NILGOSC

NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION COMMITTEE

Stewardship Report 2024

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Stewardship Report 2024
For the Year Ended 30 June 2024

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

25 March 2025

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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 2020 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 from whom reporting improvements were needed (Tier 2). As well as striving for overarching adherence at a Fund level, NILGOSC also required its appointed Investment Managers to 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 current UK Stewardship Code took effect from January 2020. The 2020 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 the two years since, NILGOSC has continued to meet the expected standard of reporting with its second and third Stewardship Report submissions, remaining a signatory to the UK Stewardship Code.

In 2024, the FRC initiated a fundamental review of the Stewardship Code, which culminated in the launch of a public consultation in November 2024. The consultation set out a revised Code, alongside proposals on the process for reporting. The consultation closed for responses on 19 February 2025, and it is anticipated that an updated Code will be published in the first half of 2025. In the meantime, the UK Stewardship Code 2020 will continue to operate as usual, and all previously published expectations of reporting remain relevant. This report covers the 12-month period ending 30 June 2024. 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 2024 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 'Strategic Planning workshop' in May 2024. The review kicked off with an assessment of the current operating environment, followed by a Stakeholder Analysis to identify current stakeholders and their needs and expectations, both at present and in the future. A SWOT analysis was also undertaken to identify and examine NILGOSC's strengths and weaknesses, opportunities and threats. The outcome of the review was a revised statement of NLGOSC's Vision, Mission, Strategic Aims and Values, designed to drive service delivery over the following three-year strategic planning period.

NILGOSC recognises the important role of consultation in the strategic planning process. Keen to ensure that interested parties are given the opportunity to comment on and shape the service that it provides, an eight-week consultation process was launched in September 2024 seeking views from stakeholders in the NILGOSC pension scheme. Scheme employers, staff and other representative groups and organisations were directly invited to take part. The consultation closed in November 2024, and a summary of responses is available on the NILGOSC website.

Seven overarching strategic themes form the basis of the framework upon which strategic planning and decision-making rely: engagement; innovation; collaboration; operational excellence; governance; financial sustainability; and stewardship.

NILGOSC's Vision is "*to provide an excellent and sustainable pension scheme*" and its mission statement is "*to operate the pension scheme efficiently, effectively and sustainably 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 2024 to 31 March 2027 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
- Responsiveness, taking action in a timely manner
- Operational excellence through innovation
- Collaboration to achieve shared goals
- Fairness, embracing equality and diversity in its widest sense
- Honesty, integrity and openness in our engagement with stakeholders
- Sustainability, both as an investor and as a pension scheme
- Maximising returns within acceptable risk parameters
- Being understandable, providing simple, clear and complete information

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 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.

The Investment strategy is also reviewed periodically, and the next review will be undertaken in 2025/26. The previously agreed 2021 Investment Strategy remains in place until then.

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 (RI) 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 equities 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, consultants and service providers is critical to ensuring that effective stewardship is achieved while delivering high-quality service to all of NILGOSC's stakeholders.

Over the period, NILGOSC was recognised at the 2023 LAPF Investments Awards when it was awarded the Sustainable Investment Strategy (Climate) award. The award noted NILGOSC's work on addressing climate risk in the Fund, including: commencing voluntarily reporting against the Task Force on Climate-related Financial Disclosures (TCFD) recommendations; transferring £2.8bn of passively held assets to low carbon transition funds; and building up of its infrastructure portfolio which has included renewable assets.

Alignment with third parties

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

Over the reporting period, Aon Solutions UK Ltd (Aon) remained the pension scheme's Investment consultant. They were reappointed in September 2020, following a procurement exercise. The tender questionnaire was extensive, including a section on how a prospective consultant 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.

In the prior reporting period (to 30 June 2023), one of the contracts NILGOSC procured and awarded was that of the Fund's Global Custodian. It was determined that the custodian would be well placed to assist with the long-term compilation of TCFD-aligned carbon metrics, alongside other performance and risk metrics. Therefore, the requirement to do so was included in the tender specification for the first time. The new custody contract with the successful bidder, Northern Trust Company (Northern Trust) commenced on 1 September 2023, and so too did the provision of TCFD-aligned carbon analytics on a semi-annual basis. The frequency allows the team to focus on assessing progress of the portfolio over time, and it was determined that mid-year assessments would be useful to drive discussions with managers and question particularly high-emitting holdings outside of the busy year end period. It is also 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.

