*)
June 2021	• LaSalle Manager presentation (*UK Core and Index-linked property*) • 2021 Q1 Investment Advisor's report on quarterly performance • 2021 Q1 Monitoring scorecard for investment managers

Investment Managers

All of NILGOSC's active managers work to long-term investment horizons, and accordingly, NILGOSC is not unduly concerned with short term volatility in investment returns. A robust quarterly investment monitoring process is in place, which aims to look beyond returns to uncover the underlying cause of any underperformance. Therefore, in addition to monitoring financial returns, NILGOSC reviews a number of

key qualitative factors such as investment style and team, business strength, ESG practices, risk management, and the managers' level of assets under management. This takes the form of a quarterly balanced scorecard which rates managers against each of the criteria. Should the scorecard generate an overall red rating, then a formal retention review will be triggered. NILGOSC also takes advice from its investment advisor, Aon, and thereby retains conviction in the underlying investment process adopted by its external managers to deliver the target level of return over a three-to-five-year investment horizon.

The Committee has a fiduciary duty to monitor the performance of its managers. At the end of each calendar quarter the Committee is presented with:

- a report prepared by the Head of Investment Services, which includes a completed Investment Monitoring Scorecard (assessing the managers against a series of predetermined qualitative and quantitative criteria, including 'ESG capabilities' within which stewardship is included); and
- a report from the Fund's Investment Adviser which summarises market background, strategic performance, notable changes and/or issues for each manager and an investment update.

Each year, the Committee receives an annual briefing report on each individual investment manager as well as a presentation from the manager, which includes a dedicated section on ESG performance.

Fund Managers

In addition to investment managers, NILGOSC also invests a small portion of its assets (4.04% of the Fund as at 30 June 2021) with fund managers, with whom NILGOSC enters into a Limited Partnerships Agreement, with little scope for bespoke terms and conditions. Before entering such arrangements (e.g. infrastructure funds), thorough due diligence is carried out by NILGOSC and other third parties, such as NILGOSC's investment advisor, Aon, and appointed legal counsel. For example, during Q1 2021, the Committee approved the investment of €50m in Copenhagen Infrastructure Partner's latest global renewables fund (CI IV). Aon presented the opportunity to NILGOSC, noting in their assessment against NILGOSC's appraisal framework that the

"focus on renewable energy infrastructure supports NILGOSC's Responsible Investment and Climate Risk policies".

The alternative investment funds are long-term investments and although the investment team monitor performance at least quarterly (via reports and attendance at investor meetings), performance is formally measured once a year and noted by the Committee, via the 'Review of Alternative Investments' paper.

Bespoke ESG reporting

During the 12 months to 30 June 2021, NILGOSC has been working with its Investment Managers to improve quarterly reporting with regards to ESG integration and stewardship, especially in relation to Climate Risk. NILGOSC wrote to its investment managers at the end of June 2020, detailing the additional information required. The requests were tailored to the different asset classes. For example, while all managers were asked about the portfolio's carbon footprint, active equity and fixed income managers were asked to provide examples of ESG integration and engagement for the quarter; property managers were asked about sustainable asset management practices, the consideration of investment opportunities in low carbon real estate and engagement with tenants or the local community on ESG issues. NILGOSC's passive manager was asked to provide voting records. Managers were also asked to provide PRI Transparency and Assessment reports and to confirm whether they reported against TCFD recommendations and the Stewardship Code. While some of NILGOSC's investment managers were able to provide this information readily, or were already providing it, NILGOSC has worked with other investment managers throughout the reporting period to help them understand NILGOSC's needs, as well as to understand the kind of information which is relevant and available for different types of mandate or asset class. This is an ongoing process which will continue to evolve as new requirements on ESG reporting take effect.

Proxy voting service provider

NILGOSC receives monthly voting reports from its Proxy Voting service provider, detailing all votes cast. This information is reviewed against NILGOSC's internal voting data and any inconsistencies are investigated. An annual review meeting also took place in September 2020.

