NILGOSC

NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION COMMITTEE

Stewardship Report 2022

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Stewardship Report 2022

For the Year Ended 30 June 2022

Approved by the Northern Ireland Local Government Officers' Superannuation Committee at its meeting on

22 May 2023

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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 policy statements alone. 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 prepared its first annual Stewardship Report, covering the 12 month-period ending 30 June 2021, and was pleased to have met the FRC's expected standard of reporting. In September 2022, NILGOSC was listed as a signatory to the UK Stewardship

Code. To remain signatories, all organisations must continue to reapply and report on an annual basis.

NILGOSC's second Stewardship Report covers the 12-month period ending 30 June 2022.

Please note that NILGOSC's financial statements are prepared as at 31 March year end. Therefore, figures provided as at 30 June 2022 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 function is to deliver a pension service to scheme members and employing authorities in accordance with the Local Government Pension Scheme (LGPS) Regulations. Within this narrowly defined remit, focus is placed on providing a high-quality service to all stakeholders in line with continually evolving expectations.

NILGOSC has established a planning process allowing it to identify and achieve its long-term strategic objectives. A strategic review is undertaken every three years, during which NILGOSC's Management Committee (the 'Committee'), along with stakeholder input, conduct a thorough review of the vision, mission, values and strategic aims, ensuring the organisation's strategic direction remains relevant and reflective of the current operating environment.

NILGOSC's latest strategic review commenced with a workshop in May 2021. Seven overarching strategic themes were identified, forming the framework for strategic planning and decision-making: engagement; innovation; collaboration; operational excellence; governance; financial sustainability; and stewardship. The review included a Stakeholder analysis to identify current stakeholders, their needs and expectations, and a SWOT analysis to identify and examine NILGOSC's strengths, weaknesses, opportunities and threats. A consultation on the strategic framework was then issued to stakeholders, providing a ten-week window to respond. NILGOSC published a summary of responses thereafter and in September 2021, the Committee agreed its

Vision, Mission, Values, Strategic Aims and Objectives, which will drive service delivery over the period from 1 April 2022 to 31 March 2025.

NILGOSC's 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 both, NILGOSC 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.

Each department within NILGOSC undertakes established operational activities, set to fulfil its business objectives, which in turn are designed to satisfy the six strategic aims. A full overview of the relationship between aims, objectives and operational actions is shared in Annex B of NILGOSC's Corporate Plan. For example, under Aim 2: "*To deliver an effective investment strategy in line with the actuarial profile of the Fund*", the Investment team are tasked with the objective of ensuring "*effective stewardship in line with responsible investment policy*" [2.5] with the operational actions of: implementing the Statement of Responsible Investment [2.5.1]; and producing an annual Stewardship Report [2.5.2].

The most recent Corporate Plan is available to review on the NILGOSC website, covering the three-year period from 1 April 2023 to 31 March 2026 and laying out NILGOSC's: Vision and Mission; Aims; Key objectives; Administrative budget; Values and service standards.

In carrying out its overarching function, NILGOSC is committed to the following values:

- Member focused service delivery
- Operational excellence through innovation
- Fairness, embracing equality and diversity in its widest sense
- Sustainability, both as an investor and as a pension scheme
- Responsiveness, taking action in a timely manner
- Collaboration to achieve shared goals
- Honesty, integrity and openness in our engagement with stakeholders
- Maximising returns within acceptable risk parameters
- Being understandable, providing simple, clear and complete information

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.

Progress against the Corporate Plan is reviewed and reported annually, and shared publicly in the Annual Report and Accounts, which are available to review on the NILGOSC website. Committee effectiveness is also assessed annually. More information is provided under Principle 2.

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.

These investment beliefs are reflected in the Voting Policy (which is reviewed and agreed annually). More information on the policy review is provided under Principle 5, and more information on the in-house proxy voting undertaken for all actively held equity is provided under Principle 12.

Furthermore, NILGOSC's purpose, aims, values, strategy and beliefs (as laid out above) all help set the tone for how NILGOSC as an organisation effectively stewards its assets. More information on NILGOSC's operating model and governance is laid out under Principle 2, however as an asset owner, its alignment with its managers, advisors and service providers is critical to ensuring that effective stewardship is achieved while delivering high-quality service to all of NILGOSC's stakeholders.

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.

Aon Solutions UK Ltd (Aon) is the pension scheme's investment advisor. They were reappointed in September 2020, following a procurement exercise. The tender questionnaire was extensive, including a section on how a 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.

A substantial portion of the agreed expert advice which Aon are contracted to provide to NILGOSC includes 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 supported 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.

During the reporting period, NILGOSC undertook the selection of a new Global Equity Manager. Initial pass/fail screening included a question seeking confirmation that prospective firms had an ESG policy, and requesting a summary of how that policy and ESG risks are incorporated into the investment process. Prospective managers were asked to demonstrate the ability to comply with NILGOSC's Statement of Responsible Investment and Climate Risk Statement, and also to detail compliance with the new UK Stewardship Code. Assuming prospective bidders passed the first screening, the main body of the tender included a Responsible Investment (RI) section, made up of nine detailed questions, covering beliefs, practices (including the application of the 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.

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 both the Management Committee and the Audit Committee.

The Committee members are appointed by the Minister for Communities, via the public appointments process 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. Minutes of all Committee and sub-committee meetings are recorded. When approved, copies of the Management Committee 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 investment-related policies and statements such as:

- Statement of Investment Principles;
- Funding Strategy Statement;
- Responsible Investment Strategy;
- Statement of Responsible Investment;
- Climate Risk Statement;
- any significant changes to the Voting Policy;
- Conflicts of Interest Policy; and
- Code of Conduct for Committee Members.

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 a review of financial returns, given 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 that each individual 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 continuing professional development. Training records are maintained and updated on a quarterly basis. Committee training is organised to meet training needs identified via the annual training needs self-assessment.

Regular training on responsible investment, including climate risk, is delivered to the Committee via a combination of in-house training and attendance at external conferences. For example, given the Committee's membership had changed significantly during 2020, enhanced induction training was provided in October 2021, which included a comprehensive session on NILGOSC's approach to responsible investment and stewardship.

The Committee undertakes an annual self-assessment to evaluate its own performance and effectiveness, and to determine actions required for improvement.

The self-assessment questionnaire aims to identify areas of Committee performance that are strongest, those that need improvement and priority areas to focus on over the next one to two years. Indicators include "the Committee ensures investments are managed in line with the Statement of Investment Principles and Statement of Responsible Investment" and that "there is evidence that the Committee engages in responsible investment practices". The Chairperson also conducts annual performance appraisals with each member to evaluate their performance in their role as a Committee member and within any sub-committees. Completed appraisals are forwarded to the sponsoring Department for review and sign off. The performance of the Chairperson is evaluated independently on an annual basis in line with Central Government guidance.

The Committee completed its annual self-assessment for the year ended 31 March 2022, and the results were formally discussed by the Committee in their meeting in May 2022. NILGOSC aims to adhere to the highest standards of governance when conducting its business and the outcome of the evaluation demonstrates it was effective in doing so over the period. An area identified for improvement was the Committee's gender balance (three Committee members are female), which is a topic the sponsoring Department is aware of and ultimately a matter to be addressed when the Department co-ordinates the next recruitment exercise for new members. The Chairperson sits on the Selection Panel for new members, and potential routes to improve the gender imbalance at the time of the next appointments were discussed.

The Committee Effectiveness Framework states that, in addition to an annual self-assessment, the Committee should also consider an external evaluation of its effectiveness every five years. The Head of Internal Audit completed an external review of Committee effectiveness in May 2019. The next external review is due in 2024.

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. As noted in more detail in Principle 1, NILGOSC has identified seven overarching strategic themes, which form the framework for strategic planning and decision making. One of these is "*Stewardship: Investing responsibility and encouraging good corporate behaviour*."

The Corporate Plan is reviewed and revised annually and, for 2022/23, the strategic objectives linked to NILGOSC's second aim "*to deliver an effective investment strategy in line with the actuarial profile of the fund*" were updated, and now include the objectives:

- to invest scheme funds in accordance with the Statement of Investment Principles;
- to ensure effective stewardship in line with the Statement of Responsible Investment;
- to manage the investment risks posed by climate change; and
- to work collaboratively on investment matters when suitable opportunities arise.

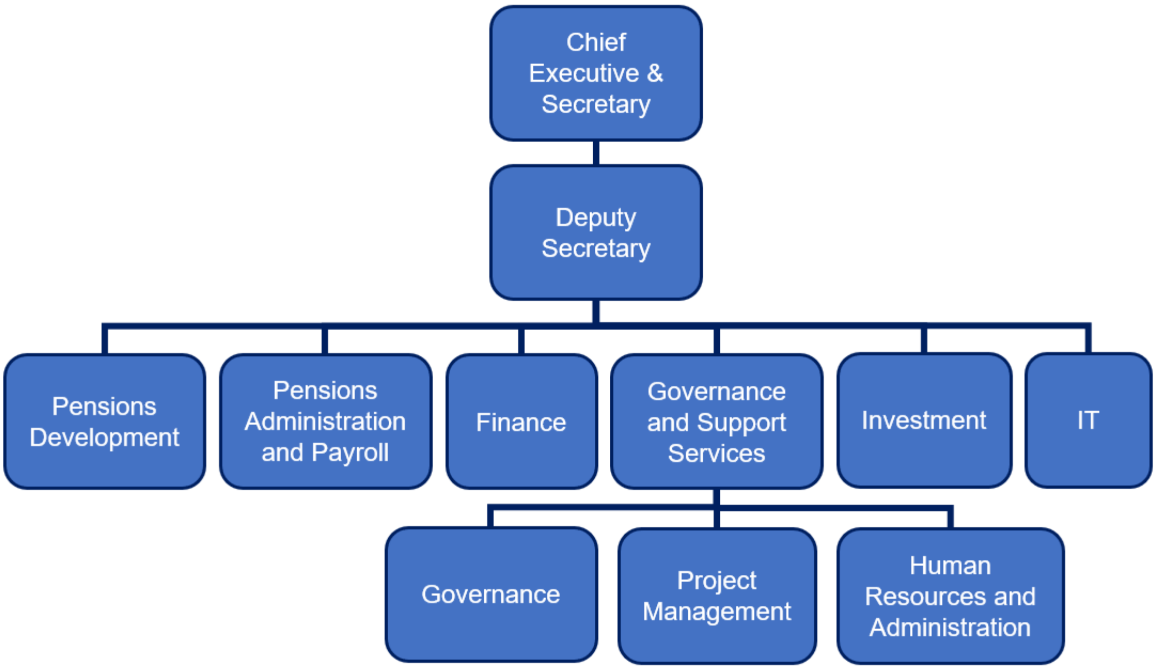
Several new stewardship-related operational actions were added to the corporate plan to assist meeting those objectives, such as producing annual Stewardship and Climate-related disclosures reports, and undertaking carbon intensity and scenario analysis. These actions are in addition to the existing actions to implement the Statement of Responsible Investment and Climate Risk Statement and to collaborate with like-minded investors on ESG matters to support common goals.

