NILGOSC

NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION COMMITTEE

Stewardship Report 2023

Important Information

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Stewardship Report 2023

For the Year Ended 30 June 2023

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

25 March 2024

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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 a signatory, all organisations must continue to report and reapply on an annual basis. In August 2023, it was confirmed that NILGOSC continued to meet the extended standard of reporting, with its second Stewardship Report submission which covered the 12-month period ending 30 June 2022, and remained a signatory to the UK Stewardship Code.

This report covers the 12-month period ending 30 June 2023. It has been prepared to support NILGOSC's renewal application to remain a Stewardship Code signatory.

Please note that NILGOSC's financial statements are prepared as at 31 March year end. Therefore, figures provided as at 30 June 2023 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. In the intervening period between strategic reviews, NILGOSC reviews and updates its operational business plans annually to help plan resources and measure performance.

NILGOSC's most recent 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, intended to drive service delivery over the three-year period from 1 April 2022 to 31 March 2025. The next strategic review is scheduled to commence in April 2024, with the intention of setting strategic direction for the period from 1 April 2025 to 31 March 2028.

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 Responsible Investment, which is 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. Therefore, NILGOSC does not exclude investments or divest solely on ESG grounds within its actively managed mandates.
- 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 below 2°C above pre-industrial levels.
- 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 Statement of Investment Principles, Climate Risk Statement and Voting Policy (which are reviewed and agreed at regular intervals). More information on 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 a number of tender exercises, including the selection and appointment of: a Proxy Voting service provider; a Global Custodian; an Investment Tax Advisor; as well as continuing to carry out due diligence for the appointments of a new global equity manager and a new global property manager. Under the remit of the global custodian tender, NILGOSC procured the long-term provision of TCFD-aligned carbon analytics on a semi-annual basis from the successful bidder, Northern Trust Company (Northern Trust). It is hoped that by working closely with one provider, NILGOSC will benefit from consistent data outputs allowing year-on-year comparison, as well as continued evolution of the ESG analytics service and increased coverage over the length of the contract.

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 normally consists of 12 members and a Chairperson. Membership is composed of: 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. Details of the current membership can be found on the NILGOSC website.

The Committee members are appointed by the NI Communities Minister ('the Minister'), 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;
- Investment Monitoring Guidelines;
- Statement of Responsible Investment;
- Climate Risk Statement;
- any significant changes to the Voting Policy;
- Conflicts of Interest Policy;
- Code of Conduct for Committee Members; and
- AVC Investment Policy.

The Committee also oversees the appointment, monitoring (via the use of a balanced scorecard) and removal of external investment managers. Although the quarterly monitoring process includes 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, general investment training was provided in March 2023, by equity manager, Baillie Gifford; and Investment Advisor, Aon. Baillie Gifford’s presentation delved into how the manager embeds ESG into investment decisions, assesses their carbon footprint and are aligning all holdings to a net zero pathway. In November 2022, the Audit and Risk Assurance Committee (ARAC), which is a sub-committee of the Management Committee, also received training from the internal auditors, ASM Chartered Accountants, on the “hot topics” or risks that NILGOSC is facing and will continue to face in the coming years. ‘Sustainability and ESG’ were carved out as one of four particularly key considerations for NILGOSC going forward.

NILGOSC has a **Committee Effectiveness Framework**, which 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. A key feature of the Framework is a self-assessment questionnaire, which is completed online anonymously and focuses on the following eight key sections:

- Committee Composition and Function;
- Committee Meetings and Support;
- Strategic Planning and Performance Measurement;
- Financial Management;
- Risk, Audit and Governance;
- Pension Administration;
- Investment of the Fund; and
- Communication and Engagement with Key Stakeholders.

Indicators relevant to stewardship include, that “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 2023, and the results were formally discussed by the Committee at its meeting in May 2023. NILGOSC aims to adhere to the highest standards of governance when conducting its business and the outcome of the evaluation for 2022/23 demonstrated that, overall, the Committee operates effectively in the key areas set out above, and that effective processes are in place to ensure robust monitoring of NILGOSC and its performance.

Only one area was identified for improvement, which was also flagged in the prior year; namely the gender breakdown of the Committee membership (three Committee members are female). Members of the Committee and the Chair are appointed through a public appointments process. The sponsoring Department co-ordinates recruitment exercises for new Committee members, and the Minister for Communities is responsible for making appointments, therefore the Committee agreed the imbalance is a matter for the Department to address.

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. ASM, NILGOSC's externally appointed Internal Auditor, 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 which 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 the 1 April 2023 to 31 March 2026 Corporate Plan was approved by the Committee in February 2023. For 2023/24, the strategic objectives linked to NILGOSC's second aim "*to deliver an effective investment strategy in line with the actuarial profile of the fund*" 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.

The Corporate Plan includes several stewardship-related operational actions to assist in meeting those objectives, such as: to produce annual Stewardship and Climate-related disclosures reports; to undertake carbon intensity and scenario analysis; 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 sponsoring Department and biannually to the Committee.

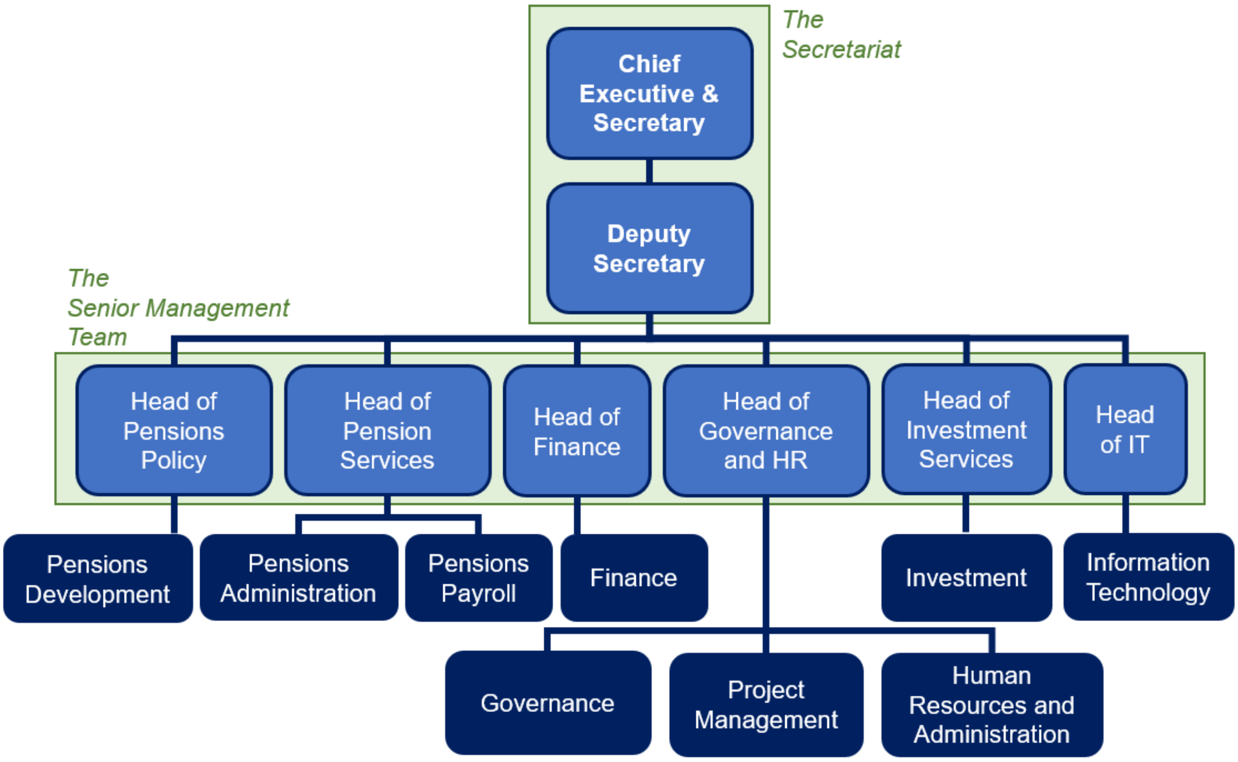
Performance against the Corporate Plan is also reported in the Annual Report at the end of each financial year. During the year under review, progress against the Corporate Plan objectives for the year to 31 March 2023 was reported to the Committee as at 30 September 2022 (at which point 91% of the corporate plan objectives remained on target to be achieved or substantially achieved by 31 March 2023) and at 31 March 2023 (at which point 86 out of 99 actions had a green status, translating to an achievement rate of 86.9% for the year). The key contributing factor to those actions falling short of target during the year was ongoing recruitment and retention challenges.

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 the Deputy Secretary), who report to the Committee at each of the 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 HR, and IT) and a workforce of approximately 80 staff within those functions, as shown in Figure 1 overleaf.

Figure 1: Organisational Structure Chart



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, which, during the period under review, was 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 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 largely weighted towards the delivery of implementing the Committee's Responsible Investment (RI) strategy. However, to assist in meeting NILGOSC's growing list of RI reporting requirements and stewardship duties, during the period, the Committee approved the introduction of a Senior Responsible Investment Officer role. The position was created to bolster the resource within the team dedicated to RI, with a particular focus on: reviewing, maintaining and overseeing the implementation of the Committee’s Responsible Investment policies in line with ESG and Stewardship best practice; and ensuring NILGOSC adheres to its responsibilities as a signatory to the many collaborative bodies it is a signatory and supporter of. The candidate was appointed at the end of the year under review (commencing their position on 1 June 2023) and reports directly the Investment Services Manager. The Investment Officer, whose role is heavily weighted to RI, now reports to both the Senior Responsible Investment Officer and the Investment Services Manager, the latter of whom is charged with leading and advising the Committee on NILGOSC’s Responsible Investment strategy; promoting transparency around NILGOSC’s stewardship activities; and leading on the development of NILGOSC’s climate mitigation strategy, amongst other duties; and who in turn reports to the Deputy Secretary.

For most of the period under review, the Senior Responsible Investment Officer role did not exist. Therefore, commentary throughout this report will refer to only the Investment Officer whose role was (and is) weighted towards delivery of implementing the Committee’s Responsible Investment aims, particularly casting votes in line with the Voting Policy.