Investment advisors

In compliance with the Investment Consultancy and Fiduciary Management Market Investigation Order 2019, NILGOSC formally assesses the performance of its investment advisors on an annual basis. The assessment is carried out to a March year end, and assesses both: NILGOSC's investment advisor, Aon; and NILGOSC's infrastructure co-investment partner LPFI Ltd, against predetermined criteria. One of the criteria against which Aon is assessed is the 'To provide clear and relevant advice on ESG issues and specifically climate risk'. Aon are aware of NILGOSC's focus on ESG, and the investment team continue to work with Aon, adjusting the type and level of ESG support that NILGOSC requires depending on the engagement.

Engagement

Principle 9: Signatories engage with issuers to maintain or enhance the value of assets.

NILGOSC believes that engagement is a key part of any responsible investment strategy and engages with companies both directly and via its investment managers.

Day-to-day responsibility for the management of investments is delegated to the investment managers. NILGOSC requires its managers to monitor investee companies and engage on NILGOSC's behalf where ESG practices fall short of best practice, and where this is likely to have a detrimental effect on the long-term value of the company. All managers are required to report quarterly on any activity undertaken, the issues engaged on and any outcomes. The managers' ability to provide evidence that they are taking ESG issues into account during the investment process forms part of NILGOSC's quarterly evaluation of their performance, which is referred to in more detail at Principle 8. In addition, NILGOSC will not appoint asset managers who are unable to demonstrate capabilities in this area.

For example, one of NILGOSC's global equity managers provided the following:

Engagement Case Study: *Unilever PLC*
Investment Manager: *Unigestion*
In December 2020, Unigestion engaged with UK company Unilever, focusing on:
- Human rights and social issues related to palm oil: *Unilever has put in place a grievance mechanism to remediate on social issues and has seen significant progress. As of December, 95% of palm oil was certified. However, they want to reach a higher standard on the verification that palm oil is deforestation free with a new focus on traceability.*
- Plastic packaging: *Unigestion discussed Unilever's three main targets for 2025, namely: halve the amount of virgin plastic use in packaging; collect more plastic packaging than they sell; and ensure that 100% of plastic packaging is designed to be fully reusable, recyclable or compostable. Unilever has set many goals; however, they were downgraded in the recent Corporate Plastic Pollutions Scorecard for failing to meet a sustainable packaging target.*
Unigestion note that Unilever need to be held accountable for these commitments through further engagement, both individual and collaborative.

NILGOSC also engages directly with many of the companies in which it invests. For companies listed in the UK or Europe, where NILGOSC intends to vote against management at a company's Annual General Meeting, a letter will be issued to the company to advise of the voting decisions and to provide a rationale. In the 12 months to 30 June 2021, NILGOSC issued engagement letters to 45 UK companies and 23 other European companies, where votes were cast against management recommendations.

The table below shows a breakdown between UK and Europe and a comparison against the prior year:

	2020-21			2019-20		
	Total AGMs	**Letters sent**	**Replies received**	**Total AGMs**	**Letters sent**	**Replies received**
UK	23	19	1	44	41	4
Europe	23	22	2	19	18	2
Total	**66**	**41**	**3**	**63**	**59**	**6**

The main issues which caused NILGOSC to vote against management were: inadequate sustainability reporting; concerns regarding the company's remuneration policy; and board composition (primarily issues surrounding the independence of non-executives and gender/ethnic diversity on the board).

While these engagement letters did not result in continued engagement with the investee companies in the majority of cases this year, NILGOSC continues to believe that by providing this explanation, the flow of information between companies and their shareholders can be improved.

Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers.

Collaborative groups

NILGOSC believes that collaborative engagement is a key part of any responsible investment strategy and will seek to work collectively with other like-minded investors in order to maximise its influence on individual companies.

NILGOSC is aware that it is just a small voice, and one way to amplify that voice is to collaborate with other likeminded investors and groups:

Signatory to:	
UN Principles of Responsible Investment (PRI) *(Since 2007)*	An international network of investors working together to implement six aspirational ESG principles
CDP (formerly the Carbon Disclosure Project) *(Since 2007)*	A not-for-profit charity that runs the global disclosure system for reporting and managing environmental impacts
Climate Action 100+ *(Founder supporter signatory)*	An investor-led initiative focusing on 167 of the world's largest greenhouse gas emitters
Member/Supporter of:	
Institutional Investors Group of Climate Change (IIGCC)	European membership body for investor collaboration on Climate Change
UK Pension Scheme Responsible Investment Roundtable	Collective group of public and private sector UK pension funds who work together to promote responsible investment
Task Force on Climate-related Financial Disclosures (TCFD) *(Since June 2020)*	A working group tasked with creating a set of comparable and consistent disclosures to demonstrate climate change resilience
Occupational Pensions Stewardship Council (OPSC) *(inaugural member)*	A dedicated council of UK pension schemes to promote and facilitate high standards of stewardship