The Senior Management Team (SMT) reviews performance against objectives and key performance measures on a quarterly basis, and this is reported quarterly to the Department for Communities and biannually to the Committee. Performance against the Corporate Plan is also reported in the Annual Report at the end of each financial year.

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 six senior managers across each function (Investment, Finance, Pensions Development, Pensions Administration and Payroll, Governance and Support Services, and IT) 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 continuing 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 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 RI 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.

The Secretary, Deputy Secretary, Head of Investment Services, Investment Services Manager and Investment Officer all have specific Responsible Investment and Stewardship obligations written into their appraisal objectives, ranging from delivery of the Responsible Investment objectives as set out in the corporate plan, to representing NILGOSC on relevant responsible investment groups and fora, and identifying third-party stewardship service needs Staff objectives are set each year during a formal appraisal process, and progress made against achievement of those objectives is reviewed by both the staff member and their direct manager on an annual basis (the appraiser). Appraisals are also reviewed and countersigned by the appraiser’s manager for full oversight.

NILGOSC’s status as an NDPB mean that it is required to adopt public sector pay scales, and therefore does not utilise a bonus structure or incentivisation pay as part of its employee reward package.

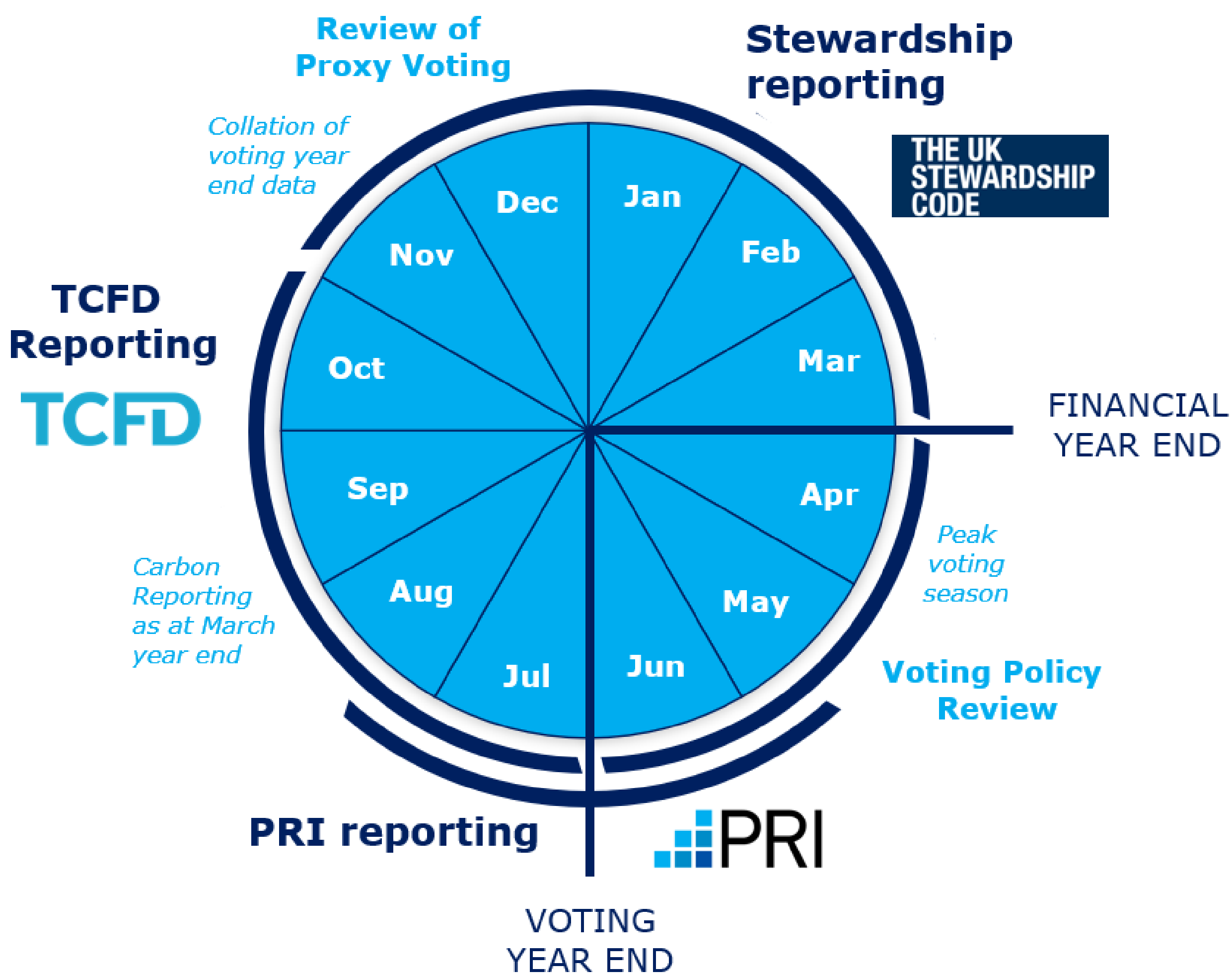
All parties are responsible for implementing the policies that are in place, and adhering to the strict review timelines (under the instruction of NILGOSC’s internal Governance team) at which point all parties review and agree updates, which are in turn reviewed and agreed by the Committee. Responsible 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 and European 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 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 Principles for Responsible Investment (PRI); the CDP (formerly the Carbon Disclosure Project); Climate Action 100+; the Institutional Investors Group for Climate Change (IIGCC); Task Force on Climate-related Financial Disclosures (TCFD); and Occupational Pensions Stewardship Council (OPSC).
- **PRI reporting** (*Principle 10*): NILGOSC reports on its implementation of the PRI's Principles through mandatory annual reporting. Although there was no reporting cycle in 2022, NILGOSC will resume reporting against the Principles when the next reporting cycle opens in May 2023.
- **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, in November 2021, and committed to doing so annually. The report for the year ended 31 March 2022 was published in December 2022.

- **Class actions** (*Principle 11*): NILGOSC takes part in class actions against investee companies where there have been corporate governance failings, which serves the benefit of both maximising income from scheme assets, 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, as laid out in Table 1.

Table 1 sets out the asset type and managers in place as at 30 June 2022, in addition to the (unaudited) percentage of assets invested with each manager at this date.

Asset Class	Manager	30.06.2022
Global Equity	Baillie Gifford Unigestion	5.1% 4.94%
Emerging Market Equity	William Blair	2.1%
Passive Funds	Legal & General Investment Management	41.91%
Absolute Return Bonds	Royal London Asset Management T. Rowe Price	7.57% 7.82%
Multi Asset Credit	BlueBay PIMCO	6.76% 6.07%
UK Traditional Property	LaSalle Investment Management	5.42%
Index Linked Property	LaSalle Investment Management	3.24%
Global Property	CBRE Global Investment Partners	2.41%
UK Residential Property	M&G UK Residential Property Fund	1.17%
Infrastructure	Antin Infrastructure Partners KKR Infrastructure DIF Capital Partners Copenhagen Infrastructure Partners IFM Global Infrastructure Partners[1] iCON Infrastructure Partners[1]	1.39% 0.64% 0.45% 0.17% 0.00% 0.00%
Other (*including co-Investments and cash*)	Various	2.84%

NILGOSC requires its managers 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.

[1] As at 30 June 2022, commitments had been made to infrastructure funds managed by IFM Global Infrastructure Partners and iCON Infrastructure Partners, but funds had not yet been drawn.

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 are: 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 utilising segregated mandates 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 the results. NILGOSC does not require managers to operate exclusion lists, although some of its managers do so.

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 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 both conflicts and potential conflicts of interest, and the procedures and controls that have been adopted to prevent or manage 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, a number of NILGOSC's managers report annually (or biannually as required), including disclosing their procedures for dealing with conflicts of interest. For example, extracts of Baillie Gifford and T. Rowe Price's reporting follows:

Extract of: *SRD II reporting*
Investment Manager: *Baillie Gifford (Equity manager)*
Conflicts of Interest
Baillie Gifford maintains a firm-wide Conflicts Matrix, which identifies conflicts and potential conflicts of interest that exist within the firm, and the procedures and controls that have been adopted to manage these conflicts. Baillie Gifford's firm wide conflict of interest disclosure is available in the Important Disclosures area of our website.

We recognise the importance 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 Environmental, Social and Governance (ESG) team is responsible for monitoring these possible material conflicts of interest.

Extract of: *SRD II reporting*

Investment Manager: *T. Rowe Price (Fixed Income manager)*

Conflicts of Interest:

Generally speaking, the ownership structure of our company serves to eliminate certain categories of potential conflicts of interest with regard to our stewardship activities. At T. Rowe Price, our overarching approach to dealing with potential conflicts of interest is to resolve them in the manner that solely takes into consideration the interests of our clients. With regards to engagement activities, we believe the most likely source of any potential conflicts between the interests of our firm and the interests of our clients would arise in the context of proxy voting or engagement. Our publicly disclosed Proxy Voting Policies and Engagement Policy offer details about how we manage such potential conflicts of interest. In addition for separately managed accounts, if T. Rowe Price received voting instruction from the account owner which may give rise to conflicts of interests in T. Rowe Price's opinion, this will be reported to the clients for discussion before execution.