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 means 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:

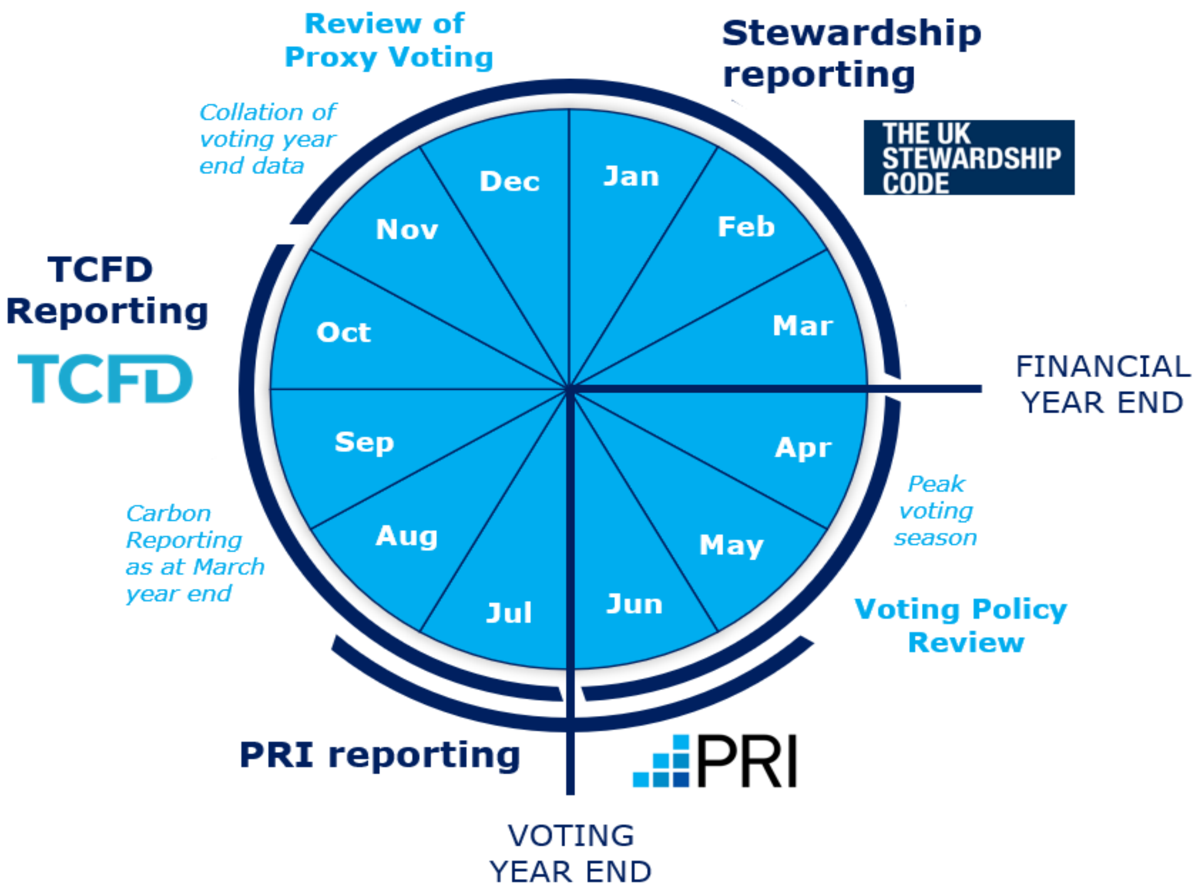
- **Voting** (*Principle 12*): NILGOSC believes that there should be no grey area when it comes to voting and have adopted a policy of not abstaining from votes to ensure that dissension from management recommendations is accurately recorded. Peak voting season runs from April to June, and voting activity 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 NILGOSC 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. NILGOSC completed the 2023 PRI Reporting Framework in September 2023, reporting on the year ending 31 March 2023, and plans to report again in 2024. More information

about the 2023 Reporting and Assessment Framework, and NILGOSC's results, can be found on NILGOSC's website.

- **TCFD reporting** (*Principle 4 and 7*): although TCFD reporting is not yet mandatory for NILGOSC, as an official supporter, NILGOSC prepared its first climate related disclosures report in alignment with TCFD recommendations for the year to 31 March 2021, in November 2021, and has continued to do so annually. NILGOSC's latest report, for the year ended 31 March 2023, was published in December 2023, and is available on NILGOSC's website.
- **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:

Figure 2: Annual Reporting Responsibilities



External management

NILGOSC's assets are externally managed, as laid out in Table 1.

Table 1: Percentage of Fund invested with each asset manager as at 30 June 2023

Asset Class	Manager	30.06.23
Global Equity	Baillie Gifford	5.90%
	Unigestion	5.09%
Emerging Market Equity	William Blair	2.00%
Passive Funds – Equity & Index Linked Gilts	Legal & General Investment Management	42.30%
Absolute Return Bonds	Royal London Asset Management	7.71%
	T. Rowe Price	7.17%
Multi Asset Credit	BlueBay	6.95%
	PIMCO	6.22%
UK Traditional Property	LaSalle Investment Management	4.03%
Index Linked Property	LaSalle Investment Management	2.51%
Global Property	CBRE Global Investment Partners	2.65%
UK Residential Property	M&G UK Residential Property Fund	1.15%
Infrastructure	Antin Infrastructure Partners	1.49%
	KKR Infrastructure	0.61%
	DIF Capital Partners	0.62%
	Copenhagen Infrastructure Partners	0.24%
	IFM Global Infrastructure Partners	1.05%
	iCON Infrastructure Partners	0.09%
Other (*including co-Investments and cash*)	Various	2.22%

NILGOSC requires that 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.

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, and reducing short-termism and excessive risk taking by companies, a number of NILGOSC's managers report annually (or biannually as required), including disclosing their procedures for dealing with conflicts of interest. For example, an extract of T. Rowe Price's reporting follows:

Extract of: SRD II reporting 2023
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 instructions 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.

BlueBay, who manage a Multi Asset Credit (MAC) portfolio for NILGOSC (6.95% of Fund assets as at 30 June 2023) provided a number of examples of potential conflicts of interests related to engagement, two of which are detailed below:

Investment Manager: BlueBay (Fixed Income manager), part of RBC Global Asset Management (RBC GAM)

Potential Conflict: Inappropriate use of material non-public information obtained through engagement activities

Context: RBC GAM employees could obtain access to material non-public information; the possession of which could give rise to potential conflicts of interest between the interests of the firm (RBC GAM) and the interest of RBC GAM employees. For example, if an employee misused material non-public information either: in personal trading; or to improve the investment performance of an investment portfolio that they managed, which could impact personal compensation. Conflicts could also arise between the interests of RBC GAM employees and those investors in the capital markets who do not have access to the inside information and who have a right to expect fair markets and ethical investment decision-making behaviour from market participants.

Mitigating policies & procedures: RBC GAM maintains Insider Trading Policies for each region in which it operates, setting out the insider trading rules for those jurisdictions and establishing procedures to be followed in the event that someone authorised to make investment decisions receives material non-public information. Procedures are undertaken to lock down the particular issuer that is the subject of the inside information from being traded by the individuals possessing the material non-public information, and an escalation procedure exists for addressing the conflict. The policies also provide specific guidance to the investment teams for meetings with issuers.

Investment Manager: BlueBay (Fixed Income manager), part of RBC GAM

Potential Conflict: Communications about and participation in shareholder initiatives

Context: Shareholder activism initiatives may add long-term shareholder value to clients and funds. However, potential conflicts of interest must also be considered before acting. For example, RBC GAM's participation in an ill-founded shareholder initiative may have implications for the affairs and reputation of RBC GAM's clients, as well as the affairs and reputation of RBC GAM and RBC. Potential conflicts of interest may arise when the interests of the shareholder initiative or the interests of the employee(s) participating in the shareholder initiative conflict with the interests of RBC GAM, its portfolios, and/or its clients.

Mitigating policies & procedures - The Chief Investment Officer (CIO) has full discretion to determine whether RBC GAM should participate in a shareholder initiative. To ensure that the implications of a proposed shareholder initiative are fully considered and addressed, the CIO may inform the CEO before RBC GAM initiates or participates in any significant shareholder initiative. In the case of a potential conflict of interest issue with respect to a shareholder initiative and RBC GAM mutual funds, it may be determined that the matter must first be escalated and referred to the appropriate regional independent oversight committee, such as the IRC in Canada, for review and recommendation.

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 and the Conflicts of Interest Policy, 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.

In 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. The Code of Conduct for Committee Members was also approved by NILGOSC's sponsoring department, the Department for Communities (NI).

Over the period, the Committee considered and deliberated its conflicts of interest procedures. In January 2023, discussions were held regarding practices to date, acknowledging potential for future conflicts of interest to arise. The recently established Conflicts of Interest Policy was reviewed again in 2023 to comply with new guidance issued by the Department of Finance (NI) and was published in November 2023.

During the year, the Committee declared a number of conflicts which were recorded in the minutes of the relevant meeting. All declared conflicts were managed in accordance with the Conflicts of Interest Policy in place at the time of declaration.

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 Code of Conduct for Committee Members and Conflicts of Interest Policy can be found on NILGOSC's website under the 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), prior to submission to the full Management Committee for approval. During the year under review, the review of the Risk Register was presented to the Committee in August and December 2022, and February and June 2023.

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, the Head of 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.

Furthermore, as disclosed in Principle 2, ASM provided training to the ARAC in November 2022 on the key themes and "hot topics" that NILGOSC is currently encountering, and those which will continue to be risks going forward and must be considered by the organisation. ESG and Sustainability were one of four themes highlighted as an important consideration for the future.

NDPBs in Northern Ireland are subject to the requirements of Managing Public Money Northern Ireland (MPMNI) and, as such, are required to establish and maintain arrangements for internal audit in accordance with the Public Sector Internal Audit Standards. Therefore, an internal audit service is a mandatory requirement for NILGOSC as an NDPB, and is also essential to help it achieve its strategic aims and objectives and to fulfil statutory reporting requirements. In addition to reporting outcomes to ARAC regularly, the Internal Audit findings are fed back to the sponsoring Department via regular Department Assurance Statements.

Investment Risk

There are two risks on the Risk register that relate specifically to responsible investment:

- Responsible investment considerations are not taken into account in the implementation of the investment strategy, which could have the impacts 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 last 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. At the time of publication, the 2024 strategic review of NILGOSC's Investment strategy will be underway.

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.