NILGOSC will identify suitable collaborative initiatives with other like-minded signatories (seeking to improve company behaviour, policies or systemic conditions) via participation and engagement with the above organisations and collaborative groups. For example, NILGOSC may also, on occasion, co-file shareholder resolutions with other like-minded investors at a company meeting in order to influence change at the company provided that it is considered to be in the best interest of shareholders. The decision on whether to participate in potential initiative is based on fund exposure, compatibility with NILGOSC's responsible investment policies and resources required to do so, and is approved by the Investment Services Manager and Deputy Secretary.

Collaborative activity in the 12 months to 30 June 2021

During the reporting period, NILGOSC participated in a number of collaborative engagements, mainly focused on climate risk and ESG-related disclosure:

- NILGOSC is a signatory to the 2021 Global Investor Statement to Governments on the Climate Crisis. The Investor Statement was drafted through a global collaboration among the seven organisations that are the founding partners of the Investor Agenda and calls on governments to raise ambition and accelerate action to tackle the climate crisis.
- In January 2021, NILGOSC renewed its commitment to CDP, signing up to their Climate Change, Forests and Water programmes. Over the reporting period NILGOSC was a signatory to both the CDP's 2020 and 2021 Non-discloser campaigns, which are investor-led engagement campaigns with the aim of increasing corporate transparency on climate change, deforestation and water security. CDP helps investors identify companies that have the largest impact on each of the three environmental themes in order to focus efforts where the greatest impact can be made. At the end of the selection process, CDP gathers signatures from all investors wanting to engage a company and drafts a disclosure request letter to be delivered to the company by an investor who has volunteered to lead the engagement on behalf of the group of signatories. NILGOSC was one of 108 investors urging companies to report, and was a supporting signatory on the letters to companies in which it had holdings.

A full list of recent collaborative engagements can be found on our website at: Engagement initiatives.

Asset managers

During the 12 months to 30 June 2021, NILGOSC also asked its investment managers for details of the collaborative engagements and initiatives they were involved in. Some examples are included below.

- Fixed Income Manager:

Investment Manager: *RLAM*

During Q1 2021, RLAM signed the ***Net Zero Asset Management initiative****, marking the next step in their investment philosophy and further cementing their commitment to meeting the goals of the Paris Agreement, and in turn, reinforcing their focus on supporting clients' needs. The manager asserts the conviction that low carbon transition requires an accelerated pace and contribution from all of society. The science behind a net zero target implies full decarbonisation of all sectors and geographies, and the utilisation of some negative emissions for residual hard-to-abate sectors, which is a major societal shift which RLAM do not take lightly.*

RLAM is a signatory of the Climate Action 100+ (CA100+) and undertake many climate transition risk engagements as members of this investor coalition.

RLAM are also a member of IIGCC, and are active participants in various work streams, for example the manager co-lead the engagement with European utilities and also are a working group member in the Portfolio Alignment Investment Initiative. The latter looks at the tools at investors' disposal for the alignment of their portfolios with the goals of the Paris Agreement. In particular, RLAM aim to work collaboratively with IIGCC to engage with banking groups on their approach to climate transition. RLAM are members of the Disclosure working group of the FCA and Bank of England PRA, Climate Financial Risk Forum. They are also sitting at the Investment Association's newly formed working group on climate change, and recently supported the Financing a Just Transition Alliance.