LGIM, who manage NILGOSC's passive funds (accounting for 41.91% of Fund assets as at 30 June 2022) provided the following case study, examining a conflict encountered over the period:

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

Case Study: *American International Group (AIG).*

AIG is a global insurance company, providing property casualty insurance, life insurance, retirement solutions and other financial services to customers in approximately 80 countries and jurisdictions.

Background: *AIG had failed to both: put a thermal coal policy in place, or to disclose scope 3 emissions associated with investments. As a result, LGIM was set to vote against AIG's Chair of the Board (as an escalation of their climate engagements under their Climate Impact Pledge), as well as divest it from a range of sustainability-focused funds.*

Potential conflict: *Both LGIM's active and index funds are invested in AIG's shares and bonds. LGIM's parent company, L&G Group, has commercial relationships with*

AIG, and the decision by LGIM to publicly announce its voting and divestment intention had the potential to raise internal concern.

Resolution: *Over the course of the year, within appropriate timeframes, and through discussion within the Global Research & Engagement Groups, colleagues in the Active Strategies team were made aware of LGIM's concerns with AIG's progress. LGIM's Climate Impact Pledge report has its own rigorous governance structures in place to ensure that decision-making is not influenced by factors external to the assessment framework. Individuals with potential conflicts are not included in the review process. But once the Pledge report was published, the Investment Stewardship team met with L&G Group and their counterparts in AIG to explain the assessment framework and escalation process under the Pledge. This approach helps improve understanding across all stakeholders and reduces the potential for conflicts to arise.*

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 2022, the Code of Conduct for Committee Members was reviewed and updated, and a new, separate

Conflicts of Interest Policy was created to comply with Department of Finance (NI) guidance. Both were adopted by the Committee on 24 May 2022, and will be reviewed in May 2025, unless there are any changes to best practice guidance or legislative changes that require a review before then. The Committee Code of Conduct was also approved by NILGOSC's sponsoring department, the Department for Communities (Northern Ireland).

At the end of the period, one conflict of interest was noted. At the June 2022 Management Committee meeting, the Secretary highlighted a potential conflict of interest for NIPSA officials in relation to approval of staff policies. The Committee discussed the potential conflict of interest and agreed to defer the approval of the Grievance Policy, the revised Policy on Employer's discretions and the Staff Code of Conduct, and to seek advice on the matter. Following the receipt of advice from Onboard, a third-party which provides support services to board members including training and guidance, it was agreed that such issues could be appropriately managed, seeking advice from the Department for Communities as required.

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

The Committee Code of Conduct and Conflicts of Interest Policy 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. 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 sub-committee of the Management Committee, prior to submission to the full Management Committee for approval.

NILGOSC outsources its internal audit function to ASM Chartered Accountants (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 completed its latest formal strategic review of its investment strategy in 2021. The review was informed by the current funding position, as well as future capital market and demographic expectations. The focus of the 2021 review was to pause and assess the strategy that had been set in 2017 and was in the final stages of being deployed, to ensure that it continued to be appropriate for the Fund. The review concluded that the strategy adopted in 2017 remained suitable, but that further action was still required to bring the Fund in line with the agreed asset allocations. Risk based statistics, primarily Value at Risk (VaR), form a key component when modelling and selecting the preferred investment strategy.

Sustainability was a key focus during the review, which critically assessed NILGOSC's existing investment strategy in the context of current economic conditions and expected future investment returns. The review addressed further integration of ESG into the strategy, ensuring that NILGOSC's responsible investment policy remains embedded in decision making, as well as taking steps to mitigate climate risk in the Fund.

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 criterion 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.

T. Rowe Price (TRP) manage an Absolute Return Bonds mandate for NILGOSC, managing 7.82% of the Fund's assets as at 30 June 2022. Their approach to Climate Risk is described below:

TRP's practice is to embed ESG factors throughout the investment research platform. When it comes to evaluating climate change risks or opportunities, TRP relies on a combination of fundamental analysis (by analysts and portfolios managers), thematic research (by the Responsible Investing team) and their proprietary Responsible Investing Indicator Model (RIIM) analysis. RIIM analysis provides two key benefits: it proactively searches for environmental indicators and controversies on companies and sovereign issuers; and it provides a framework for evaluating environmental factors, aiding the comparison of securities within the investment universe.

Key areas within the Corporate RIIM assessment include: Energy transition; Physical risk; Biodiversity impact; Circular economy contribution; Land use; Water use; Track record on environment; and Accountability and transparency for ESG (including climate change).

For sovereigns, climate change is a complex issue to address from an investment perspective. Impacts may be revealed through gradual shifts over many decades, or as binary events, and TRP believe the impact on financial markets is still only in its very early stages. When considering the impact of climate change on sovereign bonds, TRP see two key areas of focus:

- *How the country will be impacted by climate change itself (i.e. temperature fluctuation, sea level rise, higher storm risk); and*
- *How the country's economic forecasts will be impacted by regulation intended to mitigate climate change.*

TRP believe that RIIM is a useful tool as it proactively and systematically identifies climate change considerations beyond greenhouse gas emissions alone, as they believe that other climate change factors (eg. water availability, air pollution, waste management and health of local ecosystems) are more likely to be catalysts for regulatory change.

Unigestion manage a low volatility global equity portfolio for NILGOSC, managing 4.94% of the Fund's assets as at 30 June 2022. Their approach to Climate Risk is described below:

Unigestion believes climate risks are very different from other investment risks, and have developed an approach to explore the different low carbon transition pathways at the company level, allowing them to better understand the risk exposure of every stock in their portfolios. Doing so has also included enhancing their engagement questions to better understand the resilience of each portfolio company.

Stranded assets are an example of transition risk. Unigestion are seeking to create portfolios that are resilient to climate change; and believe that divestment from fossil fuel production or other carbon intensive activities is not only aligned with a 2°C global objective, but also makes sound financial sense. With that in mind, and in line with the aims of the Paris Agreement to reduce greenhouse gas emissions, Unigestion utilises an exclusion across all equity portfolios of any company 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, Unigestion is working on developing a carbon scenario analysis methodology to identify the impact of different trajectories on their portfolios, in terms of allocation, risk/return profile and carbon intensity control. The manager is 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 achieving 2°C, or below 2°C, of warming (trajectory data).

Collaboration as a form of risk management

During the reporting period, NILGOSC: was a signatory to a letter to the Financial Times on "Woke Capitalism", encouraging companies that better management of carbon risks and constructive engagement is beneficial to long term value creation; signed to an open letter to companies, drawing their attention to the IIGCC's Investor Expectations on Physical Climate Risks and Opportunities; and joined the Pensions and Lifetime Savings Association (PLSA), Investment Association (IA) and Association of British Insurers (ABI) Working Group to help UK pension schemes meet their obligations under the Climate Change Governance and Reporting Regulations, by developing a Carbon Emissions template for asset managers to complete. NILGOSC also continued its support for various global climate initiatives including the CDP's 2021 and 2022 Non-Discloser, Climate Change, Water and Forests campaigns. During the reporting period, NILGOSC also signed up to support various collaborative initiatives which launched later in 2022, including the 2022 Global Investor statement on the Climate Crisis and the Science Based Targets initiative. More detail regarding collaborative engagements is provided under Principle 10.

NILGOSC believes that such engagement 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, influential and transparent investor. Throughout 2021/22 NILGOSC continued to use its voting rights (as detailed under Principle 12) 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 with the power to address climate change should not be underestimated if the goals of the Paris Agreement are to be met.

NILGOSC has been an official supporter of the Task Force on Climate-related Financial Disclosures (TCFD) since June 2020. It was an initiative created to improve and increase the reporting of climate related financial information. Although it is not yet mandatory, NILGOSC committed to reporting against its recommendations on an annual basis, and in order to do so, undertook a second carbon analysis of the Fund as at 31 March 2022 (publishing the report in December 2022). MSCI ESG Research LLC (MSCI) were engaged to perform the analysis and in addition to the standard metrics, the Climate Value-at-Risk of the portfolio was also assessed in various scenarios, in order to help determine the resilience of the strategy. It was not possible to analyse the Fund’s property, infrastructure or passive index-linked gilt investments, meaning that in total MSCI were able to assess 49.8% of the fund at year end, providing a forward-looking assessment of approximately half of the portfolio. NILGOSC will 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.

Operationally, policies are first reviewed by a suitably knowledgeable officer within the NILGOSC team with whom responsibility for the policy sits. For example, the Investment team are charged with responsibility for the Statement of Responsible Investment and the Governance team are responsible for the Conflicts of Interest Policy. More information on the teams and lines of reporting is provided under Principle 2. Following initial amendments, for example, in order to comply with policy changes, legislative updates, to incorporate feedback from advisors or service providers, a review and further amendments are made by the relevant Senior Manager.

Following that level of review and sign off, updated policies or statements are sent through to the Deputy Secretary for approval (or amendments). The Chief Executive & Secretary will provide the next level of review and oversight. If required, which is often the case for investment or governance related policy changes, updated policies or statements will be brought to the Management Committee for review and to seek approval (except in the case of only minor changes). As laid out under Principle 2, the Committee includes five members nominated by employers' organisations and five members nominated by employees' organisations. Therefore, this process provides a level of assurance that the outputs are fair, balanced and understandable, with input from representatives of the Fund's stakeholders.

Further, all policies are shared online and available to review on NILGOSC's website. NILGOSC is committed to making its website accessible, in accordance with the Public Sector Bodies (Websites and Mobile Applications) (No. 2) Accessibility Regulations 2018, as amended (the 'accessibility regulations'). As a result, all documents issued post 23 September 2018, must comply with accessibility regulations, as audited by Shaw Trust Accessibility Services.