- Royal London Asset Management (RLAM) manage an Absolute Return Bonds mandate for NILGOSC, managing 7.72% of the Fund's assets as at 30 June 2023. Their approach to Climate Risk is described below:

  Across Royal London Asset Management, climate risk is examined on an asset class by asset class basis; with a strong preference of addressing climate risks through engagement, advocacy, and prudent investment risk management. For corporate bonds, Royal London Asset Management seek to focus attention on companies operating in carbon intensive industries. For financial bonds and floating rate notes, the RI team will seek to review the ESG profiles of the underlying banking institutions where a review is being conducted. In both instances, the lending practices of financial institutions are prioritised as the main activity which is going to expose companies to climate risk.

  At a firm level, climate risk within a sovereign bond portfolio can be monitored by its impact on a country's ability to repay its debt, which, as disclosed within Royal London Asset Management's 2022 Climate Report, is more complex than assessing climate risk within corporate credit. However, national emissions inventories are widely available as countries report their contributions to climate change to the United Nations. Known as production emissions, sovereign states report emissions occurring in their respective territories, allowing Royal London Asset Management to compare issuers' carbon emission intensities.

  For the corporate bonds, fund managers and financial analysts have access to Royal London Asset Management's internal ESG system, which documents information on a range of climate metrics at both issuer and fund level. Metrics include: weighted average carbon intensity; financed emissions; carbon footprint;

and implied temperature rise, amongst others. They can use these metrics to ascertain: which holdings are contributing most to a fund's carbon footprint; understand how the fund is performing relative to its benchmark (where there is an applicable benchmark); and look at trends. They can also use this data to inform where engagement activity on climate risk should be prioritised.

- William Blair manage an Emerging Markets equity portfolio for NILGOSC, managing 2.00% of the Fund's assets at 30 June 2023. An extract of the manager's approach to addressing Climate Risk is included below:

  For William Blair Investment Management's equity strategies, climate-related risk and opportunity considerations are embedded in the ESG integration process from a bottom-up security selection perspective, facilitated by proprietary tools including industry materiality and ESG ratings frameworks. William Blair's industry materiality framework was developed internally by their analysts, portfolio managers and ESG leadership team to serve as a guide for identifying risks and opportunities across the three ESG pillars, and to inform company engagements. Climate change is one of the priority investment issues within their environmental pillar, along with natural resources stewardship, pollution, and waste management.

  Consistent with TCFD recommendations, William Blair seek to assess the two primary forms of climate risks that may impact their investments: transition risks and physical risks.

  - Climate transition risks (which include market risks, reputational risks, legal risks and technological risks) are increasingly impacting the ecosystem in which companies operate. Businesses that successfully adapt to these risks may potentially benefit from strengthened competitive positioning versus peers and lower costs of capital, giving William Blair increased confidence in future growth, cash flows and returns.

  - Physical risks from climate change may be acute (e.g. changes in the intensity or frequency of drought or heatwaves) or chronic (e.g. an increase in average temperature or rising sea levels). Different securities and companies will have varying levels of exposure to physical risk depending on the nature of their businesses, real asset holdings, and locations of key assets.

William Blair also has an investment management ESG risk working group that oversees the processes used to identify, evaluate, and manage ESG risks. The ESG risk working group consists of members appointed by the global Head of Investment Management, and is composed of ESG, investment, compliance, risk, sales, and client service professionals. It meets at least quarterly and is responsible for monitoring internal ESG key risk indicators.

Market-wide and systemic risk identification and management are incorporated into William Blair's investment processes across their investment teams. Macroeconomic variables such as inflation, interest rates, and overall economic conditions are assessed by William Blair's economists, to help portfolio managers and research analysts on the global equity teams identify and respond to market risks impacting portfolios. In addition, research analysts conduct thematic research, highlighting multisector risks and opportunities resulting from decarbonisation, digitalisation, and other macro trends.

- Unigestion manage a low volatility global equity portfolio for NILGOSC (managing 5.01% of the Fund's assets as at 30 June 2023). 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 the 2022 Global Investor statement on the Climate Crisis; signed an IIGCC-facilitated letter to the EU commission on Preserving the EU Taxonomy’s sustainable purpose; supported a Statement on Sustainable Corporate Reporting, calling for major standard-setting efforts for sustainability-related information to more closely align; and responded to a formal consultation launched by the Department of Agriculture, Environment and Rural Affairs (DAERA) on developing the future regulations that will place climate change reporting duties on specified public bodies in Northern Ireland. NILGOSC also continued its support for various global climate initiatives including the CDP's 2022 and 2023 Non-Discloser, Climate Change, Water and Forests campaigns and the 2022/23 Science Based targets Campaign, as well as Climate Action 100+. NILGOSC is a supporter signatory to the Climate Action 100+ initiative, which launched in 2017, initially as a five-year investor-led initiative to encourage the world’s largest corporate greenhouse gas emitters to curb emissions, strengthen climate-related financial disclosures and improve governance on climate change risks. Phase 2 of Climate Action 100+ commenced in 2023 and will run through to 2030. Alongside 700 global investors who are responsible for more than $68 trillion (USD) in assets under management, NILGOSC continues to support the initiative. Building on the demonstrable success of phase 1, the initiative’s new phase shifts focus from corporate climate-related disclosure to the implementation of corporate climate transition plans. 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 2022/23 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 is committed to reporting against its recommendations on an annual basis, and in order to do so, undertook its third carbon analysis of the Fund as at 31 March 2023 (publishing the report in December 2023).

During the period, NILGOSC included the long-term provision of TCFD-aligned carbon analytics as part of the remit of its global custodian tender. It is hoped that by working closely with one provider, NILGOSC will benefit from consistent data outputs allowing year-on-year comparison, as well as continued evolution of the ESG analytics service and increased coverage over the length of the contract. The Northern Trust Company (Northern Trust) was selected as global custodian, and have commenced preparing carbon analysis on the portfolio's assets on a semi-annual basis.

At present, the analysis considers only listed equity and corporate fixed income assets and Northern Trust, utilising the data feed of external specialist provider ISS ESG, which is the responsible investment arm of Institutional Shareholder Services Inc., were able to assess 45.7% of the total fund. 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, and is reflected in the Statement of Investment Principles.

Operationally, policies are first drafted or 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, in accordance with NILGOSC's values (see Principle 1), which commit it to "being understandable, providing simple, clear and complete information", 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 (with input from other internal teams and external service providers as required), reviewed by the Secretariat (the Deputy Secretary, followed by the Chief Executive & Secretary); and presented formally to the Management Committee for final review, questioning and formal approval, prior to publication. Review and oversight by each separate party helps assure the representations made within such documents are fair, balanced and understandable. 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: Last review date and frequency of formal review for each of the investment related policies (a number of which were reviewed in the period to 30 June 2023, but formally approved in the subsequent period)

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	November 2023
Climate Risk Statement	Triennially	November 2023
Voting Policy	Annually	October 2023
Conflicts of Interest Policy	Triennially	November 2023
Code of Conduct for Committee members	Triennially	November 2023[1]

[1] As noted under Principle 3, following its separation from the Code of Conduct for Committee members in 2022, the newly created Conflicts of Interest Policy was reviewed just after the end of the period under review, and a new version was published in November 2023, in compliance with updated Guidance from the Department of Finance (NI).

NILGOSC commenced a simultaneous review of the Statement of Responsible Investment, Climate Risk 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 updated Climate Risk statement and Statement of Responsible Investment were approved by the Committee in November 2023.

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 most recent review of the Voting Policy was approved by the Secretariat in October 2023. As no significant changes to policy were made, Management Committee approval was not required.

The Climate Risk Statement commits NILGOSC to producing annual TCFD-aligned reports. NILGOSC's third annual Climate-related Disclosures Report, prepared in alignment with TCFD recommendations, for the year ending 31 March 2023, was approved by the Committee on 18 December 2023, 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, it was named on the official list of supporters in

June 2020, and is expected to encourage TCFD implementation. Therefore, NILGOSC commenced reporting against the recommendations, producing its inaugural report for the year ended 31 March 2021. Reporting against TCFD has become part of the regulatory framework in many jurisdictions globally, and, in the UK regulations came into force in 2021 for Occupational Pension Schemes in Great Britain to produce and publish TCFD reports. The consultation for equivalent regulations for Local Government Pension Schemes in England and Wales ended in November 2022, and legislation is expected to follow. In Northern Ireland, it is expected that the Department for Communities will follow suit with equivalent legislation in due course, 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 third report built upon the context and disclosure provided for the two previous years, helping it get ahead of the regulatory curve. The report is available at: NILGOSC's Climate-related Disclosures Report 2023.

As referenced previously, during the year to 30 June 2023, NILGOSC procured the long-term provision of TCFD-aligned carbon analytics as part of the remit of its global custodian, Northern Trust. The custodian utilises the data feed of external specialist provider ISS ESG, which is the responsible investment arm of Institutional Shareholder Services Inc. Working alongside Northern Trust, it was possible to analyse 45.7% of the of the Fund's holdings at financial year end (primarily composed of NILGOSC's listed equity and corporate fixed income assets). The NILGOSC part-portfolio was compared to the performance of a portfolio replicating a global market equity index[2], and at a high level compared favourably, reporting: 61.2% lower Scope 1 and 2 emissions at an absolute emissions level; a 61.2% lower carbon footprint (i.e. normalised emissions based on funds invested); and a 60.3% lower weighted average carbon intensity (WACI), which normalises emissions based on sales. Although Scope 3 emissions are less readily available, in the interests of transparency, Scope 1, 2 and 3 emissions were also disclosed collectively at an aggregate portfolio basis within the report, and collectively Scope 1, 2 and 3 emissions are also lower than benchmark (- 27.3%).

[2] The full portfolio was compared to the performance of a portfolio replicating the MSCI All Country World Index (MSCI ACWI) benchmark.

Northern Trust also undertook a scenario analysis of the part-portfolio as part of the assessment, comparing NILGOSC's holdings at 31 March 2023 with three carbon pathways. The analysis demonstrates that the flightpath of the part-portfolio is Paris-aligned until approximately 2036, at which point, if no changes were made to the 31 March 2023 portfolio, it will contribute towards a +2°C warming outcome by 2050. The slope of the portfolio line is influenced by the portfolio composition and the ownership ratio, and also takes into consideration emission reduction targets, meaning the expected trajectories of companies will be adjusted downwards if companies set either ambitious targets, committed or approved science-based targets (SBTs). Therefore, the output can be influenced by continued engagement with asset managers and the underlying holdings, and will be closely monitored.

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. Measures like the scenario analysis described may help to provide insight, albeit on only that topic. The compilation of the annual stewardship report is also 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.