- NILGOSC's UK Property Manager:

Investment Manager: *LaSalle*

LaSalle is an active member of the ***Better Buildings Partnership*** *(BBP) and their Head of Sustainability chaired the Steering Group for the BBP ESG Training Course for Real Estate Professionals that was launched in February 2021, providing much needed ESG training to the sector. LaSalle is a signatory to the BBP Climate Commitment, one of the more ambitious commitments in the industry. LaSalle participates in the working group that both developed the commitment and produces guidance on its implementation. The firm itself is a signatory to the 2020 UK Stewardship Code. In addition, LaSalle held the following roles:*

- Elected Chair of the GRESB Advisory Board member since launch (2010)
- Chair of AREF ESG and Social Impact Committee
- UNEnvironmental Programme Finance Initiative Property working group member
- Fund Manager Member of GRESB
- INREV ESG Committee Member
- Board Director of UK Better Buildings Partnership

Looking forward

During the 2021/22 year, NILGOSC will continue to monitor upcoming PRI co-ordinated, and other, collaborations, with a view to participation in relevant engagements, particularly those with a focus on Climate risk.

Since the period covered in this report, NILGOSC has sought to increase its collaboration with other similar organisations by becoming an inaugural member of the Occupational Pensions Stewardship Council (OPSC), which officially launched on 8 July 2021. The Investment Services Manager sat on the Investment Association and PLSA's working group on asset manager data for TCFD disclosures, working with other pension schemes to formulate a template for asset managers to provide emissions data and metrics.

Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers.

Asset managers use of engagement

As discussed, responsibility for day-to-day engagement with companies is delegated to NILGOSC's managers, including the escalation of activities when necessary. Each of NILGOSC's investment managers has individual guidelines for the escalation of stewardship activities.

Baillie Gifford, the global equity manager (who managed 9.27% of the Fund's assets as at 30 June 2021), provided an example in which continued engagement with Kering SA, including voting against proposals at AGMs, helped lead to improvements:

Engagement Case Study: *Kering SA*

A French multinational specialising in luxury goods

Investment Manager: *Baillie Gifford (BG)*

In Q2 2021 BG held a meeting with General Counsel and Investor Relations to discuss resolutions for Kering's 2021 AGM. The meeting followed previous engagement in 2020 at their Corporate Governance Roadshow, and with Kering's lead independent director and remuneration committee chair in 2019. In both previous engagements, BG had voiced concerns about the structure of Kering's long-term incentive plan (LTIP), voting against management's remuneration proposals at previous AGMs because of them. During the most recent meeting, Kering revealed the steps taken to directly address the concerns: moving away from trigger vesting and towards more ambitious and stricter LTIP targets (including gender diversity and biodiversity ESG metrics). For example, a target has been set to convert 57% of its total land footprint of 350,000 hectares to more sustainable regenerative agricultural practices. Kering is also considering extending the share rewards offering to a wider range of workforce beneficiaries in future, and BG report that they are satisfied with the outcome of engagement to date.

The manager also provided an example in which continued engagement with Alphabet Inc. failed to result in the desired transparency the manager sought, and as a result, they divested NILGOSC's holding:

Engagement Case Study: *Alphabet Inc.*
American multinational technology conglomerate
Investment Manager: *Baillie Gifford (BG)*

- During Alphabet's Q3 2020 ESG call with shareholders, topics covered included: content moderation; human rights; and modern slavery. BG sought to dig deeper and sought closer engagement with management.
- During Q4 2020's quarterly ESG call, focus was placed on the ethical deployment of artificial intelligence (AI) and the opportunity was provided to pose questions to Mustafa Suleyman, head of AI policy across the group. Despite Alphabet demonstration of initiatives such as the Equitable AI Research Roundtable to promote diversity consideration in machine-learning, BG sought more transparency on policies and actions - including more investor education from the company.
- BG sold NILGOSC's holding in Alphabet in May 2021, citing their conviction had waned in the potential of Alphabet's 'moonshot' bets (impacting their returns assessment), however notably, a key factor in the decision to sell was the "frustrating opaqueness" of company culture and BG's inability to gain reassurance over a series of engagements that the company was willing to have a more proactive approach with regulators.

NILGOSC's escalation in the best interests of beneficiaries

On occasion, NILGOSC may choose to escalate activity, principally through engagement activity through PRI facilitated and other collaborative engagements.

For example, and noted under Principle 8, as a CDP signatory, over the reporting period, NILGOSC participated in the CDP's 2020 Non-discloser campaign, which focused on companies that had failed to respond to CDP's climate change, forests and water security questionnaires in previous years. CDP report that Companies engaged in the campaign are more than twice as likely to disclose. NILGOSC considers the disclosure of climate risks and opportunities to be essential if shareholders are to determine whether the companies in which they invest are adequately addressing the

changing climate and also signed letters to companies in which it had holdings, as part of the CDP's 2021 Non-discloser campaign.