The same approach is utilised for NILGOSC's reporting: both of the annual TCFD aligned reporting and Stewardship reporting are prepared by the investment team, reviewed by the Secretariat, and presented formally to the Management Committee for final review and sign off prior to publication. The documents are also written in compliance with accessibility regulations.

All responsible investment related policies are reviewed at least every three years (or more frequently as required).

Table 2 lays out the last review date and frequency of formal review for each of the investment related policies.

NILGOSC Policy/Statement	Frequency of formal review	Last reviewed
Statement of Investment Principles	Triennially	November 2021
Funding Strategy Statement	Triennially	April 2022
Statement of Responsible Investment	Triennially	June 2020
Climate Risk Statement	Triennially	November 2019
Voting Policy	Annually	June 2022
Conflicts of Interest Policy	Triennially	April 2022
Code of Conduct for Committee members	Triennially	April 2022

NILGOSC's 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 Voting Policy was most recently reviewed in June 2022 and approved by the

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

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. NILGOSC commenced a simultaneous review of the Statement of Responsible Investment, Climate Change Statement and Voting Policy in late 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 TCFD and to commission a carbon analysis of its portfolio by an experienced third-party data provider, in order to help it do so. NILGOSC's first Climate-related Disclosures Report, prepared in alignment with TCFD recommendations, for the year ending 31 March 2021, was approved by the Committee on 23 November 2021. The second report, for the year ended 31 March 2022, was approved by the Committee in December 2022 and published on NILGOSC's website. Disclosures are organised around the TCFD's four thematic areas, representing the core elements of how organisations operate: governance; strategy; risk management; and metrics and targets. It is not yet mandatory for NILGOSC to report, however, reporting against the recommendations has become part of the regulatory framework in the UK (amongst many other countries) coming into force for Occupational Pension Schemes in the UK in 2021.

The consultation for equivalent regulations for Local Government Pension Schemes in England and Wales ended in November 2022, and are expected to come into force shortly as part of the growing global effort to address climate change.

Full implementation of the TCFD reporting framework can take many years, with learnings along the way which help reporting bodies adapt and optimise disclosures. Therefore, NILGOSC's publication of its second report built upon the context and disclosure provided for the prior year, helping it get ahead of the regulatory curve. The report is available at: Climate-related-Disclosures-Report-31-March-2022.pdf

Working alongside MSCI, it was possible to analyse just under 50% of the Fund's holdings at financial year end (primarily composed of NILGOSC's active and passive equity holdings). The portion of the Fund that could be measured, compared very favourably to the benchmark comparison, and when compared to the prior year emissions figures, demonstrating how the transition of £2.8 billion of passive equities from multiple mandates tracking various global indices, to one which tracks only the climate-tilted 'Solactive L&G Low Carbon Transition Developed Market' index during the reporting period, demonstrating as a binary event the effectiveness of the activity.

The results of engagement and stewardship activity can be difficult to quantify. For example, engagement can take a number of years before requested changes materialise and that can be a function of other contributing factors, or in the case of carbon footprint data, different allocation bases or differing assumptions by data providers can result in disparities. For that reason, there will be challenges ahead for asset owners and asset managers to provide external assurance on the effectiveness of their stewardship activities. The compilation of the annual stewardship report is a useful tool in bringing together each strand of an organisation's activities over the period and providing management and other stakeholders the opportunity to review activity in the round. Continued and improving disclosure year on year will undoubtedly assist in monitoring effectiveness on an organisational basis. Furthermore, learnings gained through collaboration and comparison with peers will also assist in developing more effective engagement methods. NILGOSC believes that transparency is an important tool, making policies, statements and reports available on its website for all stakeholders or interested parties to review.

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

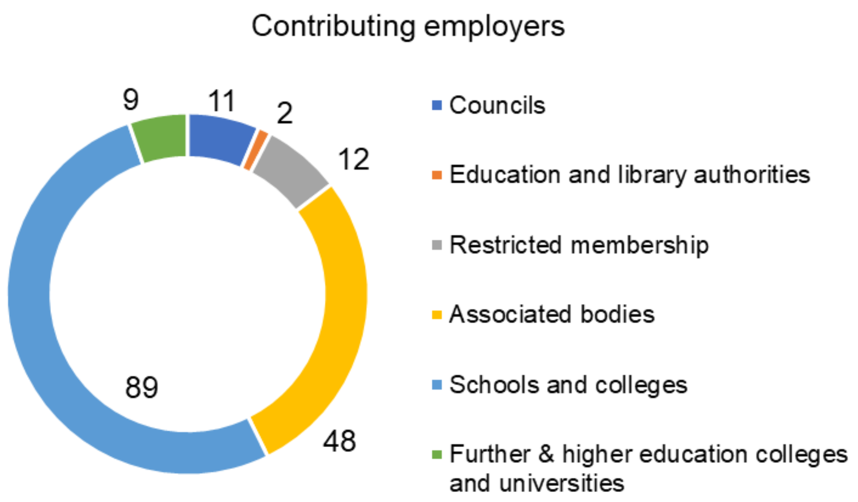
NILGOSC was set up in April 1950 to operate a pension scheme for the local councils and other similar bodies in Northern Ireland. The pension scheme is a defined benefit scheme, providing retirement benefits on a 'career average revalued earnings' basis from 1 April 2015. Prior to that date benefits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

NILGOSC is the administrator of the pension scheme. Although it is an 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 audited value of the Fund at 31 March 2022 was £10.231bn (2021: £9.795bn).

At 30 June 2022, 171 (2021:172) bodies were contributing to the pension scheme and the Fund had a membership of 154,614 (2021: 143,451) which was composed of: 75,606 contributing members; 41,934 pensioners; 31,145 deferred members; 3,681 undecided leavers; and 2,248 unclaimed refunds.

Most of the 171 contributing employers are public sector:



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.

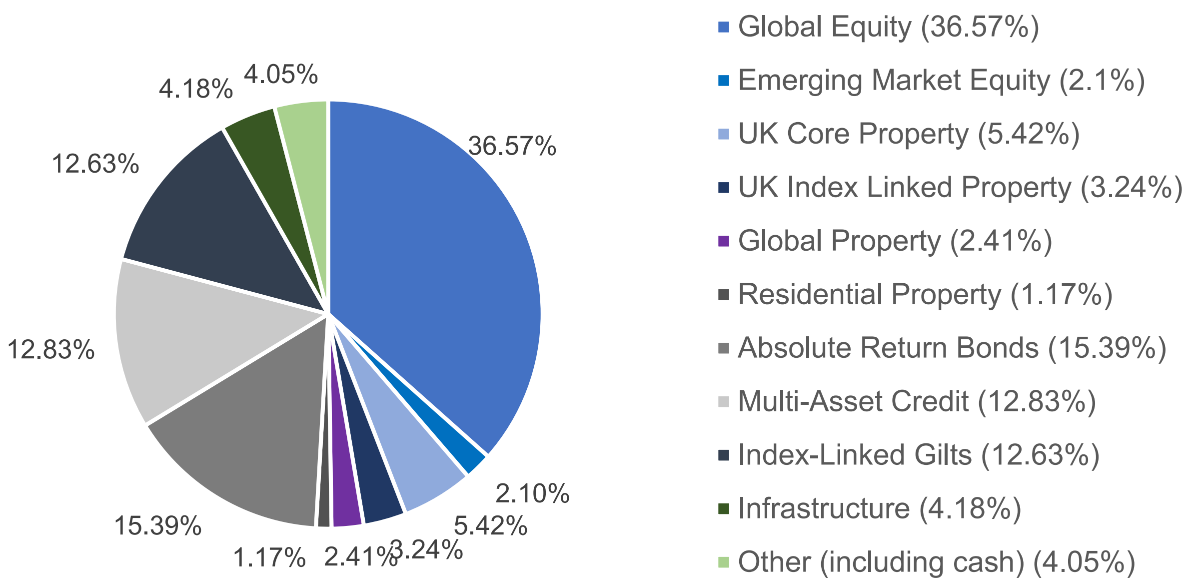
In setting the Fund's investment strategy, NILGOSC first considers the lowest risk strategy that it could adopt in relation to meeting the Fund's liabilities. The investment strategy is designed to achieve a higher return than the lowest risk strategy, while maintaining a prudent approach to meeting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