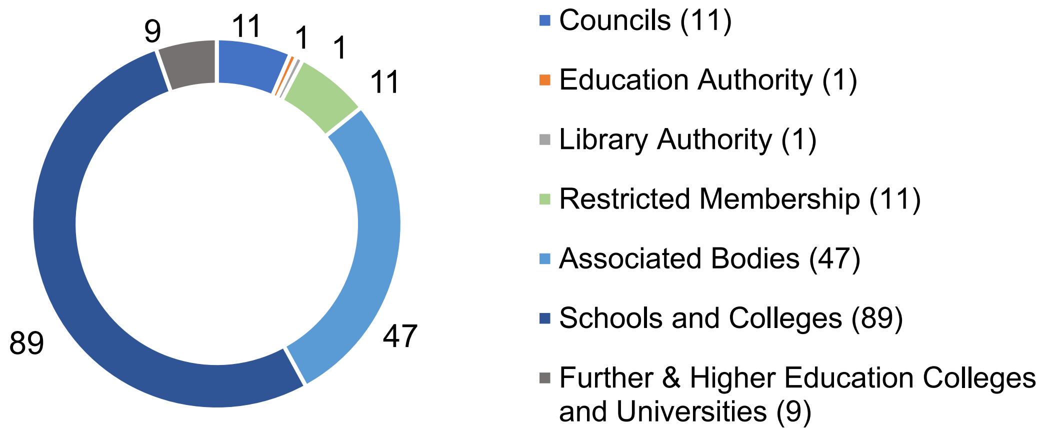
NILGOSC is the administrator of the pension scheme. Although it is an NDPB, it receives no funding from central government. It seeks to maximise income and minimise expenditure. The scheme is funded by contributions made by both employees and employers admitted to the pension scheme. All contributions 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 2023 was £9.53bn (2022: £10.23bn).

At 30 June 2023, 169 (2022: 171) bodies were contributing to the pension scheme and the Fund had a membership of 165,619 (2022: 154,614) which was composed of: 78,643 contributing members, 43,792 pensioners and 33,119 deferred members, plus 7,329 records in process and 2,736 unclaimed refunds.

Most of the 169 contributing employers are public sector, as disclosed in Figure 3.

Figure 3: Contributing employers as at 30 June 2023



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.

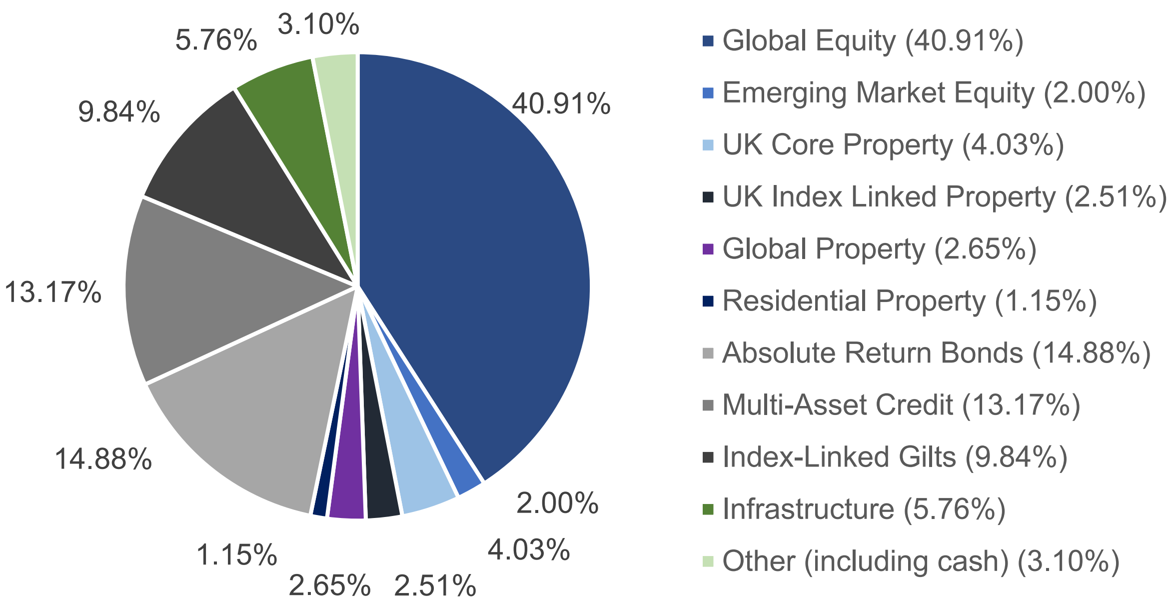
In setting the Fund's investment strategy, NILGOSC first considers the lowest risk strategy that it could adopt in relation to meeting the Fund's liabilities. The investment strategy is designed to achieve a higher return than the lowest risk strategy, while maintaining a prudent approach to meeting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

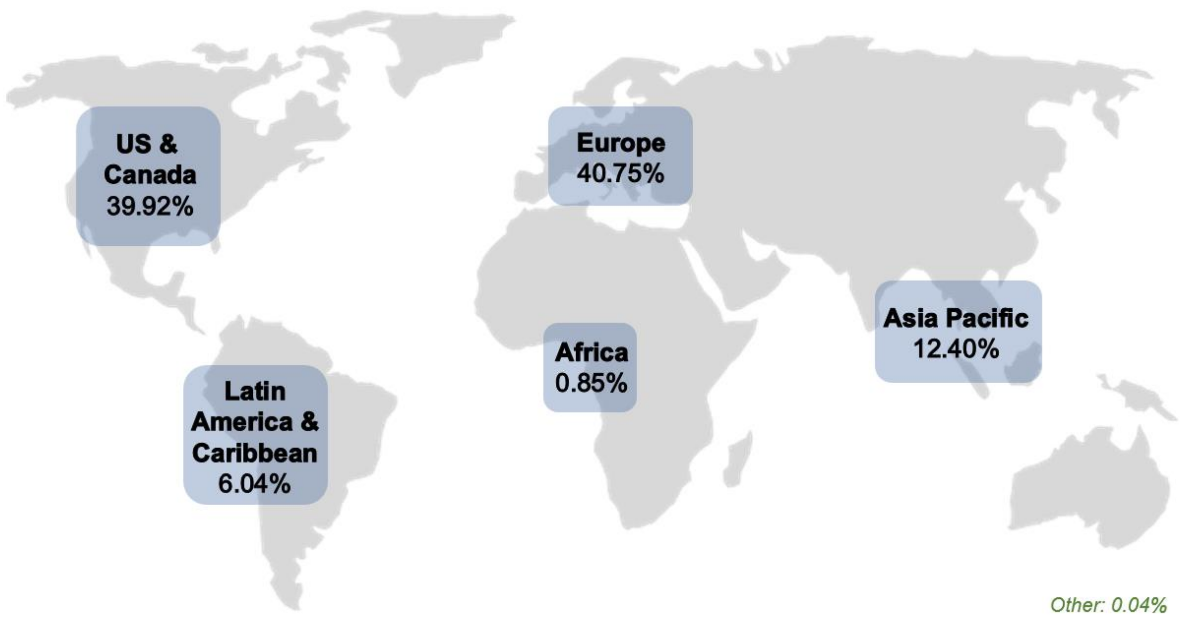
The Fund is currently cashflow positive, meaning the pension scheme's income is greater than its expenditure, and the fund was in surplus at 30 June 2023, which means that the Fund's assets are in excess of its liabilities. The last actuarial valuation was carried out as at 31 March 2022. The overriding 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.

Figure 4: Fund's unaudited asset allocation as at 30 June 2023



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.

Figure 5: Geographical breakdown of the Fund's assets (excluding cash and cash equivalents) as at 30 June 2023:



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 over 50,000 unique members registered at 30 June 2023. NILGOSC has now moved the default delivery setting for all active and deferred members to electronic, subject to individual member preference.

A stakeholder satisfaction survey was undertaken in February 2023 to measure the satisfaction levels of active members, pensioners and employers. The aggregate satisfaction rate across all stakeholder groups was 92% (2021/22: 90%), with 93% of respondents rating the look, usefulness, and quality of content on the NILGOSC website as good or excellent. 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. In October 2022, as part of the seminars NILGOSC ran on the 2022 Actuarial valuation, NILGOSC's Chief Executive & Secretary spoke to 69 employer representatives about NILGOSC's responsible investment work, specifically regarding the move to the low carbon transition funds and TCFD-aligned reporting.

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 April/May 2023) can be found on NILGOSC's website at: Member newsletters.

During the period, NILGOSC also responded to a request to speak at Ulster University on asset owner responsibilities as stewards. The Investment Services Manager took part in a 'Distinguished Speaker Series' at the university (which is a contributing employer in the Scheme) on the theme of "The role of stakeholders in promoting Responsible Business", delivering a talk to students within the Accounting, Finance and Economics department entitled "How Asset Owners can drive Responsible Investment" in March 2023.

NILGOSC makes available a wide range of stewardship-related information through its website, including:

- **Policies and statements**: Funding Strategy Statement; Statement of Investment Principles; Climate Risk Statement; Statement of Responsible Investment; and Voting Policy.
- **Reporting**: TCFD-aligned reporting; Stewardship reporting; Annual Review of Proxy voting; Monthly voting reports; and PRI Reporting Framework Transparency and Assessment Reports.
- **Engagement and Initiatives**: list of Industry groups and initiatives NILGOSC is a member of or signatory to; and list of ESG related activity by year; in addition to relevant hyper-links or NILGOSC news articles providing additional context.

In the year to 30 June 2023 the website had 156,192 users, 208,500 individual sessions and 369,705 page views. 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. For example, during the recent tender exercise for a new global equity manager, initial pass/fail screening included a question seeking confirmation that prospective managers had an ESG policy, and requesting a summary of how that policy and ESG risks are incorporated into the investment process. Tenderers 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 UK Stewardship Code 2020. Assuming the managers passed the first screening, the main body of the tender included an 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.

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, Aon, 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 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 when conducting proxy voting, 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.

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 or case studies over the period demonstrating how ESG considerations have or will impact their investment decision making, a sample of which follows:

- Listed Equity

Investment Manager: Baillie Gifford

Case Studies: Samsara and Joby Aviation

Samsara: During the first quarter of 2023 Baillie Gifford acquired a holding in Samsara, a cloud software firm that collates and analyses ‘internet of things’ sensor data from a company’s physical operations to help increase efficiency, safety and sustainability. For example, Samsara can help reduce the carbon footprint of a business by increasing fleet driver efficiency and optimising fuel usage. The ESG factors were considered as part of Baillie Gifford’s bottom-up investment analysis, influencing the investment decision made to acquire the holding in the portfolio.