NILGOSC also seeks to recover all monies due to it from settled class actions and will consider, on a case-by-case basis, being party to class actions against investee companies arising from failings in corporate governance. During the 12 months to 30 June 2021, NILGOSC received £91,724.26 from Class action settlements.

Exercising Rights and Responsibilities

Principle 12: Signatories actively exercise their rights and responsibilities.

NILGOSC believes that, as a responsible investor, it has a legitimate interest in the management and corporate governance of the companies in which it invests and supports the use of voting as a means of expressing concern over ESG issues.

Actively Managed Equities

NILGOSC retains voting rights over its shares in each of its actively managed equity mandates. By exercising its right to vote at company meetings, NILGOSC seeks to improve corporate behaviour by maintaining effective shareholder oversight of the directors and company policies, a process on which the current system of corporate governance depends.

NILGOSC has a bespoke Proxy Voting Policy (available online) which is reviewed annually (most recently in June 2021). The policy covers all actively managed equity holdings in the Fund, and sets out NILGOSC's expectations for good corporate governance. NILGOSC expects the companies in which it invests to comply with ESG best practice, and the policy provides a basis for communicating with investee companies and holding directors accountable.

NILGOSC's voting policy is applied globally. NILGOSC recognises that many countries or regions now have corporate governance codes that operate only within those specific jurisdictions, and NILGOSC will support compliance with those codes. However, the scope and detail of those codes vary considerably, and while some are well established, others have only recently been introduced and their guidelines have not yet become common practice. Additionally, a number of the codes fail to recommend adherence to the standards NILGOSC would eventually hope to see implemented. Therefore, in some instances, NILGOSC's voting policy specifies a minimum standard which it would expect all companies to adhere to, while expecting that market-specific best practice guidelines be followed where they recommend a higher standard.

NILGOSC's voting policy sets out how NILGOSC addresses sustainability related resolutions, including specific reference to climate risk and climate related financial disclosures. For example, NILGOSC believes that good corporate governance includes the management of a company's impact on the environment. The voting policy states that all companies in which NILGOSC invests should disclose and report their policies on environmental management, identify significant ESG risks and opportunities, including climate risk, and take account of widely accepted reporting standards such as the Global Reporting Initiative and the recommendations of the TCFD. It also covers disclosure on social and ethical management, workforce-reporting and supports the recommendations of the Hampton-Alexander and Parker reports on board diversity. Shareholder resolutions on social factors are approached on a case-by-case basis, taking into consideration whether the resolution is in line with NILGOSC policy and whether it is appropriate to the circumstances at the targeted company. NILGOSC expects the companies in which it invests to comply with best practice in terms of corporate governance. NILGOSC's voting policy also covers Governance factors such as Audit and Reporting, Board Composition, Remuneration and Shareholders rights.

As noted at Principle 5, NILGOSC has appointed a specialist corporate governance partner, Minerva, to coordinate its corporate governance and voting activities. NILGOSC avails of Minerva's corporate governance research service, which provides detailed information and financial analysis for each of its actively managed equity holdings.

An operational manual of detailed voting guidelines is generated from NILGOSC's bespoke voting policy template, which details how NILGOSC will vote on specific issues. These guidelines are applied uniquely and only to NILGOSC's accounts, and the criteria are applied consistently across all resolutions. Recommendations are proposed in line with the NILGOSC voting policy standards, and the information is used by the Investment Officer at NILGOSC to make informed voting decisions, using the Minerva voting platform.

NILGOSC exercises its voting rights at all company meetings within its actively managed equity portfolios, where possible, and will vote against management where there are significant ESG or corporate governance failings.

NILGOSC's proxy voting agent, Minerva, monitors the voting rights attached to NILGOSC's actively managed equity holdings and alerts NILGOSC to upcoming votes on an ongoing basis by email and through its online voting platform. In addition, NILGOSC's Global Custodian alerts NILGOSC to any additional actions which may be necessary to maintain voting rights, such as having relevant Powers of Attorney in place for certain jurisdictions.