During the reporting period, NILGOSC's investment team undertook a single tender exercise, utilising 'Lot 4: Investment Management, Cost Monitoring and Reporting Services' of the National LGPS Framework for Investment Management Consultancy Services, to direct award a contract of up to two years to CEM Benchmarking to compile NILGOSC's cost transparency reporting. In the spirit of increased transparency and stewardship of the Fund's assets, NILGOSC has collected cost transparency data in respect of its investment portfolio on an annual basis since the 2017/18 reporting period. The purpose of doing so is to enable greater scrutiny, and therefore gain a better understanding of investment performance and the true costs of achieving that performance.

In May 2019, the Cost Transparency Initiative (CTI) was launched which provides a framework to help institutional investors better understand their investment costs. Created by an independent working group, NILGOSC was keen to support the initiative, and although the CTI framework is not a regulatory requirement, NILGOSC requires its managers commit to the transparent reporting of costs and submit annual cost data using the CTI template.

More information on the appointment and monitoring of managers and investment consultants 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, usually 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. Additionally, the Committee regularly reviews investment-related policies and statements such as the:

- Statement of Investment Principles;
- Funding Strategy Statement;
- Investment Monitoring Guidelines;
- Statement of Responsible Investment;
- Climate Risk Statement;
- Conflicts of Interest Policy; and
- Code of Conduct for Committee Members.

The Committee 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 consultant, 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 of 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 (RI), including climate risk, is delivered to the Committee via a combination of in-house training and attendance at external conferences. For example, the Committee attended the LGC Investment Seminar Scotland in October 2023, attending seminars on topics as diverse as: whether a “social focus makes investment sense” discussing the core strands of a healthy environment, inclusive society and stronger economy; “carbon analysis in multi-asset credit”; and “demystifying natural capital”. In February 2024, the Audit and Risk Assurance Committee

(ARAC), which is a sub-committee of the Management Committee, also received training from the internal auditors, Sumer NI (formally ASM Chartered Accountants), on the “hot topics” or risks that NILGOSC and other NI public sector bodies are facing and will continue to face in the coming years. ‘Environment/ ESG’ and ‘Governance’ were carved out as two of four key themes for NILGOSC going forward and for coverage at the training.

NILGOSC has a Committee Effectiveness Framework, which sets out the following eight key sections, and a list of indicators for each which exemplify good practice of an effective Committee, as well as warning signals that a Committee may not be conducting its business effectively:

- 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.

An assessment of the Committee’s effectiveness is an essential feature of the Governance Statement that NILGOSC has been required to produce since 2013. Therefore, a key feature of the Framework is an annual self-assessment questionnaire, which is completed online anonymously and aims to identify areas of Committee performance that are: strongest; those that need improvement; and priority areas to focus on over the next one to two years.

Indicators 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 2024, and the results were formally discussed by the Committee at its meeting in May 2024. NILGOSC aims to adhere to the highest standards of governance when conducting its business and the outcome of the evaluation for 2023/24 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.

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 Chartered Accountants, NILGOSC's externally appointed Internal Auditor at the time, completed an external review of Committee effectiveness in May 2019. The next external review is due and will shortly go out to tender.

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 2024 to 31 March 2027 Corporate Plan was approved by the Committee in February 2024. For 2024/25, 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 responsible investment policy;
- 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.