Joby Aviation: During the second quarter of 2023, Baillie Gifford acquired shares in Joby Aviation (Joby). Joby is developing an electric vertical-take-off-and-landing ('eVTOL') aircraft that it will offer customers directly as a branded ride-hailing service. At the time of acquisition, Baillie Gifford’s ESG-related work on Joby had predominantly focused on the role it could play in the climate transition. The Baillie Gifford team identified some areas for research related to ESG issues and found that the eVTOL aircraft would be less noisy, have fewer emissions, be safer and, over time, more affordable when compared to internal combustion engine equivalents; all of which supported the investment decision.

- 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

At an overall company level, LaSalle has established several committees and initiatives to ensure that sustainable asset management practices are embedded into investment decision making:

- **Global Sustainability Committee**: develops ESG policy, procedures and strategies, and sets global ESG goals.
- **Global Climate Risk Committee**: ensures climate risk is specifically incorporated into all investment activities, and the TCFD requirements are addressed (albeit TCFD reporting remains the responsibility of the respective Fund and Portfolio Managers).
- **Regional Sustainability Committees**: develop local initiatives, implement best practices and integrate sustainability into all investment activities aligned with investment performance and client contractual obligations. The UK falls within LaSalle's European Sustainability Committee.
- **Investment Committees**: consider investment level risks, including sustainability related risks and opportunities, in connection with material decisions and asset level strategic planning.
- **Fund and Portfolio Managers**: managers, with assistance from internal experts, are responsible for identifying reasonably foreseeable sustainability related risks and opportunities at all stages of the investment lifecycle.

On a day-to-day basis, Fund Managers, Portfolio Managers and Asset Managers are responsible for adopting sustainable asset management practices. ESG-specific training is provided to these individuals, and they benefit from support of internal ESG specialists. Sustainability is considered at every stage of a property's investment lifecycle (purchase, hold period, sale) and decisions are made using professional judgement based on the best available information, with sustainable asset management initiatives being implemented where it is financially justifiable and prudent to do so.

Investment Manager: M&G

Case Study: Apartment complex disposal

Context: M&G has been undertaking an optimisation of the portfolio, which has included the disposal of underperforming assets. Doing so has also served to improve (i.e. reduce) the Fund's exposure to properties with EPC Ratings below a 'B' threshold (defined as inefficient real estate under the SFDR).

Example: Over the period, M&G's fund management team successfully disposed of apartments that had been marketed for sale. One of the drivers for disposal was weaker ESG credentials; for example, all units at the asset had EPC ratings of either D or E. The results of a technical review found that there were limited opportunities to improve the EPC ratings owing to its listed status, construction type, dwelling size and aspect.

Going forward: It is anticipated that the continued efforts to sell all of the remaining seed assets in the portfolio will deliver continued improvement in the portfolio's EPC ratings, ensuring resilience to expected changes in the UK Minimum Energy Standard. As at 30 June 2023, there were 92 units remaining to be sold.

- Fixed Income

Climate considerations also impact decisions in fixed income portfolios, for example:

Investment Manager: BlueBay, part of RBC GAM

Case Study: EDF

Context: At BlueBay, individual trade ideas are calibrated on a scale from +3 (most positive) to -3 (least positive), referred to as the 'Overall Conviction Score'. (For context, a score of '0' is awarded to a bond predicted to perform in line with its broader market; and +3 implies strong outperformance versus broader market.)

ESG is one of four inputs into the Overall Conviction Score of a trade. Therefore, ESG factors play a pivotal role in how BlueBay think about each and every security they hold. Improving ESG, or deteriorating ESG, will impact how a security is viewed, and whether it is included in the portfolio.

Example: EDF is an energy supplier which generates 20% of British electricity, primarily from nuclear power sources, hence emissions are low relative to traditional power generation. BlueBay has awarded EDF a score of +2, of which the ESG component is +1, meaning ESG is expected to have a positive impact on bond price.

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

NILGOSC's formal monitoring in the year to 30 June 2023

Over the 12 months to 30 June 2023, the Committee were presented with the following investment-related papers (as laid out in Table 3) for note or approval.

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

Meeting Date	Committee Paper
August 2022	• CBRE Manager presentation (*Global property*) • Alternative Investments Briefing Note for the year to 31 March 2022 • Investment costs report for year ended 31 March 2022
September 2022	• T. Rowe Price Manager presentation (ARB) • Performance Assessment of Investment Consultants to 31 March 2022 • 2022 Q2 Investment Advisor's report on quarterly performance • 2022 Q2 Monitoring scorecard for investment managers
December 2022	• Unigestion Manager presentation (Global equity) • PIMCO Manager Presentation (MAC) • 2022 Q3 Investment Advisor's report on quarterly performance • 2022 Q3 Monitoring scorecard for investment managers • Climate-related Disclosures Report for the year ended 31 March 2022 • Appointment of a Global Property Manager (Partners Group), subject to satisfactory due diligence • Appointment of a Global Value Equity Manager (Harris Associates), subject to satisfactory due diligence
January 2023	• BlueBay Manager presentation (MAC) • William Blair Manager Presentation (Emerging Markets equity) • Appointment of Global Custodian (Northern Trust), subject to satisfactory due diligence
February 2023	• LGIM Manager presentation (Passive funds) • Establishment of the post of a Senior Responsible Investment Officer
March 2023	• Baillie Gifford Manager presentation (Global equity) • 2022 Q4 Investment Advisor's report on quarterly performance • 2022 Q4 Monitoring scorecard for investment managers • Review of objectives for Investment Consultants (23/24-25/26)

May 2023	• RLAM Manager presentation (ARB) • Committee effectiveness evaluation for 2022/23 • Stewardship Report for the year ended 30 June 2022 • Appointment of a Tax Advisor (Deloitte), subject to satisfactory due diligence
June 2023	• LaSalle Manager presentation (UK Core and Index-linked property) • 2023 Q1 Investment Advisor's report on quarterly performance • 2023 Q1 Monitoring scorecard for investment managers • Annual Report of the Audit and Risk Assurance Committee

Additionally, the Risk Register and the Corporate Plan are reviewed and revised by the Committee annually. The Corporate Plan (spanning the period April 2023 to 31 March 2026) was approved by the Committee in February 2023; and the Annual Review of the Risk Register for 2023/24 was signed off at the June 2023 meeting. Progress against both is undertaken more frequently: the Risk Register is reviewed every quarter (August 2022, December 2022, February 2023 and June 2023); and progress against the Corporate Plan is reviewed by the Committee biannually (December 2022 and May 2023). Over the period, the Audit & Risk Assurance Committee (ARAC) Terms of Reference were also reviewed and approved (December 2022).

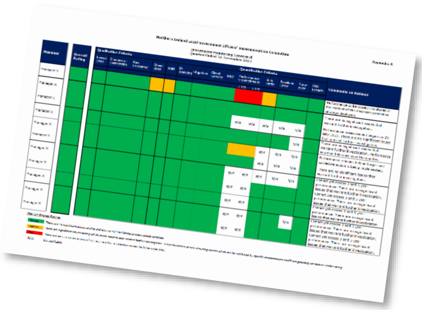
Investment Managers

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.

In 2022, 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 presented a paper in May 2022, summarising how NILGOSC holds its investment managers to account on ESG issues and giving Committee members options on further ways to challenge. 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 may require more time to discuss.

During the reporting period, the Committee asked ESG related questions to each of the Managers when they presented to the Committee. The managers were asked about the assessment of ESG risks and opportunities, investing in companies and countries with poor environmental standards and about engagement. Questions also covered Net Zero, Green Bonds and Climate transition scores, as well as how fixed income managers engaged with issuers on ESG issues, and how property managers approached energy data collection.

Fund Managers

In addition to investment managers, NILGOSC also invests a small portion of its assets (5.76% of the Fund as at 30 June 2023) with fund managers, with whom NILGOSC enters into a Limited Partnership Agreement, with little scope for bespoke terms and conditions. Before entering such arrangements (e.g. 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. During Q1 2023, NILGOSC partook in the first close of a co-investment opportunity with DIF Capital Partners (DIF), investing $20 million USD in a Canadian-based renewables platform, BluEarth Renewables. The opportunity appealed to the investment team as the asset is an independent renewable energy power producer, which develops, builds, owns and operates solar, wind, and hydro projects in North America. NILGOSC was familiar with the asset (as it was held within the DIF V infrastructure fund within which NILGOSC is a Limited Partner) and it had performed well since acquisition. Although the asset clearly ticks the "E" of ESG, when conducting due diligence, the investment team reviewed sources demonstrating management are also active in addressing "S" and "G", for example, by: working closely with the First Nations people in Canada to complete investments collaboratively; creation of a highly-praised community investment programme investing around $100,000 annually in scholarships, food banks, mental health support and volunteering schemes; and the health & wellbeing benefits offered to staff, such as the disability management programme (amongst other initiatives) disclosed in BluEarth's corporate reporting.

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 2023, NILGOSC has continued to work with its Investment Managers to improve 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 and 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. As all NILGOSC's managers are signatories to the Principles for Responsible Investment (PRI), they are also asked to provide PRI Transparency and Assessment reports. NILGOSC also asks managers to confirm whether they reported against TCFD recommendations and the Stewardship Code, or an applicable equivalent. Starting in 2023, NILGOSC has begun to ask managers whether they are considering biodiversity and nature loss, and to provide information about any internal or third-party assurance processes used to verify the information reported. 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 November 2022. 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 2023 were presented to the Management Committee in September 2023.

In alignment with best practice, the strategic objectives against which both advisors are assessed are reviewed on a triennial basis. The Committee reviewed and agreed the objectives for both in March 2023 for the three years spanning 1 April 2023 to 31 March 2026. Following review, it was agreed the objectives remained consistent with the service offered and continued to be appropriate.

One of the objectives against which Aon is assessed is: 'To provide clear and relevant advice on ESG issues and specifically climate risk'. Aon is 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.

In April 2023, Aon's actuarial, investment and RI teams prepared and presented a report to the NILGOSC Secretariat and Investment team on the climate change scenario modelling undertaken as part of the Fund's triennial actuarial valuation.

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 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 holdings. All managers are required to report quarterly on 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 (Principle 8). In addition, NILGOSC will not appoint managers who are unable to demonstrate capabilities in this area.