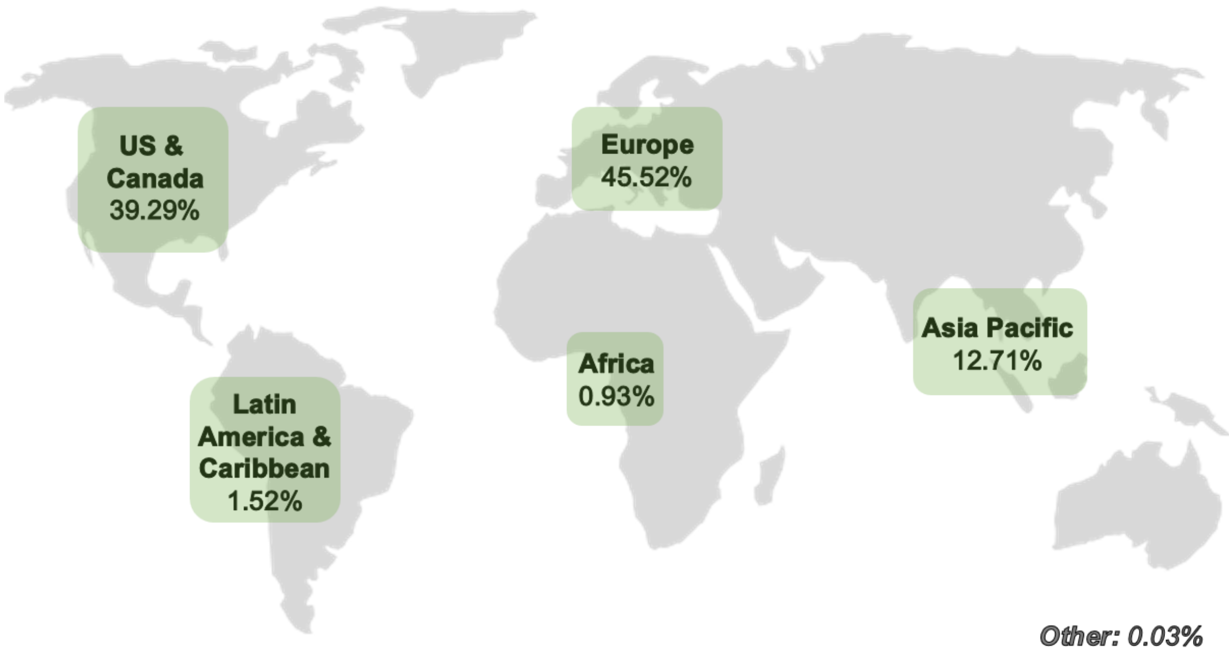
The Fund is currently cashflow positive, meaning the pension scheme's income is greater than its expenditure, and the fund was in surplus at 30 June 2022, meaning that the Fund's assets are in excess of its liabilities. The last actuarial valuation was carried out as at 31 March 2022. The overriding purpose of the exercise is to value the assets and liabilities of the Fund (as required by regulation) and to set contributions payable by each employer in the Fund. Different discount rates are adopted depending on employers' circumstances, including the likelihood of exit and what would happen to the liabilities on exit, and prudence in the valuation is achieved by using discount rates which have a materially 'better than evens' chance of being achieved by the Fund's assets. Risks which could affect the Fund's future cashflows and funding position are considered, including funding risk, regulatory risk, investment risk, and even those relating to climate change and other environmental issues as well as long-term uncertainty around geopolitical, societal, and technological shifts. It is now mandatory to also undertake climate risk scenarios to test the resilience of the Fund and consider the long-term exposure of the Fund to climate-related risks.

The chart below shows the Fund's unaudited asset allocation as at 30 June 2022:



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; and more information as to how NILGOSC monitors managers and their performance (including stewardship activity) is addressed under Principle 8.

A geographical breakdown of the Fund's assets (excluding cash and cash equivalents) as at 30 June 2022 is shown below:



Stakeholder considerations

Communication and member engagement remains a strategic priority for NILGOSC, and it continues to monitor member satisfaction and behaviour. NILGOSC maintains a Communication policy outlining how it will communicate with members, representatives of members, prospective members and employing authorities. 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 35,251 unique members registered at 30 June 2022. Pension benefit statements were delivered to active and deferred members electronically for the first time in 2021.

A stakeholder satisfaction survey was undertaken in February 2022 to measure the satisfaction levels of active members, pensioners and employers. The total satisfaction rating for the year was 91% (2020/21: 90%). NILGOSC does not explicitly take into account the views of members and beneficiaries in relation to ESG 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. During the period covered by this report, NILGOSC's Chief Executive & Secretary continued to engage with local councils directly with respect to calls for divestment from fossil fuel holdings. In September 2021, he presented virtually to the Assembly's All-Party Group on Climate Change 2021, on the theme of Fossil Fuel Divestment.

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 May 2022) 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. Please refer to Principle 8 for more information on how managers are monitored.

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*

Case Studies: *CATL and Ginkgo Bioworks*

CATL: *During the third quarter of 2021 Baillie Gifford took a holding in CATL, the Chinese manufacturer of lithium-ion battery cells. CATL enjoys a dominant market share both in cathode chemistries and form factors, which are poised to grow through electric vehicle (EV) uptake and energy storage. The company is a 'national champion' in China, which is the world's largest EV and electricity generation market, and it is well aligned with the state's decarbonisation objectives and emphasis on Chinese self-sufficiency in the hard sciences and technology. Baillie Gifford like the magnitude and likely long duration of the growth opportunity combined with CATL's market leadership, which they believe can prove defensible thanks to the company's partnerships with traditional automakers (e.g. Volkswagen and Ford) who are making the shift to electric vehicles, and relying on CATL's cell-to-pack battery technology to do so.*

Ginkgo Bioworks: *In the first quarter of 2022, Baillie Gifford then purchased Ginkgo Bioworks. The potential for this synthetic biology company to help companies create new, superior materials, or to lower the environmental impact of existing ones, is vast. For example, helping pharma discover and engineer new antibodies, nitrogen-fixating microbes for agriculture and molecules that enable new tastes and textures for plant-based foods.*

- Fixed Income

Climate considerations have impacted decisions in the BlueBay portfolio, which are illustrated in the example:

Investment Manager: *BlueBay*
Case Study: *Tallgrass Energy (TEP)*

TEP is a midstream energy company which specialise in transporting natural gas and crude oil from production areas to demand areas. TEP own and operate: more than 8,300 miles of natural gas pipeline; more than 850 miles of crude pipeline; and more than 350 miles of water pipeline across a broad portion of the USA. The company received a 5-star rating from the Global Real Estate Sustainability Benchmark (GSESB). Additionally, TEP is moving to expand into Energy Transition including CO_2 sequestration and Hydrogen.

Engagement: *BlueBay held a call with TEP's Chief Financial Officer to discuss the company's plans to convert its Trailblazer natural gas pipeline, into a carbon dioxide service, and ship CO_2 from an Archer-Daniels-Midland corn-processing plant in Nebraska to a permanent underground storage hub in Wyoming. The pipeline will connect to Tallgrass' recently announced CO_2 sequestration hub in eastern Wyoming. That facility is anticipated to start service in 2024.*

Next steps: *Following BlueBay's engagement with the issuer, their post-engagement view was positive and demonstrates TEP's focus on the Energy Transition. The issuer is now deemed suitable to be held in ESG-orientated strategies. Going forward, BlueBay is looking for the company to provide further disclosure into its Solar, Renewable Natural Gas, CO_2 and Hydrogen projects. The details were expected to be included in their first sustainability report for 2022.*

- Property

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

Investment Manager: *LaSalle Investment Management*

"Our Global Sustainability Goals are:

- *Reduce the environmental impact of our business*
- *Reduce the environmental impact of our clients' real estate holdings*
- *Exceed local environmental regulations where appropriate*
- *Drive thought leadership and innovation on sustainable property investments*
- *Collaborate with clients, tenants, property managers, and other service providers to provide sustainable management of properties.*

We have established a Global Climate Risk Committee to oversee incorporating climate risk specifically in all investment activities and to address the requirements of the TCFD. A key method that we use to assess the effectiveness of our ESG policies is annually submitting funds to GRESB (the independent global real assets ESG benchmark). In Europe, we were thrilled to retain top 5-stars scores for Encore+ and E-REGI in 2022."

Investment Manager: *M&G*

Enhanced due diligence requirements impacting investment decisions can be seen in the recent acquisition of two senior living assets. The review of the carbon performance using the Carbon Risk Real Estate Monitor tool (CRREM) showed no undue concern with stranding risk before 2040. The technical review identified a number of features and initiatives demonstrating good ESG performance:

- *The building includes a highly efficient gas source combined heat and power (CHP) system. The gas supply is a renewable source, via Biothane 'green gas'. The buildings' air conditioning system is capable of using both imported energy and onsite electricity generation produced by the CHP (improving overall system efficiency).*
- *The buildings' timber frame panels and floor cassettes provide low thermal mass, combined with full fill wall insulation and good airtightness, allowing units to warm quickly and lose heat slowly - reducing the need for heating.*
- *Resident corridors are cooled using passive stack ventilation technology via the smoke shaft and automatic smoke vent system.*

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

NILGOSC's formal monitoring in the year to 30 June 2022

Over the 12 months to 30 June 2022, the Committee were presented with the papers laid out in Table 3, for note or approval.

Table 3: Committee meeting dates and the investment-related papers presented.

Meeting Date	Committee Paper
August 2021	• Investment strategy 2021 • CBRE Manager presentation (G*lobal property*) • 2021 Alternative Investments Briefing Note
September 2021	• T. Rowe Price Manager presentation *(ARB)* • Performance Assessment of Investment Advisors • Implementation of the Investment Strategy • Low Carbon Passive Equity Portfolio • 2021 Q2 Investment Advisor's report on quarterly performance • 2021 Q2 Monitoring scorecard for investment managers
November 2021	• PIMCO Manager presentation (*MAC*)
December 2021	• Unigestion Manager presentation (*Global equity*) • 2021 Q3 Investment Advisor's report on quarterly performance • 2021 Q3 Monitoring scorecard for investment managers
January 2022	• BlueBay Manager presentation (*MAC*) • William Blair Manager Presentation (*Emerging Markets equity*)
February 2022	• LGIM Manager presentation (*Passive funds*)
March 2022	• 2021 Stewardship Report • Baillie Gifford Manager presentation (*Global equity*) • 2021 Q4 Investment Advisor's report on quarterly performance • 2021 Q4 Monitoring scorecard for investment managers
May 2022	• RLAM Manager presentation *(ARB)* • ESG Governance paper
June 2022	• LaSalle Manager presentation (*UK Core and Index-linked property*) • 2022 Q1 Investment Advisor's report on quarterly performance • 2022 Q1 Monitoring scorecard for investment managers

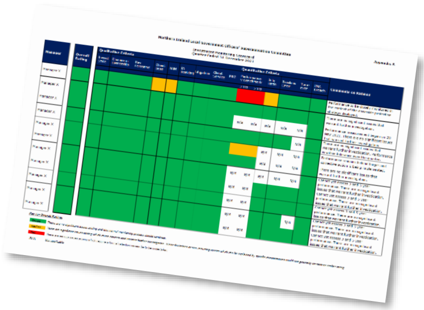
Investment Managers

All of NILGOSC's 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 criterion. Should the scorecard generate an overall 'red' rating, then a formal retention review is triggered. NILGOSC also takes advice from its investment advisor, Aon, and thereby retains conviction in the underlying investment process adopted by its asset 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.

