



## **Statement of Responsible Investment**

**Published: November 2023**

**Next Review Due: November 2026**

## Contents

<b>1. INVESTMENT BELIEFS</b> .....	<b>3</b>
<b>2. STEWARDSHIP OF THE FUND</b> .....	<b>5</b>
The UK Stewardship Code.....	5
Principles of Responsible Investment .....	6
Voting Policy .....	6
Engagement.....	7
Climate Risk.....	8
<b>3. INVESTMENT DECISIONS</b> .....	<b>10</b>
<b>4. REVIEW</b> .....	<b>11</b>

## 1. Investment Beliefs

1.1. NILGOSC's overriding obligation is to act in the best interests of the Fund beneficiaries. 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, which includes the risk that environmental, social and governance (ESG) factors negatively impact the value of investments held if not understood and evaluated properly. NILGOSC therefore performs its fiduciary duty in accordance with its investment beliefs, which include:

- 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.

## Statement of Responsible Investment

- 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.
- 1.2. NILGOSC has developed this Statement of Responsible Investment to outline how these beliefs are incorporated into its investment practices. The investment beliefs are also reflected in NILGOSC's: Statement of Investment Principles; Voting Policy; and the Climate Risk Statement.

## 2. Stewardship of the Fund

- 2.1. The UK Stewardship Code defines Stewardship as “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”<sup>1</sup>. 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. This differs from ethical investment, which generally focuses on excluding or including companies from an investment portfolio (positive or negative screening). By contrast, responsible ownership involves investors using their shareholder power to influence the companies they invest in.
- 2.2. NILGOSC does this by voting at shareholder meetings and by engaging, both directly and indirectly, with company senior management when ESG issues of concern have been identified. This may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters, as well as on issues that are the immediate subject of votes at general meetings. The purpose of voting and engagement is to improve corporate behaviour and to protect shareholder value.
- 2.3. NILGOSC is an active investor and seeks to use its influence to engage with policy makers, governments, asset managers and individual investee companies in respect of its actively managed holdings.

### The UK Stewardship Code

- 2.4. In the United Kingdom, the UK Corporate Governance Code identifies the principles that underlie an effective board; while the UK Stewardship Code sets out the principles of effective stewardship by investors, both of which are the responsibility of the Financial Reporting Council (FRC).

---

<sup>1</sup> UK Stewardship Code 2020 <https://www.frc.org.uk/investors/uk-stewardship-code>

- 2.5. The UK Stewardship Code focuses on the activities and outcomes of stewardship. 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. The FRC will assess each report and if it meets the FRC's reporting expectations, the organisation will be listed as a signatory to the Code. Once listed, organisations must continue to report annually in order to remain signatories. More information about the UK Stewardship Code is available at:  
<https://www.frc.org.uk/library/standards-codes-policy/stewardship/uk-stewardship-code/>
- 2.6. NILGOSC supports the principles of, and is a signatory to, the Stewardship Code, seeking to promote these principles both directly and indirectly through the mandates given to its investment managers. In order to demonstrate effective stewardship of the assets it holds, NILGOSC prepares a comprehensive annual Stewardship Report to a June year end, submitting their report to the FRC for assessment. NILGOSC's reports are published on its website.

### Principles of Responsible Investment

- 2.7. As a means of demonstrating its commitment to responsible investment practices, NILGOSC has adopted the United Nations supported Principles for Responsible Investment (PRI). This global benchmark is applicable across all asset classes and provides a forum for NILGOSC to collaborate with other like-minded investors on engagement initiatives. As a signatory, NILGOSC reports on its implementation of the principles, via the PRI reporting framework, on an annual basis.

### Voting Policy

- 2.8. 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.

- 2.9. NILGOSC expects the companies in which it invests to comply with ESG best practice and has developed a Voting Policy, which provides a basis for communicating with investee companies and holding directors accountable for the stewardship of the companies they manage. NILGOSC's Voting Policy represents its view on what it believes are important elements of good corporate governance and the principles which will be used to determine voting decisions on specific issues. A copy is available on its website at: <https://nilgosc.org.uk/pension-fund/being-a-responsible-investor/voting-policies-activity/>
- 2.10. NILGOSC will exercise its voting rights, if possible, at all company meetings within its actively managed equity portfolios and will vote against management where there are significant ESG failings. An annual summary of NILGOSC's voting activity is publicly available on its website, as well as detailed monthly disclosure of votes cast, released on a quarterly basis.
- 2.11. For passively managed equities, votes are cast by NILGOSC's passive investment manager, according to its own voting policies. The manager reports to NILGOSC on its voting activities on a quarterly basis.

### Engagement

- 2.12. NILGOSC acknowledges that good ESG practices can favourably impact both financial performance and society in general. Accordingly, NILGOSC believes that engagement with companies is a key part of any responsible investment strategy.
- 2.13. NILGOSC requires its active managers to monitor best practice in this area and ensure that ESG considerations, where relevant, are taken into account in the investment management process. All active investment managers are instructed to engage, on NILGOSC's behalf, with those companies where ESG policies fall short of acceptable standards and where this is likely to have a detrimental effect on the long-term value of the company.