For example, NILGOSC's passive equity manager LGIM, provided an extract of its Climate Impact Pledge, followed by a case study demonstrating their approach to exercising influence as a shareholder:

LGIM's Climate Impact Pledge

Under LGIM's Climate Impact Pledge, the manager publishes their minimum expectations for companies in 20 climate-critical sectors, selecting c.100 companies for 'in-depth' engagement to help companies meet these expectations and understand the hurdles to overcome. The chosen companies are influential in their sectors, but in LGIM's view are not yet leaders on sustainability. By virtue of their influence, their improvements would be likely to have a knock-on effect on other companies within the sector, and in supply chains. Those which continue to lag LGIM's minimum expectations may be subject to voting sanctions and/ or divestment (from LGIM funds which apply the Climate Impact Pledge exclusions).

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

- Passive Equity

Investment Manager: Legal and General Investment Management (LGIM)

Case Study: BP Plc.

Background: LGIM believes that company engagement is a crucial part of transitioning to a net zero economy by 2050. As one of the largest integrated oil and gas producers in the world, BP has a significant role to play in the global transition to net zero. As members of the CA 100+ LGIM is committed to engaging with a certain number of companies on the focus list and on account of their strong relationship with BP, LGIM lead the CA 100+ engagements with them. LGIM has been engaging with BP on climate change for a number of years, during the course of which, many actions have been taken regarding climate change mitigation.

Expansion: BP has made announcements detailing expansion into clean energy, such as: projects to develop solar energy in the US; partnerships with Volkswagen on fast electric vehicle charging and Qantas Airways on reducing emissions in aviation; and winning bids to develop major offshore US and UK wind projects.

Reduction: LGIM's recommendation for the oil and gas industry is to primarily focus on reducing emissions (and production) in line with global climate targets before considering diversification into clean energy. BP has announced reductions in its oil and gas output by 40% over the next decade, with a view to reaching net-zero emissions by 2050.

Engagement: LGIM met with BP several times during 2022. The levels personnel typically engaged with included the Chair, CEO, Head of Sustainability, and Investor Relations. Furthermore, in BP's 2022 AGM, LGIM supported management's 'Net Zero – from ambition to action' report. Having strengthened its ambition to achieve net-zero emissions by 2050 and to halve operational emissions by 2030, BP also expanded its scope 3 targets, committing to a substantial decline in oil and gas production, and announced an increase in capex for low-carbon growth segments.

Outcome: LGIM will continue engaging with BP on climate change, strategy and related topics. Following BP's decision to revise their oil production targets, LGIM met with the company several times in early 2023 to discuss concerns.

- Global Equity

Two of NILGOSC's equity managers, Baillie Gifford and Unigestion, highlighted case studies where they have had ongoing engagement with companies, with a particular focus on engagement over the reporting period:

Investment Manager: Unigestion

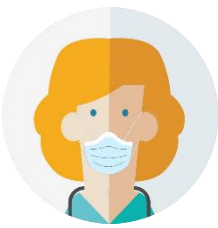
Case Study: Novo Nordisk

Engagement: Unigestion has had prolonged engagement with Novo Nordisk, with the objective of influencing the company to proactively decrease the cost of insulin for people with diabetes in the US. SDG 3 'Good Health and well-being', Target 3.4 calls for reducing premature death from Noncommunicable diseases (NCDs), like diabetes, by 30% by 2030. The company's track record of being a laggard in addressing controversies, as well as increasing pricing and regulatory pressures in the US insulin market, created risk for the holding. The company has also been under scrutiny for alleged pricing collusion in the US market in recent years. Unigestion therefore engaged on this specific KPI over two calls in Q4 2022.

Result: In March 2023, Novo Nordisk announced that (effective 1 January 2024) it would be lowering the US list prices of several insulin products by up to 75% for people living with type 1 and type 2 diabetes.

Unigestion views the engagement as achieving their top scoring of 6 ('Complete adoption of our recommendation'), noting the cumulative beneficial effect of actions by numerous asset managers, collaborations (such as Access to Medicine), and even governmental influence, to result in the progress achieved.

Unigestion have constructed a proprietary engagement tracking tool that looks at KPIs and measures progress towards meeting them; tracking both public and private companies. Together with their updated engagement policy and relevant escalation strategies, Unigestion expects continued evolution in stewardship.



Investment Manager: Baillie Gifford (BG)

Case Study: Amazon – Employee Health and Safety (H&S) and working conditions

Engagement: BG have engaged with Amazon on a variety of issues since first acquiring shares in 2004. Amazon has been criticised for its lack of disclosure regarding employee H&S performance. Available data has shown injury rates historically exceeded industry averages and suggested progress to improve working standards and practices was slow. Therefore, BG engaged directly and repeatedly (e.g. visiting Amazon's Dunfermline fulfilment centre in 2019 to understand the environment in which warehouse workers operate; and holding discussions with senior personnel to encourage greater disclosure and better practices).

Results: Amazon acknowledged its reporting on employee H&S could be improved. BG were encouraged by their willingness to engage and reassured that work was underway to improve standards, including by appointing a Director of H&S. Amazon's injury rate subsequently declined rapidly. With nearly 40% of work-related injuries at Amazon classified as musculoskeletal disorders (MSD), such as sprains or strains due to repetitive motions, Amazon joined the **National Safety Council** and signed the **MSD Pledge** (an Amazon-led and funded initiative). Both show tangible evidence of progress, although H&S remains a priority engagement topic.

- Fixed Income:

Two of NILGOSC's fixed income managers (RLAM and BlueBay) shared the following examples on ongoing engagement:

Investment Manager: RLAM

Case Studies: HSBC and Barclays

Purpose: Engagement with a number of large British banks (HSBC, Barclays, Lloyds, NatWest) to integrate the 'just transition' throughout their climate transition plans and evidence implementation at a product, sector, and regional level.

- **HSBC**: In Q4 2022, HSBC published an energy policy outlining its position on oil, gas, hydrogen, renewables, hydropower, biomass and nuclear, which supplements the Group's coal policy. In the run up, Royal London Asset Management had engaged with HSBC (during 2021 and 2022) on its **net zero commitment** and **climate transition plans**, and to discuss embedding **just transition** into the plans. Royal London Asset Management provided detailed feedback which was partly incorporated in the published policy, for example a just transition is incorporated as one of HSBC's three policy objectives, and it is also included as a factor when assessing oil and gas clients climate plans. Royal London Asset Management had asked the bank to change wording from 'consideration' of just transition principles to 'integration' or 'application', but they did not address the request. In Q1 2023, HSBC (in addition to some of the other banks) held events to describe their climate transition plans. Royal London Asset Management focused on the inclusion of a just transition within these plans; and HSBC reached out after the events to gather feedback. Engagement will continue.
- **Barclay's:** Following on from Royal London Asset Management's request to integrate just transition into their climate transition plan at their 2022 AGM, Royal London Asset Management met with Barclays on several occasions to discuss their progress and suggest improvements. Although Barclays had limited mention of just transition prior to engagement, in 2023 the bank implemented an assessment of just transition in their newly introduced **Climate Transition Framework** for reviewing their corporate clients. In Q1 2023, Royal London Asset Management met with Barclays' Group Head of Sustainability and Global Head of

Sustainable Finance to discuss its **sector climate targets**, **just transition** and **green financing plans** for 2023. Barclays provided an update on some of the improvements made over the past year with respect to its climate practices; and Royal London Asset Management concluded the **Climate Transition Framework** could be a good platform from which to engage with corporate clients if fully integrated in the company's decision-making process. Although other improvements were appreciated (not least the introduction of disclosures on just transition and alignment to 1.5°C in all sector's targets); Royal London Asset Management noted Barclay's approach to oil and gas financing is still behind peers, as the bank lacked a policy on new oil and gas expansion. Royal London Asset Management will continue engaging with the bank to improve their integration of just transition into their plans and had a follow up meeting set for October 2023.

Current activity: Royal London Asset Management continues to engage with the banks and sent letters to each of the four Chairs in Q3 2023, outlining positive progress made, further action Royal London Asset Management wish to see and highlighting what they consider to be the latest guidance and asking to meet with subject matter experts.

Investment Manager: BlueBay

Case Study: Mexican state-owned Petroleum Company (PEMEX)

BlueBay illustrated three examples of engaging with PEMEX over the period:

- In **July 2022:** BlueBay met with key personnel at the company's offices in Mexico City. The primary goal for this engagement was to urge the company to: become a signatory of the **UN Global Compact**; provide more timely **sustainability reports (in English)**; and generally provide clearer and more concise **ESG disclosures**. BlueBay offered to be a sounding board to aid the company in its ESG strategy and presentation, and reported the CFO was receptive to requests. BlueBay note that it is apparent from meetings, that, for some time, PEMEX has been facing similar pressure from domestic banks, local institutional investors and Afores (pension funds), all of whom are also large holders of PEMEX securities.
- In **March 2023**: BlueBay participated in a Climate Action 100+ (CA 100+) investor call. A **sustainability report** had been published, although only in Spanish. PEMEX noted it was in the process of preparing an English translation. Further, it was agreed the CA 100+ investor group would be introduced to the **newly established Sustainability committee** at a future meeting. Encouraging signs were noted across several climate-related areas; however, disclosure in line with TCFD recommendations is still some years off and there is scope for improved methane performance. PEMEX noted the intention to publish a comprehensive plan of a step-by-step process for emissions reduction.
- In **June 2023**, on the **investor call with** the issuer's **Sustainability committee,** investors continued to press PEMEX on the quality of sustainability disclosures and **emissions reduction strategy**. The company noted the strategy would be published in December 2023 (which was met). Other successes of investor efforts at that date, included: production of **English-language versions** of its business plan and sustainability reports; and adoption of some **GHG emissions goals**.

Current view: PEMEX management has been cognisant of the need to progress its ESG efforts and stated the results of internal efforts will be shared as appropriate. BlueBay assign PEMEX a fundamental ESG risk rating of 'very high'; however, the company's activity has provided reassurance that the trajectory remains positive.

Engagement can vary by asset class though. BlueBay also provided commentary on how their approach to engagement differs depending on issuer type.