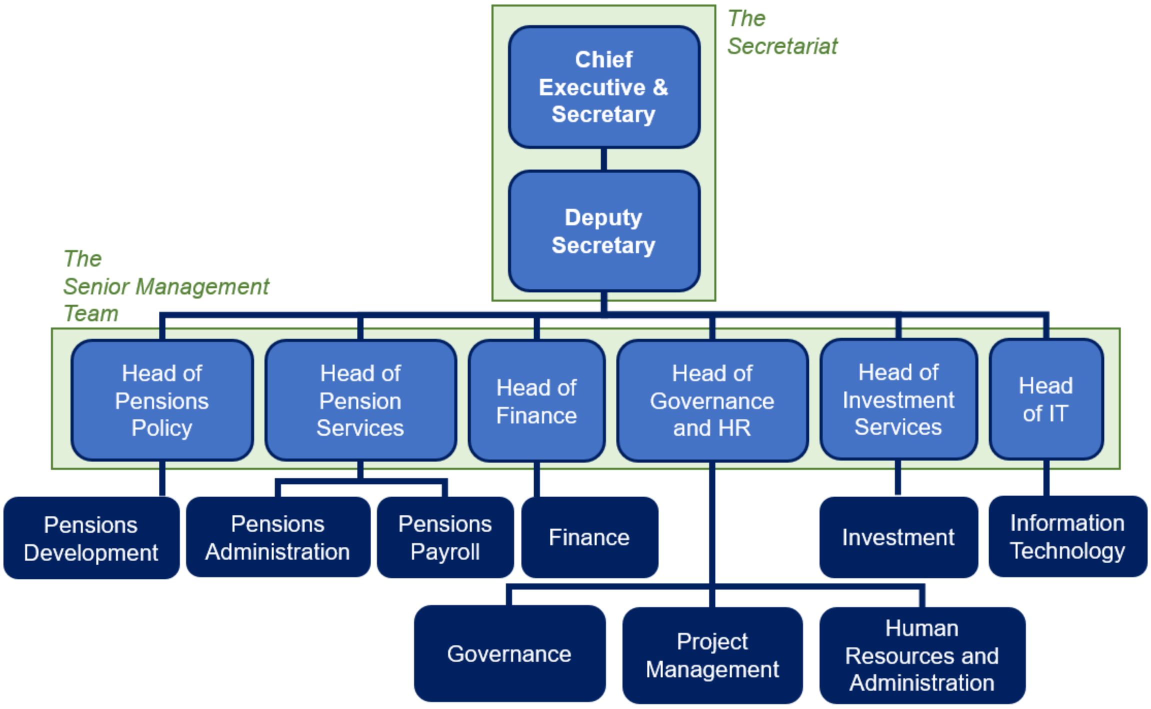
Performance against the Corporate Plan is also reported in the Annual Report at the end of each financial year. During the year under review, progress against the Corporate Plan objectives for the year to 31 March 2024 was reported to the Committee as at 30 September 2023 (at which point 89% of the corporate plan objectives remained on target to be achieved or substantially achieved by 31 March 2024) and at 31 March 2024 (at which point 85 out of 98 actions had a green status, translating to an achievement rate of 86.7% for the year). Like the prior year, the key contributing factor to those actions falling short of target during the year was ongoing recruitment and retention challenges. As one method of addressing retention, in December 2022, the Committee had approved a proposal to increase all pay grades by two spinal points. To enact the uplift, approval was required from the sponsoring Department and the Department of Finance, which was secured in September 2024.

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 85 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.

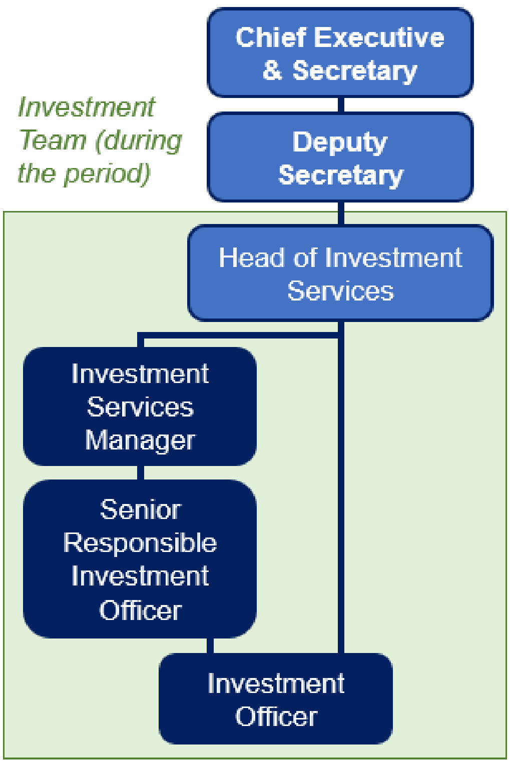
NILGOSC has a small, experienced investment team, which, during the period under review, was made up of: the Head of Investment Services; an Investment Services Manager; a Senior Responsible Investment Officer (SRIO); and an Investment Officer. In May 2024, the Committee agreed to the establishment of a new Investment Services Manager post, strengthening the team for subsequent reporting periods.

The Head of Investment Services and Investment Services Managers (in addition to the Secretariat, to whom they report) are Chartered Accountants. Holding the professional qualification is a mandatory requirement of each of the 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 the delivery of their roles, such as responsible investment. For example, during the period under review, the Investment Services Manager undertook further study, securing a "Certification in Sustainability Strategy, Risk and Reporting" from

Chartered Accountants Ireland. The course, delivered by experts in the field, over an eight-week period (October - November 2023) provided the team with more understanding of reporting frameworks that, while not applicable to NILGOSC as a UK local government pension fund, affect some of our underlying assets such as the Corporate Sustainability Reporting Directive (CSRD) and the EU Taxonomy.