Securities lending

NILGOSC participates in a Securities Lending Programme managed by its Global Custodian. It is not NILGOSC policy to recall lent stock for voting purposes. However, NILGOSC retains the right to do so in the event of a contentious vote or in relation to engagement activities. While there have been no instances of shares being recalled for voting purposes during the period covered by this report, in the past, shares have been recalled after NILGOSC has been alerted to an important vote by one of its investment managers and, after NILGOSC co-signed a shareholder resolution at an investee company, shares were recalled so that NILGOSC could vote at the meeting and support the resolution.

Proxy Voting in the year to 30 June 2021

NILGOSC reports on its stewardship activity via an annual report prepared by its proxy voting supplier Minerva Analytics Ltd (Minerva), extracts of which are shared below. NILGOSC's voting activity for the 12 months to 30 June 2021, in addition to the two preceding years, is publicly available on the website (Annual Voting reviews). NILGOSC also publicly shares detailed disclosure of shareholder resolutions voted on during the reporting period, with rationale.

In the year ended 30 June 2021, NILGOSC voted at 185 shareholder meetings held by 163 companies, listed in the following jurisdictions: United Kingdom, Ireland, Denmark, Finland, France, Germany, Netherlands, Spain, Switzerland, Japan, Canada, United States, Australia, China, Hong Kong, India, Mexico, New Zealand, Singapore, South Africa, South Korea and Thailand.

NILGOSC voted on 2,222 resolutions, and voted contrary to management in 33.32% of resolutions:

Resolution Category	Total number of resolutions proposed	NILGOSC Dissent*	Average Shareholder Dissent**
Audit & Reporting	271	47.60%	1.82%
Board	1,185	27.34%	3.82%
Capital	299	18.06%	4.69%
Corporate Actions	43	16.28%	8.24%
Other	1	100.00%	-
Remuneration	262	66.79%	7.85%
Shareholder Rights	105	18.27%	9.76%
Sustainability	56	55.36%	17.37%
Total	**2,222**	**33.32%**	**4.88%**

** NILGOSC dissent excludes resolutions where management provided no recommendation.*

*** Average Shareholder Dissent calculated from resolutions in respect of which shareholder voting results where available.*

During the period under review, eleven management-proposed resolutions which NILGOSC voted 'against' were defeated (inclusive of say-on-pay frequency votes in the US), and NILGOSC supported ten successful shareholder proposals.

NILGOSC utilises its ownership rights globally to ensure that corporations provide accurate and timely disclosure of the material risks and opportunities associated with climate change. Through the exercise of its voting rights and through targeted engagement, NILGOSC aims to encourage companies to be transparent and accountable in respect of their impact on the environment, for example through the setting of targets and timeframes for the reduction of greenhouse gas emissions. During the reporting year, NILGOSC supported six shareholder resolutions requesting enhanced company reporting on environmental issues including climate change, deforestation and food waste. The environmental proposals received 17.16% average support. Two of the resolutions passed, one requesting a climate transition report (Booking Holdings Inc) and one requesting a report on efforts to eliminate deforestation (Procter & Gamble Co).

NILGOSC also publishes full details of votes cast on its website. This information is updated on a quarterly basis and can be found under Monthly Voting Reports. For

meetings taking place from 1 April 2021 onwards, monthly voting reports include a brief rationale for votes against management's recommendation and for all votes on shareholder resolutions.

An overview of responsible investment activities during the financial year, including voting figures and details of direct and collaborative engagement, is set out in NILGOSC's Annual Report & Accounts, which is also available on the website under Annual Reports.

Asset manager engagement in the 12 months to 30 June 2021

NILGOSC asked its asset managers to provide examples of portfolio specific engagements undertaken over the year, a sample of which follows, covering: fixed income; passive equity; and global property.

- Fixed income:

T. Rowe Price have described their approach to exercising their rights and responsibilities in relation to the NILGOSC's Absolute Return Bond mandate:

Investment Manager: *T Rowe Price (TRP)*
Before investing in a bond issuer a TRP analyst reviews bond documentation with the aim of assessing the level of creditor protection. If the covenant package or transaction structure proves to be weak, the analyst has several options. For prospective new issue bonds, the analyst can highlight the weak structures with the portfolio manager and fixed income legal team, who may choose not to invest. Potential remedies include providing feedback directly to the bond issuer, as well as requesting amendments to the terms and conditions of the indentures with the syndicate arranging the transaction. When an issuer is seeking to amend terms of securities already held, such as to relax or waive covenants, the analyst and portfolio manager analyse and assess implications, to determine how to vote on the proposed amendments. If required, analysts will reach out to the issuer and other external sources to make a well-informed vote that is in the best interest of clients. Similarly, in scenarios of possible impairment, TRP's dedicated research specialists and legal resource will participate in discussion and negotiations with other bondholders and issuers to achieve the best outcome for clients.