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

Issuer types	Observations and Actions
Corporates vs sovereigns	• Methods of engagement can vary depending on access to issuer, legal standing, and issuer obligation. • Some **barriers to engagement with sovereigns** exist. (E.g. concerns around cultural sensitivities, access considerations based on relative size of investment, difficulties engaging due to limited resource, and challenges with the extent to which governments will listen to investors or implement change). • Sovereign engagement activities can be meaningful for both the issuer and the investor when managed well - typically for **insight purposes**. There can be opportunities to engage for influence, such as improved fiscal transparency and ensuring an operating environment that gives investors confidence.
Differences between sub-asset classes (e.g. high yield and investment grade)	• May be easier to engage with issuers in **investment grade** due to: typically larger size and resourcing of the issuer, or the issuer also having listed equity and being receptive to corresponding shareholder engagement. • Engagement with **high-yield issuers** can be fruitful as they have a smaller investor base and may be more willing to accommodate requests. Holding high-yield 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.
Emerging markets (EM) vs developed markets (DM)	• Accessibility of EM issuers is a key challenge for engagement for both corporate and sovereign. Typically, EM may be less aware or more resource-constrained than peers in DM. • BlueBay believe engagement is relevant for issuers in both markets, although subject matter may vary given differences in materiality. While there can be challenges in engaging with EM issuers, such engagement can be particularly useful to help better understand ESG practices where disclosure is weak, as well as to influence for change in line with best practices.
Conventional public debt vs structured credit	• Engagement is more straight forward with a single issuer. In the case of structured credit, although engagement is possible, the nuances of the asset class need to be taken into account. • When investing in a collateralised loan obligation, it is more likely that engagement will focus on the loan manager to understand their ESG practices and the extent to which such considerations are incorporated into selection process, rather than directly with issuers within the collateral pool.

- Property

NILGOSC's UK property manager, LaSalle, provided a snapshot of activity undertaken by over the period, two examples of which are:

Investment Manager: LaSalle

Case Study: Market place, Burgess Hill (shopping centre)

Engagement: LaSalle supported the Burgess Hill Food Bank over the summer of 2022, setting up a donation point in the centre for non-perishable food items and raising awareness for the cause via the property's social media channels.

The Royal Airforce Association (RAFA) were invited to the shopping centre during September 2022 to raise awareness and funds to support local serving and former RAF personnel and their families.

Investment Manager: LaSalle

Case Study: Portfolio-wide tenant engagement

Engagement: In 2022, LaSalle began a programme of tenant engagement, specifically focused on sustainability, and in particular the need to capture Scope 3 emissions (tenant energy data) for use in the portfolio TCFD reporting and Net Zero Carbon Audits. Collation of the data will also enable the manager to track energy consumption year on year.

As at June 2023, 73% of the combined portfolio's tenants (by floor area) had been contacted to determine if willingness to share energy data, with 59% [of the combined portfolio] agreeing to provide energy data.

Where possible, NILGOSC also engages directly with 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 2023, 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 2023

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 non-disclosure campaign are twice as likely to disclose. Collaborative engagements undertaken by NILGOSC over the period include:

- In August 2022, NILGOSC supported a Statement on Sustainable Corporate Reporting. The joint PRI, IFAC and WBCSD statement, called on major standard-setting efforts to align and support a global baseline for sustainability-related information – by aligning on the key concepts, terminologies and metrics upon which disclosure requirements are built.
- In November 2022, the 2022 Global Investor Statement to Governments on the Climate Crisis was submitted to governments in advance of COP27. NILGOSC was one of 602 investor signatories, representing $42 trillion USD in assets under management. The statement was a unified investor call on governments to implement the policy actions needed to address the climate crisis and accelerate the transition to a net zero emissions economy. It was coordinated by

the seven Founding Partners of The Investor Agenda – AIGCC, CDP, Ceres, IGCC, IIGCC, PRI and UNEP FI.

- NILGOSC endorsed the PRI's Advance initiative. The initiative was launched in December 2022 with the objective to advance human rights and positive outcomes for people through investor stewardship.
- In June 2023, NILGOSC signed an IIGCC-facilitated letter to the EU commission on Preserving the EU Taxonomy's sustainable purpose.
- In June 2023, NILGOSC responded to a formal consultation launched by the Department of Agriculture, Environment and Rural Affairs (DAERA) on developing the future regulations that will place climate change reporting duties on specified public bodies in Northern Ireland.
- Over the period, NILGOSC renewed its commitment to CDP, signing up to their Climate Change, Forests and Water programmes in January 2023. NILGOSC was also a signatory to both the CDP's 2022 and 2023 Non-discloser campaigns (NDCs) over the period, which are investor-led engagement campaigns with the aim of increasing corporate transparency on climate change, deforestation and water security. In the 2023 NDC, NILGOSC was one of 288 signatories with nearly $29 trillion USD in assets. CDP signatories that participate in the NDC can become either a lead or a co-signer. Lead signatories are responsible for selecting the non-disclosing companies who will be targeted by the campaign and manage the overall engagement with them, with administrative and logistical support from CDP. Co-signers demonstrate their support for the campaign by undersigning all company-specific engagement letters sent by the lead signatories to the targeted companies. NILGOSC was a co-signer on the 2023 campaign. According to the CDP's website[3],

  > "Overall, 317 companies disclosed after engagement by the FIs [Financial Institutions]. This breaks down to 221 companies disclosing on climate change, 58 on forests, and 66 on water security.
  >
  > Companies were twice as likely to disclose after being targeted by FIs through the campaign.

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

> Signatories had the biggest impact on encouraging companies to disclose through CDP's forests questionnaire, compared to climate change and water. Companies targeted in the NDC were 6.8 times more likely to disclose on forests.
>
> Financial institutions had the biggest impact with companies in the biotech, health care, and pharma sectors, on water disclosure. The response rate for these sectors was 7.6 times higher than that of the control group. This highlights that high-impact sectors can react quickly to investor pressure.
>
> Companies in Europe and Asia (excluding Japan) engaged by FIs were three times more likely to disclose."

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

- NILGOSC was also a signatory to the CDP's 2022/23 Science Based Targets Campaign. The annual campaign, first launched in October 2020, aims to incentivise high-impact companies, listed on global stock markets, to set science-based targets (SBTs). According to the campaign website[4]:

> "The targeted companies' combined Scope 1 and 2 GHG emissions (the targeted emissions) total around 7 Gt (gigatons) of CO2e, equivalent to the emissions of the US, UK and France combined.
>
> 1,060 high-impact companies were targeted in CDP's 2022-2023 SBT Campaign. 99 new companies with a combined market cap of $3.57 trillion have joined the SBTi as a result: 58 of those have near-term commitments; 8 have net-zero commitments; and 33 have both near-term and net-zero commitments.
>
> 318 financial institutions (FIs) and multinational firms with $37 trillion in assets and spending power supported the campaign, - an increase of almost 30% from the previous year."

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.

4 https://www.cdp.net/en/investor/engage-with-companies/cdp-science-based-targets-campaign/sbt-progress-report-2023

Asset managers

During the 12 months to 30 June 2023, NILGOSC also asked its investment and fund managers for details of the collaborative engagements and initiatives they were involved in. Some examples from a sample of managers are included below.

- Fixed Income Manager

Investment Manager: BlueBay

Background: The BlueBay Emerging Markets (EM) debt desk has been discussing the topic of deforestation with Brazil since the middle of 2020. Almost three years ago BlueBay signed a letter calling on the Bolsonaro administration to make greater efforts to tackle forest fires, punish illegal land use change, enforce the Forest Code and boost transparency in supply chains at risk of contamination by deforestation. The response to that letter was sufficiently enthusiastic to formalise the collaborative engagement under the banner of the **Investor Policy Dialogue on Deforestation** (IPDD), and BlueBay has co-chaired the initiative since establishment. One objective is to slow (or even reverse) the rate of deforestation.

Engagement: In December 2022, BlueBay changed Brazil's sovereign ESG evaluation ahead of the transition from Bolsonaro to Lula on 1 January 2023. The marked shift in environmental policy, and particularly the approach to deforestation and international cooperation on climate change, underpin a re-rating of the Investment Score from -2 to +1 (noting the manager's use of a -3 to +3 scale).

In April 2023, BlueBay held a week of meetings in Sao Paulo, Brasilia and the Amazon, which marked an important escalation of engagement with the Brazilian authorities on deforestation. BlueBay is confident that the new Lula government is committed to tackling deforestation as the centrepiece of their climate agenda and have re-engaged with the international community on the topic. The manager identified some short-term gains that are available by simply undoing some of the intentional neglect of the previous four years, but more sustained progress will depend on the political will to tackle vested interests by forcing transparency on supply chains.

In summary: a combination of elements is required to turn the tide on rising levels of deforestation in Brazil. In addition to public commitment from the government, concrete steps must be taken to increase command-and-control operations to enforce the current law (e.g. establishing databases that track cattle through their life-cycle and linking them to satellite mapping of deforestation cross-referenced to rural property registers). There are political costs to such measures, and BlueBay will continue to highlight the benefits of action and the costs of inaction in terms of the economic outlook for Brazil, and therefore the opportunities and dangers for their portfolios and other investments in the country.

- Infrastructure manager

Fund Manager: Antin Infrastructure Partners

Case Study: Industry Body membership

Antin has been a signatory member of the United Nations supported **Principles for Responsible Investment** (PRI) since 2009 and is today an active member of the PRI community, regularly attending and participating in the organisation's events, conferences, workshops, and webinars. Antin is also a member of the following:

- the UN PRI-endorsed **Initiative Climat International** (ICI) (through which the firm commits to the TCFD recommendations and publicly supports the Paris agreement);
- **France Invest's ESG Commission**;
- the **Global Infrastructure Investor Association** (GIIA)'s **ESG Working Group;**
- the Institutional Limited Partners Association (ILPA)'s **Diversity in Action Initiative**;
- the Ceres **Investor Network on Climate Risk and Sustainability** (INCR);
- an affiliate member of **Invest Europe's Responsible Investment Roundtable**; and
- a signatory of **France Invest's Gender Charter**.

- Listed equity manager

Investment Manager: Unigestion

Over the reporting period, Unigestion joined two new collaborative initiatives:

- **Access to Medicine Foundation** stimulates and guides pharmaceutical companies to do more for the people living in low and middle-income countries without access to medicine. As pharmaceutical companies are a mainstay of many of the manager's defensive equities portfolios, the initiative is of particular interest and will provide further context for discussions with firms such as Roche, Novo Nordisk and Johnson & Johnson.
- **Carbon Disclosure Project** (CDP) which is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. The world's economy looks to CDP as the gold standard of environmental reporting with the richest and most comprehensive dataset on corporate and city action.

- Looking forward

During the 2023/24 year, NILGOSC will continue to monitor upcoming opportunities to collaborate, with a view to participation in relevant engagements and consultations, particularly those with a focus on Climate risk.