The SRIO position was established and the role commenced ahead of the period under review (June 2023), to bolster resource in the team dedicated to RI, with a particular focus on: reviewing, maintaining and overseeing the implementation of the Committee's RI 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 SRIO reports directly to the Investment Services Manager, who is charged with leading and advising the Committee on NILGOSC's RI strategy; promoting transparency around NILGOSC's stewardship activities; and leading on the development of NILGOSC's climate mitigation strategy, amongst other duties; and who in turn reports to the Deputy Secretary. The Investment Officer, whose role is also heavily weighted to RI (particularly casting votes in line with the Voting Policy) reports to both the SRIO and the Head of Investment Services.

Figure 2: Investment team structure



The Secretary, Deputy Secretary, Head of Investment Services, Investment Services Manager(s), SRIO and Investment Officer all have specific RI and stewardship obligations written into their appraisal objectives, ranging from delivery of the RI objectives identified in the Corporate Plan, representing NILGOSC on relevant forums, or identifying third-party stewardship service needs. Staff objectives are set annually during a formal appraisal process. Progress against those objectives is reviewed by both the staff member and their direct manager on an annual basis (the appraiser), and the resultant written appraisals are 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 Annual General Meetings (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); the UK Pension Fund RI Roundtable; and Occupational Pensions Stewardship Council (OPSC), the latter two of which merged to form the Asset Owner Council (AOC) in early 2024.
- **PRI reporting** (*Principle 10*): NILGOSC reports on its implementation of the PRI's principles via annual reporting. Reporting has historically been mandatory for all

signatories, but in 2024, investor signatories who had reported the prior year and met the minimum requirements were given the option to avail of a 'grace period' without obligatory reporting. NILGOSC's commitment to transparency meant that it continued to report, albeit voluntarily, on the year ended 31 March 2024. More information on NILGOSC's latest results can be found on NILGOSC's website.

- **TCFD reporting** (*Principle 4 and 7*): although TCFD-aligned reporting is not yet mandatory for NILGOSC, as an official supporter of the (now-disbanded) taskforce, 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 2024, was published in October 2024, 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, serving to both maximise income from Fund assets, and to influence investee company behaviour aligned with the Statement of Responsible Investment.