- 2.14. NILGOSC requires its investment managers to provide regular reporting on such engagement activity and assesses compliance through its quarterly balanced scorecard monitoring process.
- 2.15. NILGOSC will engage directly with the companies in which it invests. In cases where NILGOSC intends to, or has, voted against a management recommendation at a European-listed company's Annual General Meeting (AGM), NILGOSC issues an engagement letter outlining its rationale for doing so. It is hoped that by providing this explanation, the flow of information between companies and their shareholders can be improved. When possible, NILGOSC aims to write to these companies in advance of the AGM to make engagement as effective as possible.
- 2.16. NILGOSC will seek to work collectively with other likeminded 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. A list of groups and initiatives which NILGOSC is a signatory to, or member of, can be found on the NILGOSC website at:  
<https://nilgosc.org.uk/pension-fund/being-a-responsible-investor/engagement-initiatives/>
- 2.17. NILGOSC will seek to recover 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.
- 2.18. 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.

### Climate Risk

- 2.19. NILGOSC believes that climate change is a global challenge for governments, corporations and investors alike. Of all the ESG risks facing investors, climate change has arguably the greatest potential for widespread impact across individual corporations, sectors, asset classes and economies,



and as a global investor, NILGOSC recognises climate risk is a key investment risk.

- 2.20. As well as risks, the changing climate can also present opportunities for pension fund investors. Investment practices should therefore seek to protect assets from climate risks such as weather events and regulatory change, while simultaneously seizing the new opportunities that a low-carbon economy presents.
- 2.21. NILGOSC has developed a Climate Risk Statement to sit alongside the Statement of Responsible Investment<sup>2</sup>. It acknowledges the importance of climate risk as an investment issue and sets out climate risk framework within which NILGOSC operates. A copy is available at:  
<https://nilgosc.org.uk/pension-fund/being-a-responsible-investor/climate-risk/>
- 2.22. NILGOSC's approach includes: collaborating with like-minded investors to engage with governments and companies; engaging with the Fund's managers to monitor how climate change risk is being taken into account when making investment decisions; as well as, continuing to increase holdings in low-carbon transition sectors, such as wind and solar, energy-from-waste, and public transport, amongst other sectors.
- 2.23. NILGOSC considers the disclosure of climate risks and opportunities to be essential if shareholders are to determine whether the companies in which they invest are adequately addressing the changing climate. NILGOSC actively supports the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD), demonstrating that, alongside other supporters, it is taking action to help build a more transparent and resilient financial system through climate-related disclosure, and encouraging governments and companies to disclosure. Reporting is not mandatory for NILGOSC, but as an official supporter, NILGOSC prepares annual TCFD-

---

<sup>2</sup> By highlighting climate change, rather than other Responsible Investment risk factors, NILGOSC is not asserting that climate risk has, for all assets, greater economic significance than other factors. NILGOSC's motivation for referring specifically to climate change risk derives from its recognition that it is a risk factor of particular importance to a number of stakeholders, and it is communicating its investment beliefs about climate change for reasons of transparency.

aligned reports to communicate the steps the Fund is taking to manage climate-related risks and incorporate climate risk management into its investment process. NILGOSC's reports are published on its website.

- 2.24. A portion of NILGOSC's assets are held passively. Passively managed funds are designed to follow an index, which means no active decision-making is undertaken when selecting stocks and therefore ESG risks cannot be taken into account. However, a decision can be made as to which index to track. Therefore, as a means of mitigating climate risk in the Fund's passive equity portfolio, NILGOSC's passive equities track the climate-tilted 'Solactive L&G Low Carbon Transition Developed Market' index. The strategy behind the index is to self-decarbonise by reducing exposure to carbon emissions over time.

### 3. Investment Decisions

- 3.1. For actively managed assets, NILGOSC delegates the selection of investments held to its asset managers and does not impose any investment restrictions in regard of ESG issues, nor make any investments specifically for ESG reasons. However, NILGOSC has instructed its active managers, across all asset classes, to take account of ESG considerations provided the primary financial obligation is not compromised.
- 3.2. NILGOSC seeks to ensure that the asset managers and advisors it appoints are capable of appropriately considering ESG issues. NILGOSC assesses these capabilities at the selection and appointment stage via the tender process by applying mandatory ESG criteria. NILGOSC will only appoint managers and advisors who have demonstrated that they meet an acceptable threshold for ESG capabilities. It will monitor the managers' action in this area and will work with managers and the investment sector to ensure sufficient data is available to aid effective decision making.
- 3.3. All managers are required to provide regular reporting on responsible investment activity undertaken and compliance is assessed as part of NILGOSC's quarterly balanced scorecard monitoring process.

- 3.4. NILGOSC also encourages its real asset managers to adopt sustainable asset management practices with respect to its infrastructure and property holdings and monitors their progress at appropriate intervals.

#### 4. Review

- 4.1. This document is reviewed every three years. It will be updated sooner if required.