Once a year, the Committee receives an annual briefing report on each individual investment manager prepared by the Head of Investment Services and based on the investment team's engagement with and monitoring of the manager over the course of the year. The briefing reports provide an overview of performance, highlight both the positive performance, as well as any ongoing issues, breaches or areas of concern. The briefing report is followed by a presentation delivered by the individual investment manager, which includes a dedicated section on ESG performance and provides the Committee with an opportunity to engage directly and ask the manager questions.

During the reporting period, the Committee discussed the scheduling of manager presentations and the potential need to expand the agenda to include greater focus on ESG issues. The Chief Executive & Secretary was tasked with identifying suitable options and presented a paper at the May 2022 meeting, summarising how NILGOSC holds its investment managers to account on ESG issues and giving Committee members options on further ways to challenge this. The Committee agreed to:

- Ensure that the verbal presentation by the manager covers any specific ESG issues identified by the Investment team;
- Skew proposed questions more towards ESG matters, perhaps especially when performance is in line with or ahead of expectations; and
- Adjust the agenda running times when there are ESG matters that could need more time to discuss.

Fund Managers

In addition to investment managers, NILGOSC also invests a small portion of its assets (4.18% of the Fund as at 30 June 2022) with fund managers, with whom NILGOSC enters into a Limited Partnership Agreement, with little scope for bespoke terms and conditions. Before entering such arrangements (eg. infrastructure funds), thorough due diligence (DD) is carried out by NILGOSC and other third parties, such as NILGOSC's investment advisor, and appointed tax and legal counsel. For example, during Q1 2022, the Committee approved the investment of £100m in IFM's open-ended Global Infrastructure Fund. Aon introduced the opportunity to NILGOSC, supporting investment in the fund, and the alignment of responsible investment approach was considered as part of the DD process. IFM is a founding partner of the Net Zero Asset Managers initiative, which aims to galvanise the asset management industry to commit to a goal of net zero emissions. Furthermore, IFM have been a PRI signatory since 2008, and contribute to PRI working groups on the Just Transition and human rights.

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

Bespoke ESG reporting

During the 12 months to 30 June 2022, NILGOSC has continued to work with its Investment Managers to improve quarterly reporting with regards to ESG integration and stewardship, especially in relation to Climate Risk. Reporting requests are tailored to the different asset classes. For example, while all managers are asked about the portfolio's carbon footprint, active equity and fixed income managers are asked to provide examples of ESG integration and engagement for the quarter; property managers are 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 is asked to provide voting records. Managers are 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 are able to provide this information readily, NILGOSC has worked with others 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 is undertaken as part of the contract management, which took place in December 2021. The review includes a discussion of both what has gone well over the period, and areas that need improvement going forward.

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.

Both: NILGOSC's investment advisor, Aon; and NILGOSC's infrastructure co-investment partner, LPFI Ltd, are assessed against predetermined criteria, and the assessments are carried out to a March year end. The results for the period to 31 March 2022 were presented to the Management Committee in September 2022.

In alignment with best practice, the strategic objectives against which both advisors are assessed are reviewed on a triennial basis, with the next review due in advance of the 2023/24 reporting cycle.

One of the objectives against which Aon is assessed is: ‘To provide clear and relevant advice on ESG issues and specifically climate risk’. Aon are aware of NILGOSC’s focus on ESG, and work with the investment team, adjusting the type and level of support that NILGOSC requires depending on the engagement. For example, the implementation stage of the 2021 Review of Investment Strategy included a focus on incorporation of the Committee’s views on responsible investment, with one of the outcomes being a recommendation to switch passive equities to a Low Carbon Transition Fund managed by Legal & General. As a significant portion of the Fund’s equity is held passively, prior to the move no active decision-making could be undertaken. However, a decision can be made in the selection of which index to track. Therefore, as a means of mitigating climate risk in the Fund’s passive equity portfolio, £2.8bn of investments were transitioned in February 2022 to a fund which tracks the ‘Solactive L&G Low Carbon Transition Developed Market’ index and seeks to replicate the performance.

The strategy behind the index is to self-decarbonise by reducing exposure to carbon emissions over time. The index aims to reduce carbon intensity by 70% relative to the starting universe at the outset, and to reach the goal of achieving Net Zero carbon emissions by 2050, along a decarbonisation pathway of 50% at the outset and a further 7% each subsequent year. The universe of holdings within the index covers all developed markets but is slightly reduced by three exclusions: companies that derive 20% of their revenue from thermal coal mining and power generation; companies in perennial beach of the UN Global Compact; and manufacturers of controversial weapons. Each holding within the remaining universe is assigned a climate score, based on three main indicators: emissions intensity; reserves intensity; and green revenues. Using the overall climate scores, an adaptive tilt away from climate laggards and towards climate leaders is applied to capital allocation within the index.

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 highlighted two cases where they felt that companies have made encouraging progress following engagement:

Investment Manager: *Baillie Gifford*
Case Study: *Cloudflare Inc*
Engagement: *Baillie Gifford engaged with Cloudflare in 2021 to gain insight into its energy sources and carbon footprint activities. Enquiries covered: the company's carbon emissions disclosures; its approach to expanding low-carbon power for its data centres internationally; and whether it could offer customers the choice to route their data according to the type of electricity source (optimising for renewables).*
Results: *After the meeting, Cloudflare released its Scope 1 and 2 carbon emissions data and set out its aspiration to be carbon neutral across its network from 2022. It committed to accelerating the deployment of ARM energy-efficient chips to allow developers to choose the most energy efficient data centres. Lastly, it launched a project to eliminate redundant web crawl that could generate carbon savings equivalent to planting 30 million acres of trees.*

Investment Manager: *Baillie Gifford*

Case Study*: Tesla Inc*

Engagement: *Tesla invited Baillie Gifford to provide feedback on its 2020 Impact Report. The manager asked the company to disclose more about its environmental impacts and ambitions, for example, they requested that it provide further details about its 100% renewable energy goal for its operations and the precise scope of its indirect emissions (Scope 1, 2 and 3[2]). In addition, Baillie Gifford asked whether the company had any emissions reduction and battery recycling targets in place, whether it is considering setting a long-term science-based emissions target and if it could provide an annual figure for the total amount of emissions saved. The manager also asked Tesla to disclose more about its societal impacts and activities, for example, to provide more detail on its supply chain's audit process, disclose company-wide health and safety statistics over time, and explain how Tesla employees benefit from the company's success, including how factory workers share in the value created by the business.*

Results: *Strikingly, Tesla included disclosures on all these requests in its 2021 Impact Report (covering the period to 31 December 2021).*

[2] *Scope 1 covers direct emissions from owned or controlled sources.*

Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company.

Scope 3 includes all indirect emissions that occur in a company's value chain, whether upstream (purchased goods and services, employee commuting etc) or downstream (usage and disposal of a company's products or services).

Engagement can vary by asset class. One of NILGOSC's Multi Asset Credit managers, BlueBay (6.76% of Fund assets as at 30 June 2022) provided some commentary on how engagement differs depending on issuer type

Table 4: BlueBay's summary of how engagement differs based on issuer type.

Issuer types	Observations and Actions
Differences between sub-asset classes (eg. high yield and investment grade)	• May be easier to engage with issuers in **investment grade** (more so than high-yield) due to: typically increased size and resource, enabling them to be more receptive and able to address investor ESG requests and some may have equity listings and therefore good awareness already. • Engagement with **high-yield issuers** can be fruitful though as they have smaller investor bases, so may be more willing to accommodate requests. Holding high-yield issuers to account can be more challenging as they may be less frequent issuers, but engagement is key as they tend to have weaker ESG disclosure and less likely to be covered by ESG data providers. • BlueBay is an active member of the European Leverage Finance Association's ESG committee (to drive better issuer ESG disclosure) and the PRI's ESG in Credit Risks and Ratings Advisory Committee (to drive better ESG reporting and practices across corporate debt issuers).
Emerging markets (EM) vs developed markets	• Accessibility of issuers within EM is one of the key challenges with engagement from both a corporate and sovereign perspective, as typically, EM issuers may be less aware or more resource-constrained than developed market peers. • BlueBay believe engagement is relevant across issuers in all markets and make no distinction in their approach to engagement. While there can be challenges in engaging with EM, such engagement can be particularly useful to help better understand ESG practices where disclosure is weak, as well as to influence for change and best practice.
Conventional public debt vs structured credit	• Engagement is more straight forward when directly investing in a single issuer. In the case of structured credit, although engagement is still possible, the nuances of the asset class must be considered to determine: method of engagement; the level at which engagement is possible; and the degree to which there can be engagement for influence purposes. • When investing in a collateralised loan obligation (CLO), it is more likely that engagement will focus on the CLO manager (to understand their ESG practices and the extent to which such considerations are incorporated into the selection process), than directly with issuers within the pool. And during 2021, BlueBay engaged with CLO managers to understand their approach to ESG at the firm level.

T.Rowe Price, one of NILGOSC's fixed income managers, provided the following example:

Investment Manager: *T.Rowe Price (TRP)*

Case Study: *MercadoLibre (MELI)*

Engagement: *MELI operates online marketplaces dedicated to e-commerce and online auctions, primarily in Latin America. In Q2 2022, TRP engaged with MELI's Chief Financial Officer to: gain a better understanding of the social outcomes generated by the business (including improving access to its financial products); and to convey the importance of improving the carbon footprint of its e-commerce business, strongly encouraging MELI to set a formal commitment to do so.*

Social: *MELI aims to support the distribution of more sustainable products via a dedicated area on its e-commerce site. The company allows merchants to charge a premium for sustainable products and has trialled various programs to help merchants on their journey to becoming more sustainable. Small and medium-sized enterprises (SMEs) have historically been poorly served by banks in Latin America, and MELI has the advantage of strong visibility of the SMEs' business performance through the e-commerce platform, enabling it to provide high-performing loans and credit services to help SMEs grow. MELI expects that, as the share of repeat loan customers grows, it will be able to offer lower annual percentage rates and higher loan amounts, as well as improve debt. TRP encouraged the company to provide transparency on SME loan spreads and how they are expected to evolve. On the consumer lending side, MELI highlighted that its personal loan product, which can drive consumption as well as open avenues for healthier borrowing categories (education, home improvement, etc.) is its best-performing loan category.*

Carbon emissions: *MELI remain reluctant to set emission reduction targets or commit to quantitative targets. However, it has commenced reporting against TCFD (which requires a science-based target) and indicated that it will set a goal in the near term, focusing on the most material drivers, namely: shifting its fleet to electric vehicles and its operations to renewable energy, where possible. Both of which have cost and competition implications. A more recent challenge is also curtailing the carbon impact of MELI's growing cross-border trade.*

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 2022, NILGOSC issued engagement letters to 14 companies, where votes were cast against management recommendations.