NILGOSC will also continue to engage with and encourage its managers and advisors to participate in collaborative engagement activity.

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 5.01% of the Fund's assets as at 30 June 2023), provided commentary on their approach to the escalation of their stewardship activities:

Investment manager: Unigestion.

"If we are not satisfied with the progress of our engagement objectives or responsiveness of companies we engage with, we will make a case-by-case assessment for escalation.

We have a number of different ways to escalate our engagements:

- **Collaborative engagement**: collaboration with other investors, asset managers and asset owners as a collective way to pursue change.
- **Proxy Voting**: Voting against management at company meetings.
- **Supporting shareholder resolutions**: initiated by third-parties, or joining shareholder groups.
- **Partial or complete divestment**: Although our preferred method of engagement is through constructive dialogue, if all other escalation channels have been exhausted and we see insufficient improvement over a reasonable time frame, we may reduce our exposure to reflect the rising risk of investment or decide to divest entirely of our holdings.

Baillie Gifford (who managed 5.90% of the Fund Assets as at 30 June 2023) provided an example of their escalation of engagement with an issuer, presented overleaf:

Investment Manager: Baillie Gifford

Case Study: Illumina Inc, a gene sequencing company

Context: In recent years Baillie Gifford became concerned about leadership at Illumina; particularly regarding two strategic decisions taken by then-CEO, namely:

- the repurchase of GRAIL, a developer of non-invasive liquid biopsy tests, which was spun out of Illumina in 2016; and
- the decision to close the deal before being granted full regulatory approval.

Ongoing industry research raised concerns about increasing competition. Despite being the global leader in its field, Illumina's growth had decelerated in recent years, in part due to a lack of internal innovation and poor strategic decisions. As a result of concerns, Baillie Gifford reduced their holding size in Q4 2022.

Engagement: In February 2023, activist investor (Carl Icahn) took a stake in the company, proposing three board nominees, along with the rapid resolution of the GRAIL acquisition. Illumina reached out to Baillie Gifford to discuss the matters and, after conducting their own research, they agreed to support management on that occasion, albeit after noting various concerns about the company's progress and future plans. In May 2023, Baillie Gifford met with various directors and executives (including: the Chairs of the audit committee, and the nomination and corporate governance committees; the CEO; and the CFO. Discussions were wide ranging, addressing Baillie Gifford's key concerns around leadership/growth.

Activity since: Shortly thereafter, the CEO and Chair of the Board stepped down, and new Board directors joined. With signs of intensifying competitive pressures and ongoing regulatory challenges relating to the GRAIL acquisition, Baillie Gifford further reduced the portfolio's Illumina holding in October 2023. Further engagement with various directors and executives followed to discuss the recent appointments, changes to executive compensation, and the latest regulatory deliberations concerning GRAIL. Engagement with Illumina has continued over multiple years with the expectation that the core business (which Baillie Gifford assert remains important to the gene sequencing revolution) remained a key strength and that the situation with the poorly-executed acquisition of GRAIL would ameliorate. However, concerns remailed regarding the erosion of Illumina's competitive position in the sequencing market, and Baillie Gifford therefore decided to sell the remaining holdings from the portfolio in late 2023.

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 2022 and 2023 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 non- disclosure campaign are 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. In the 2022 campaign NILGOSC signed letters to companies in which it had holdings. For the 2023 campaign, co-signers like NILGOSC demonstrated their support for the campaign by undersigning all company-specific engagement letters sent by the lead signatories to the targeted companies. 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 2023, NILGOSC received £2,977.67 (2022: £303,856.19) 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. 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; references workforce-reporting; supports the recommendations of the FTSE Women Leaders Review and the Parker Review on board diversity; and expects companies to implement the UN Guiding Principles on Business and Human Rights (UNGPs). 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. Coverage was recently extended to include equity holdings held in fixed income portfolios (often as a result of a debt-to-equity restructure).

NILGOSC's proxy voting service provider, 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 2023

NILGOSC reports on its stewardship activity via an annual report prepared by its proxy voting service provider, Minerva Analytics Ltd (Minerva), extracts of which are shared below. NILGOSC's voting activity for the 12 months to 30 June 2023, 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 2023, NILGOSC voted at 203 shareholder meetings held by 151 companies (2022: 202 meetings held by 156 companies), listed in the following jurisdictions: Denmark, France, Germany, Netherlands, Switzerland, United Kingdom, Canada, United States, Brazil, China, Hong Kong, India, Indonesia, Japan, Mexico, Peru, Singapore, South Africa, South Korea, Taiwan and Thailand.

NILGOSC voted on 2,308 resolutions (2022: 2,310), voting contrary to management recommendations on 39.82% of resolutions (2022: 42.8%).

Table 6: Summary of NILGOSC's voting over 12 months to 30 June 2023

Resolution Category	Total number of resolutions proposed	NILGOSC Dissent	Average Shareholder Dissent*
Audit & Reporting	283	70.32%	2.37%
Board	1,177	35.26%	7.14%
Capital	163	12.88%	3.17%
Charitable Activity	2	0.00%	1.48%
Corporate Actions	74	6.76%	3.03%
Other	2	100.00%	-
Political Activity	9	66.67%	14.62%
Remuneration	356	52.12%	8.45%
Shareholder Rights	155	14.84%	11.45%
Sustainability	87	71.11%	20.85%
Total	**2,308**	**39.82%**	**7.21%**

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

In the period to 30 June 2023, NILGOSC opposed six management-proposed resolutions that were defeated, inclusive of one say-on-pay frequency vote in the US (in the prior year, 10 management proposals NILGOSC opposed were defeated, including two say-on-pay frequency votes in the US). NILGOSC voted against four remuneration reports that were voted down by shareholders (at CME Group Inc, Illumina Inc, Netflix Inc and Take Two Interactive Software Inc). Additionally, NILGOSC backed the successful annual say-on-pay frequency vote at Tesla, despite the Board's backing of a triennial frequency. NILGOSC also voted against the re-election of Illumina Inc's Chair, which was voted down by shareholders.

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 22 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 17.76% average support. One resolution, requesting a report on the use of plastic packaging at General Mills Inc, was successful.

NILGOSC also supported a further 80 shareholder resolutions, of which there were: 31 related to human rights and workforce issues; 14 on board related issues, such as the adoption of a policy requiring the chair to be an independent director; six on political activity (mainly requesting enhanced disclosure); seven on shareholders rights; 11 remuneration-related proposals; and 11 proposals on other ESG issues. Five of these shareholder proposals were successful:

- **Sustainability:** one proposal requesting a report on worker safety and well-being (Dollar General Corp), and one proposal requesting a report on the effectiveness of diversity, equity, and inclusion efforts (Expeditors International of Washington Inc).
- **Shareholder Rights:** one proposal requesting the removal of supermajority voting requirements (AbbVie Inc).
- **Board:** one proposal requesting the shareholder ability to nominate directors (Tesla Inc).
- **Remuneration:** one proposal asking for a shareholder vote on severance payments (Expeditors International of Washington Inc).

Over the year to 30 June 2023, shareholder proposals received a lower level of average support (i.e. votes cast in favour) than in the previous year (20.32%, compared to 22.86%) representing a consecutive decline in average shareholder support on shareholder proposals. In the previous year, nine shareholder proposals that NILGOSC supported were 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.

Passively Managed Equities

For passively managed equities, which made up 29.92% of the fund assets at 30 June 2023 (2022: 26.53%), 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.

For the year ending 30 June 2023, LGIM provided some case studies detailing significant votes, two of which are provided below:

Investment manager: Legal and General Investment Management (LGIM)

Case Study: The Coca-Cola Company (Coca-Cola)

Summary of the Resolution: Report on Congruency of Political Spending with Company Values and Priorities

LGIM Vote: 'For' (which was against Management Recommendation)

Communication of Voting decision: LGIM pre-declared its vote intention on the LGIM Blog, and as part of that process, issued a communication to the company ahead of the meeting.

Rationale for the Voting Decision: LGIM expects companies to be transparent in their disclosures of their lobbying activities and internal review processes involved. While the level of transparency Coca-Cola provides in terms of its lobbying practices is appreciated, it is unclear whether the company systematically reviews any areas of misalignment between its lobbying practices and its publicly stated values. LGIM believe that the company is potentially leaving itself exposed to reputational risks related to funding organisations that take positions that are contradictory to those of Coca-Cola's stated values, and potentially attracting negative attention that could harm their public image and brand. Producing a report on the congruency of political spending with company values and priorities may help Coca-Cola to identify and question its previous political spending priorities.

Outcome of the Vote: 29.1% (Fail)

Implications of the Outcome: LGIM will continue to engage and monitor progress.

Criteria for "significant" vote: Pre-declaration and Thematic – Lobbying

LGIM believes that companies should use their influence positively and advocate for public policies that support broader improvements of ESG factors (including, for example, climate accountability and public health). In addition, we expect companies to be transparent in their disclosures of their lobbying activities and internal review processes involved.

Investment manager: Legal and General Investment Management (LGIM)

Case Study: Danaher Corporation

Summary of the Resolution: Elect Director - Linda Filler

LGIM Vote: 'Against' (which was against Management Recommendation)

Communication of Voting decision: LGIM publicly communicates its vote instructions on its website the day after the company meeting, with a rationale for all votes 'against management'. It is LGIM policy not to engage with investee companies in the three weeks prior to an AGM (as engagement is not limited to shareholder meeting topics).

Rationale for the Voting Decision:

- Average board tenure: LGIM expect a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.
- Diversity: LGIM expect companies to have at least one-third women on the board.
- Independence: LGIM expect both the Chair of the Committee and the Lead Director to have served on the board for no more than 15 years in order to maintain independence and a balance of relevant skills, experience, tenure, and background.

Outcome of the Vote: 88.4% (Pass)

Implications of the Outcome: LGIM will continue to engage, publicly advocate their position on these issues and monitor company and market-level progress.

Criteria for "significant" vote: Thematic - Diversity:

LGIM views gender diversity as a financially material issue for their clients, with implications for the assets they manage on clients' behalf.

In the case of Danaher Corporation, NILGOSC also holds this company in its actively managed equities portfolio, and therefore voted on the resolution too. NILGOSC also voted 'against' the election of the director, for similar reasons as LGIM detailed above.

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 2023

NILGOSC asked its asset managers to provide examples of portfolio specific engagements undertaken over the year, a sample of which covering: passive equity; global equity; fixed income; and property are included under Principle 9.