- Passively Managed Equities

For passively managed equities (which make up 27.1% of the fund assets as at 30 June 2021), votes are cast by NILGOSC's passive asset manager, LGIM, according to its own voting policies. LGIM provides NILGOSC with a quarterly ESG Impact report, forming part of NILGOSC's quarterly evaluation of their performance, which includes:

- Examples of the engagement activity undertaken on behalf of clients, naming the companies involved, summarising the issues, and explaining LGIM's response, progress of the engagement and the impact of the subsequent changes at the company;
- Summary of activities, including the publication of any new policies and the market-wide engagement and policy work LGIM undertaken during the quarter;
- Analysis and breakdown of the voting activity during the quarter, by region, vote instruction, topic, meeting type, number of companies; and
- Analysis and breakdown of the engagement activity undertaken, highlighting the number of meetings including environmental and social topics.

LGIM's annual Active Ownership report sets out their approach to stewardship and their activities during the year, and a web-based Voting Tool allows investors full access to review LGIM's votes on a fund and individual stock basis.

Company: *Rio Tinto PLC (Mining& Metals company)*
Investment Manager: *Legal and General Investment Management (LGIM)*
During the Q2 2021 UK and Australian AGMs of the dual-listed mining giant, LGIM voted 'against' both the remuneration reports. A 2020 mine site expansion resulted in the destruction of a 46,000-year old heritage site at Juukan Gorge, W. Australia. The backlash culminated in the departure of four directors, including the chairman and the CEO. LGIM believed that further reductions in the exit package awarded to the outgoing CEO would have been appropriate, given the associated reputational damage and the strain put on community relations, which are essential to maintaining the social license to operate for the industry. This vote represents LGIM's efforts to press the company for accountability since the beginning of the scandal. A majority of shareholders opposed the pay package at the UK AGM.

- Global Property:

CBRE Investment Management (CBRE IM) is one of NILGOSC's newest managers and were still drawing down capital as at year end (accounting for 1.26% of Fund assets). The vehicle that NILGOSC is invested in is a private indirect real estate portfolio, meaning they invest NILGOSC's capital in underlying global property funds or with operating partners. As a major indirect real estate investor, CBRE IM uses their experience, knowledge and influence to engage with underlying real estate fund managers throughout an investment hold period. CBRE IM seeks to include ESG as a standing agenda item at Advisory Board meetings as well as at quarterly manager meetings. CBRE IM engages with partners to ensure that ESG issues are included in the investment strategy and annual business plans. They share best practices with managers, review GRESB results and support initiatives for ESG performance improvement, TCFD implementation, and seeking building ratings and certifications. A couple of examples of improvements in NILGOSC assets are set out below:

Engagement Case Study: *Clarion Europe Logistics Venture*
CBRE *has engaged with the manager to encourage it aims for higher ESG standards in the fund's development schemes, than originally proposed by the developer. Although pushing for higher ESG standards might increase the development budget, it should also be reflected in the rents achievable as well as the exit yield. Following discussions with Clarion, the manager engaged with the developer of one of the assets (Marolles) to increase the BREEAM target from "Good" to "Very Good" at minimal additional cost.*

Engagement Case Study: *NREP Nordics Income + Fund*
Following the launch of the Fund in Q3 2020, the Investment team began engaging with NREP management to foster a shared ESG agenda and promote a joint sustainability ambition in the Fund. ESG strategy has been part of the agenda for bi-weekly update calls with the fund management team since the fund's inception. The fund team has started incorporating an ESG-dedicated section in the investor meeting update calls because of mutual engagement on the topic and the interest of other institutional investors as well. NREP has pledged to decarbonise their real estate portfolio well ahead of the IPCC's target date of net zero by 2050 and become carbon neutral already by 2028 – encompassing both operational and embodied carbon.