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 over the 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.

Table 5: The collaborative engagement bodies with whom NILGOSC are supporters.

Signatory to:	Description:
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 166 of the world's largest greenhouse gas emitters
Member/Supporter of:	**Description:**
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 2022

During the reporting period, NILGOSC participated in a number of collaborative engagements, mainly focused on climate risk and ESG-related disclosure. Engagement is focused at both a government/policy level and a corporate level, as NILGOSC believes both are key in order to help make lasting improvements and act as good stewards. It is not always possible to distinguish specific outcomes as a result of individual calls to action, but with continued engagement and multi-year collaborative campaigns, it is hoped that continued, purposeful dialogue (even one-sided) will achieve to improvements. For example, the CDP report that companies engaged in their annual disclosure campaigns are more than twice as likely to disclose. Collaborative engagements undertaken by NILGOSC over the period include:

- In July 2021, NILGOSC became an inaugural member of the Occupational Pensions Stewardship Council (OPSC), which was established by the Department for Work and Pensions (DWP), to promote and facilitate high standards of stewardship of pension assets. Over the period under review, NILGOSC took part in a number of discussions and workshops with other Responsible Investment professionals, joining a work strand entitled ‘Streamlining Reporting Processes’ with the aim of progressing work to encourage and deliver increased alignment between statutory and voluntary stewardship reporting frameworks. In December 2021, NILGOSC supported an OPSC-facilitated group letter to the largest asset managers calling for asset owners to have more say when it comes to casting votes at the AGMs of companies in which they are invested.

- In September 2021, NILGOSC became 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 urges governments to raise ambition and accelerate action to tackle the climate crisis. Policy advocacy is considered key to helping tackle the climate crisis and advocate collectively for public policy to accelerate the net-zero transition.
- That same month, in September 2021, NILGOSC joined other IIGCC members in signing an open letter to companies, drawing their attention to the IIGCC's Investor Expectations on Physical Climate Risks and Opportunities.
- In February 2022, alongside a number of other UK Pension funds, NILGOSC supported a letter to the Financial Times on "Woke Capitalism", encouraging companies that better management of carbon risks and constructive engagement with stakeholders is beneficial to long term value creation.
- In January 2022, 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 2021 and 2022 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. In the 2022 campaign, NILGOSC was one of 260 supporting participants urging companies to report, and it was a supporting signatory on letters to companies in which it had holdings. According to the CDP's website[3],

  > *"The 2022 campaign demonstrates the impact of direct engagement on corporate environmental actions.*

[3] https://www.cdp.net/en/investor/engage-with-companies/non-disclosure-campaign

  - *Investor power – thank you to the record 260 financial institutions representing nearly US$30 trillion in assets that participated in the 2022 NDC.*
  - *A lasting legacy – 90% of companies that submitted in the 2021 NDC responded again in 2022.*
  - *High impact on high emitters – companies in the transportation and power generation sectors were 4.6 and 4.4 times more likely to disclose, after engagement from their shareholders."*

  The full summary of results is available on the CDP website.

- During the reporting period, NILGOSC joined the Pensions and Lifetime Savings Association (PLSA), Investment Association (IA) and Association of British Insurers (ABI) Working Group to help UK pension schemes meet their obligations under the Climate Change Governance and Reporting Regulations, by developing a Carbon Emissions template for asset managers to complete. On 31 January 2022, the first iteration of the template was released, providing a standardised set of data requests to help the pension funds that use it to understand the environmental impact of their investments. When compiling its TCFD report for the year ended 31 March 2022, NILGOSC requested that all of its investment managers (equities, fixed income, index linked gilts and property) complete the template, to help understand both the availability and limitations of the data set, expecting that the data outputs will strengthen over time. The outputs were compared to a third-party data provider's analysis, and used to aid engagement with the managers.

A full list of NILGOSC's collaborative engagements and stewardship activity since 2007 can be found on its website at: Snapshot of NILGOSC's ESG activity.

Asset managers

During the 12 months to 30 June 2022, 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: *BlueBay*

Case study: *Helios Towers*

Background: *Helios Towers builds and operates telecoms towers in Africa, across cities, townships and remote areas. The business helps facilitate isolated communities to connect to telecom networks and online data (SDG 9: Resilient infrastructure), and they are also committed to recruiting and training local community workers (SDG 8: Sustainable growth), addressing the social element of ESG.A key source of ESG risk is encountered as the business operates in jurisdictions heavily exposed to bribery and corruption. Mitigations include a strong track record in terms of governance, and that the company's shares are listed on the London Stock Exchange and must comply with the listing rules covering areas such as corporate governance, disclosure and transparency.*

Going forward: *The environmental aspect of ESG has significant room for improvement as the business is not very efficient in terms of carbon emissions. Indeed, more remote towers (outside of scope of the electricity grid) use oil or diesel generators, with fuel sometimes transported to the towers by helicopter. Increasingly, solar panels are being used for remote towers (supplemented by oil).*

Engagement: *BlueBay regularly engage with Helios collaboratively, as part of the telecoms workstream by the Emerging Market Investor Alliance. Helios' first sustainability report was issued in March 2021. The company is beginning to address and report on climate, determining what type of targets are appropriate. BlueBay encouraged a thorough analysis of emissions across the entire business chain in order to set a foundation from which to improve, and also encouraged greater community engagement as new towers in remote areas can have a material environmental impact on local communities.*

- Infrastructure Manager:

Fund Manager: *KKR*

Case Study: *Collaborating for Climate Action*

KKR believe that through constructive dialogue and cross-sector collaboration, they can keep themselves accountable for and advance climate action. KKR supports and participates in multiple climate-focused initiatives and industry-groups:

- *The manager has leveraged the TCFD framework to incorporate the consideration of climate-related risks and opportunities in their investment process. In November 2021, KKR declared their public support for the TCFD recommendations, publishing their inaugural Climate Action Report (aligned with the TCFD recommendations).*
- *Additionally, in 2021, KKR joined the Initiative Climat International (iCI), a global community of investors who seek to better understand and manage the risks associated with climate change. iCI is endorsed by the UN PRI, of which KKR is also a signatory. The manager looks forward to sharing knowledge, experience, and best practices with other members as resources are jointly developed to help standardise practices on climate risk-mapping, disclosure, and target-setting in private equity.*

KKR also help lead the Private Equity Working Group formed in 2021 by Ceres, an influential non-profit focused on sustainability issues. The working group aims to effectively address the impacts, risks and opportunities of climate change while aligning investment practices of private equity portfolios with the goals of the Paris Agreement. As part of this effort, the working group will support limited partners and general partners in establishing climate action plans with an aim to achieve net-zero emissions by 2050 by setting interim targets and tracking progress over time.

- Passive Equity Manager:

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

Case study*: Sainsburys*

Background: *LGIM consider ensuring companies treat employees fairly in terms of pay, diversity and inclusion an important aspect of their stewardship activities. As a responsible investor, LGIM advocates that all companies should ensure that they are paying their employees a living wage and that this requirement should be extended to all firms with whom they do business across their supply chains.*

Engagement: *With over 600 supermarkets, more than 800 convenience stores, and nearly 190,000 employees, Sainsbury's is one of the largest supermarkets in the UK. Although Sainsbury's currently paying higher wages than many other listed supermarkets, Sainsbury's recently came under scrutiny for not paying a real living wage. LGIM engaged initially with the company's then-CEO in 2016 about this issue and by 2021, Sainsbury's was paying a real living wage to all employees (except those in outer London). LGIM joined forces with ShareAction to try to encourage the company to change its policy for outer-London workers. As these engagements failed to deliver change, LGIM joined ShareAction in filing a shareholder resolution in Q1 2022, asking the company to becoming a living wage accredited employer.*

This escalation succeeded, insofar as, in April 2022, Sainsbury's moved all its London-based employees (inner and outer) to the real living wage. LGIM welcomed the development. However, the shareholder resolution was not withdrawn and remained on the 2022 AGM agenda because, despite this expansion of the real living wage to more employees, some were still excluded (including contracted cleaners and security guards).

Ongoing: *Sainsbury's increased wages again for all employees in October 2022, and again in January 2023. Store discounts were increased in October and free food during shifts will be extended for a further 6 months of 2023. LGIM report they will continue their engagement with the company.*

Looking forward

During the 2022/23 year, NILGOSC will continue to monitor upcoming opportunities to collaborate, with a view to participation in relevant engagements, particularly those with a focus on Climate risk.

During the period covered by this report, NILGOSC signed up to several initiatives which were launched after 30 June 2022. For example, NILGOSC signed the 2022 Global Investor Statement to Governments on the Climate Crisis, which urges global governments to raise their ambition on climate policy; is a signatory to the CDP's 2022 Science based targets Campaign; and endorsed the PRI's Advance initiative, which has the overall objective of advancing human rights through stewardship.

Other collaborative engagement were ongoing, for example, the Investment Services Manager continued to sit on the PLSA, IA and ABI's working group on asset manager data for TCFD disclosures, working with other pension schemes to continue developing and tailoring the 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.

Unigestion, the global equity manager (who managed 4.94% of the Fund's assets as at 30 June 2022), provided commentary on their approach to the escalation of their stewardship activities:

Investment manager: *Unigestion.*

"We have found that building constructive relationships over time bears more fruit than quickly adopting a more adversarial approach. As such, we often reach out to management in advance of casting votes against them on contentious issues at AGMs. This consultative approach may even pre-empt the need for a vote against management, as was the case in our recent discussions with a Swiss insurer regarding an over-boarded director nominee that subsequently rescinded their candidacy ahead of the vote.

In an engagement with a Finnish engineering company, we escalated our dialogue to the CEO and had a call with company experts in May regarding insufficient independence level on the Board of Directors. We discussed several Governance items in detail and specifically advocated for a greater level of independence at both the Audit and Remuneration Committees. In this instance, the company explained the most recent changes in the board composition as well as on the different committees, which do not fully satisfy our original recommendations but can be considered as progress vs. previous years."

NILGOSC's escalation in the best interests of beneficiaries

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

For example, as a CDP signatory, over the reporting period, NILGOSC participated in the CDP's 2021 and 2022 Non-discloser campaigns, which focus on companies that failed to respond to CDP's climate change, forests and water security questionnaires in previous years. CDP report that companies engaged in the annual campaigns are more than twice as likely to disclose. NILGOSC considers the disclosure of climate risks and opportunities is essential if shareholders are to determine whether the companies in which they invest are adequately addressing the changing climate, and as part of the campaigns NILGOSC signed letters to companies in which it had holdings. More information is provided under Principle 10.

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 2022, NILGOSC received £303,856.19 (2021: £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 Voting Policy (available online) which is reviewed annually (most recently in June 2022). 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 team 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 was alerted to an important vote by one of its investment managers; and, following NILGOSC co-signing 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 2022

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 2022, 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, along with rationale.

In the year ended 30 June 2022, NILGOSC voted at 202 shareholder meetings held by 156 companies (2021:185 meetings held by 163 companies), listed in the following jurisdictions: Denmark, Finland, France, Germany, Netherlands, Switzerland, Japan, Canada, United States, Brazil, China, Hong Kong, India, Indonesia, Mexico, Peru, Singapore, South Africa, South Korea and Taiwan.

NILGOSC voted on 2,310 resolutions (2021: 2,222), and voted contrary to management in 42.8% of resolutions (2021:33.3%).

Table 6: Summary of NILGOSC's voting over 12 months to 30 June 2022

Resolution Category	Total number of resolutions proposed	NILGOSC Dissent	Average Shareholder Dissent**
Audit & Reporting	285	69.8%	2.4%
Board	1,259	33.8%	4.9%
Capital	155	24.5%	4.1%
Corporate Actions	65	12.3%	4.5%
Other	1	100.0%	-
Remuneration	264	81.4%	8.9%
Shareholder Rights	162	13.7%	10.1%
Sustainability	119	63.8%	22.8%
Total	**2,310**	**42.8%**	**6.3%**

** Average Shareholder Dissent calculated from resolutions in respect of which shareholder voting results were available. No poll data was collected for one "Any Other Business" resolution in the 'Other' category at Novartis, as no shareholders proposed an agenda item for consideration.*

During the period under review, ten management-proposed resolutions NILGOSC voted against were defeated (inclusive of two say-on-pay frequency votes in the US) and NILGOSC supported nine 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 sixteen shareholder resolutions concerning environmental practices. These proposals covered topics such as climate change, water risk management and the use of plastics. The environmental proposals received 22.13% average support. One resolution, requesting the adoption of science-based climate targets at Costco Wholesale Corp, was successful.

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. Monthly voting reports also 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 2022

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

- Fixed income:

PIMCO provided a case study describing engagement with a bonds issuer:

Investment manager: *PIMCO*

Case Study: *CPI Property Group*

Background: *A German-Czech Republic commercial real estate company, CPI Property invests mainly in Central and Eastern Europe, a region that is still in the early stages of ESG investing compared to Western Europe.*

Engagement: *Following interactions on CPI's green bond program and ESG strategy, PIMCO shared guidance on best practices when issuing sustainability-linked bonds, including an explicit link to ambitious GHG emission reduction targets.*

Looking Forward: *In January 2022, CPI issued its inaugural Sustainability-Linked Bond, with a strong focus and comprehensive scope on reducing carbon emissions. The company is currently obtaining validation by the Science Based Targets initiative (SBTi) that its emission reduction goal is aligned with the Paris Agreement.*

Impact of Bonds: *Green Bond proceeds to be allocated towards expenditures related to green buildings and energy efficiency projects targeting LEED certifications of Gold or above, and BREEAM certifications of "Very good" or above.*

- Fixed income (continued):

T. Rowe Price 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 to assess the level of creditor protection offered. 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; or alternatively, potential remedies include providing feedback directly to the bond issuer, or requesting amendments to the terms and conditions of the indentures with the syndicate arranging the transaction. When an issuer seeks to amend terms of securities already held (such as to relax or waive covenants), the analyst and portfolio manager assess the 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 act in the best interests of clients to focus exclusively on understanding, negotiating, and maximising legal and economic interests when issuers face difficulty or attempt to impair rights. TRP also have dedicated in-house legal resources and outside advisers in these situations. TRP participates, via the respective analyst and other specialists, in discussions and negotiations with other bondholders and issuers to achieve the best outcome for clients.

- Global Equity

NILGOSC's EM equity manager provided an example of engagement over the period:

Investment Manager: *William Blair*

Case Study: *Locaweb Servicos de Internet SA (Locaweb)*

Background: *William Blair has had an ongoing engagement dialogue with Locaweb since 2020 on identifying materiality, improving disclosures and developing initiatives around talent retention, diversity, and culture. The manager has continued engagement with Locaweb's management and board on a variety of ESG matters throughout 2021 and 2022. One of their stated objectives for Locaweb was to increase the level of transparency for foreign investors, including English language disclosures.*

Engagement: *During 2021, William Blair met with Locaweb twice to follow up on continued progress: in April 2021, management set expectations to publish their first integrated sustainability report in 2022; and in June, William Blair met Locaweb's Head of HR to discuss expectations relating to talent retention and culture progress.*

Results: *The company has developed a broad, structured framework relating to its talent retention strategy, diversity, and inclusion initiatives (including a trainee program, succession planning, and career plan flexibility). In early 2022, William Blair was among a small group of stakeholders who participated in a survey to help identify priorities ahead of the publication of Locaweb's sustainability report. The survey included identifying and prioritising recommendations for Locaweb's materiality framework, based on the UN's SDGs and the SASB framework.*

Ongoing: *William Blair continues to engage with Locaweb on a regular basis.*

- Passively Managed Equities

For passively managed equities, which made up 26.53% of the fund assets at 30 June 2022 (2021:27.1%), votes are cast by NILGOSC's passive manager, LGIM, according to its own voting policies. LGIM provides NILGOSC with quarterly ESG Impact reports, forming part of the quarterly evaluation of their performance. The reports include:

- Summary of activities, including the publication of any new policies and the market-wide engagement and policy work LGIM undertaken during the quarter;

- Examples of the engagement activity undertaken on behalf of clients, naming the companies involved, a summary of issues, explanation of LGIM's response, engagement progress and impact of any subsequent changes at the companies;
- 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 an individual stock basis over a number of categories, such as: alignment with management; votes cast by proposal category; and meetings by market.

LGIM provided an example of their approach to exercising their influence as a shareholder:

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

Case Study: *Lobbying for disclosure at Cardinal Health*

Engagement: *In May 2021, ahead of the 2021 AGM in November 2021, LGIM co-filed a shareholder resolution, together with the Investors for Opioid and Pharmaceutical Accountability (IOPA) members, asking Cardinal Health to annually publish an in-depth report disclosing its direct and indirect lobbying activities and expenditures, as well as its policies and procedures governing such activities.*

Action: *Following engagements with the company, Cardinal Health's board agreed to significantly expand its political contributions and activities reporting, including its approach when a trade association of which it is a member takes a position that differs from the company's corporate view.*

Outcome and next steps: *Given the commitments on additional disclosures, the shareholder proposal was withdrawn ahead of the vote, demonstrating a concrete example of using a shareholder proposal as an engagement tool and demonstrating the positive impact of engagement.*

- Residential Property:

Private residential fund manager M&G provided a snapshot of activity undertaken by the asset management team:

Manager: *M&G*

Case Study: *M&G consider engagement with tenants and the local community on ESG issues to be critical to the success of the Fund, ensuring they understand and respond to the needs of residents (which was reinforced during the pandemic).*

Engagement: *As part of the Fund's overall ESG strategy, the asset management team conduct an annual satisfaction survey of the residents in the portfolio's build-to-rent assets. Within the period, the survey (conducted in Q3 2021) had a response rate of almost 40%, and an overall satisfaction rating across the portfolio of 4.1 out of 5. The survey found that onsite resident service managers (RSMs) are a key driver for high satisfaction ratings, as well as the organised events. M&G's team work with the property manager and onsite RSMs to assess results in order to adjust the service offering and enhance the residents' experience at each asset.*

Social initiatives: *Working with the onsite RSMs, M&G plan programmes of activities and events for residents creating a sense of community and wellbeing, ranging from: regular get-togethers, such as Sunday Brunch, quizzes and movie nights; themed events to celebrate Halloween, Black History month, Diwali, Chinese New Year, St Patricks Day Easter, Ramadan, Pride and Holi; and health and fitness activities, such as free fruit Fridays, regular yoga and fitness classes. At the start of 2022, working with the property manager, M&G commissioned and rolled out mental health training to the onsite RSMs providing the tools to help equip them to recognise and support the needs of residents.*

Environmental considerations: *The survey also found that 37% of residents were 'very concerned' and 51% were 'concerned' about climate change, with 69% of those residents declaring that had informed their choice of energy supplier. As at 30 June 2022 there were 16 clothing banks across 11 assets (collecting clothes for recycle and resale in conjunction with the White Rose charity). During the first half of 2022 10,836kg of clothing was recycled using those banks, equating to a projected re-sale value of £59,598 and offsetting approximately 39,010kg of carbon.*