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

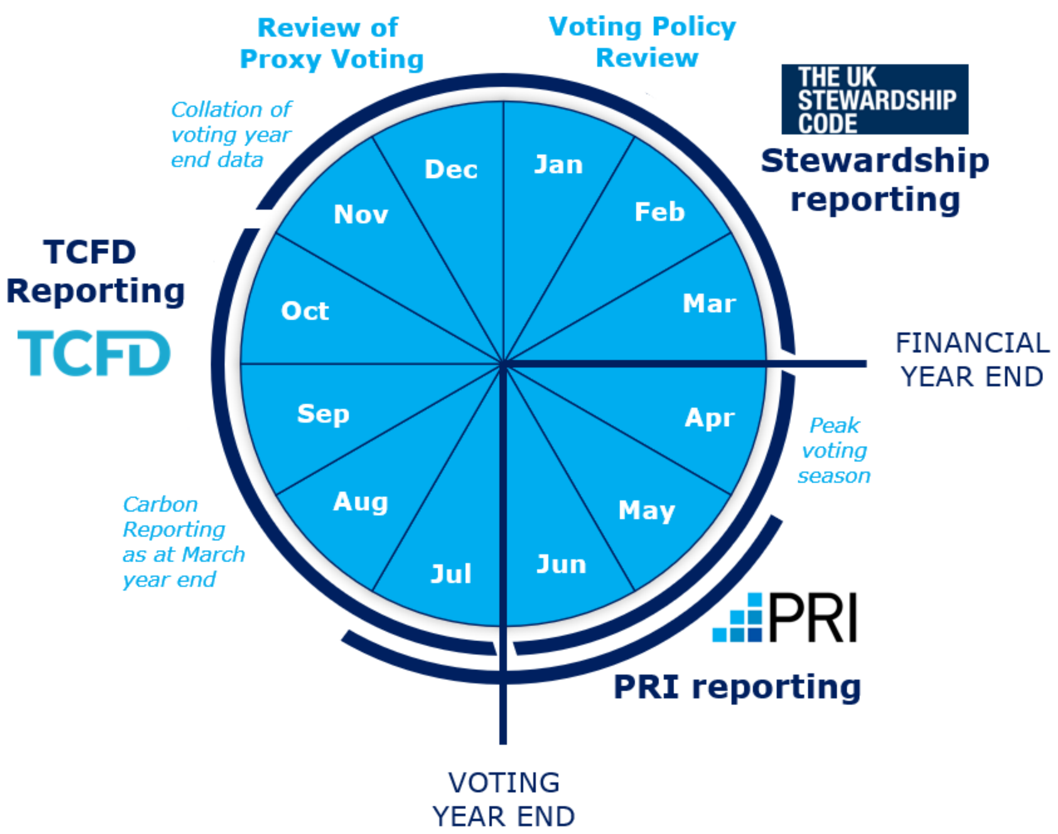


Figure 3: NILGOSC's annual Responsible Investment reporting responsibilities

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 2024

Asset Class	Manager	30.06.24
Global Equity	Baillie Gifford	5.83%
	Unigestion	5.66%
	Harris Associates	5.09%
Emerging Market Equity	William Blair	1.97%
Passive Funds – Equity & Index Linked Gilts	Legal & General Investment Management (LGIM)	38.83%
Absolute Return Bonds (ARB)	Royal London Asset Management	7.62%
	T. Rowe Price	6.66%
Multi Asset Credit (MAC)	BlueBay	6.95%
	PIMCO	6.16%
UK Traditional Property	LaSalle Investment Management	3.47%
Index Linked Property	LaSalle Investment Management	2.23%
Global Property	CBRE Investment Management (CBRE IM)	2.38%
	Partners Group	0.00%
UK Residential Property	M&G UK Residential Property Fund	1.03%
Infrastructure *(Primary Funds)*	Antin Infrastructure Partners	1.51%
	Copenhagen Infrastructure Partners	0.21%
	DIF Capital Partners	0.62%
	iCON Infrastructure Partners	0.38%
	IFM Global Infrastructure Partners	1.03%
	KKR Infrastructure	0.53%
Other (*including co-Investments and cash*)	Various	1.84%

NILGOSC requires that its managers monitor investee companies and engage with company management where ESG practices fall short of best practice. The Investment team is 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 is also responsible for liaising with the Investment consultant 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 consultants.

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 apply to how those managers hold and manage Fund assets, including specifying RI clauses.

For example, managers are asked to incorporate ESG factors into their investment and stewardship activities, and are required to comply with RI 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.

Infrastructure manager, IFM, provided their **Conflicts Management Policy**. The policy applies to all IFM staff, providing an overview of what to do to effectively identify, record, manage and monitor conflicts of interest or duty (actual, potential or perceived). The policy provides examples of conflict scenarios that may arise and the minimum controls to be implemented in each case, two of which are detailed below:

Investment Manager: *IFM (Infrastructure manager)*

Potential conflict: *A staff member is offered or accepts a gift/gifts or entertainment from an investor, investee or service provider, the value or nature of which might reasonably imply a level of influence. This applies equally to the giving of gifts or entertainment or political donations.*

Context: *There may be a perception that staff member's dealings with that body are not objective. That body may have unreasonable or unrealised expectations of service levels with IFM.*

Minimum controls: *Refuse the gift. If the gift has been accepted, ensure that it is recorded on the gifts register in MCO (IFM's internal compliance system). The People Leader will also consider removing the staff member from any commercial dealings with the donor.*

Potential conflict: *Two or more investment streams investing into the same asset*

Context: *There may be a perception that investment decisions are not made in the best interests of clients and instead made to maximise the return to IFM.*

Minimum controls: *The matter should be referred to the Conflicts Committee for consideration. The matter should be recorded, including the outcome, on the conflicts register.*

Similarly, infrastructure fund manager **Antin** (with whom NILGOSC has invested in five primary funds and five co-investment funds) includes clauses related to the **mitigation of conflicts of interest** within their Code of Ethics in their 2023 Universal Registration Document, an extract of which follows, noting no conflicts were reported in the period:

> *“**Management of conflicts of interests**: The Board of Directors has implemented a policy for managing conflicts of interests (see Article 2 of the Internal Rules) which ensures that **any Director shall inform the Chairman** of his or her knowledge of **any conflict of interest (even potential)**, whether or not it concerns him or her directly, specifying whether the interest is **direct** or **indirect** and the **nature of the interest**. The Director concerned is then required to abstain from participating in the part of the Board or committee meetings in which the situation giving rise to the conflict of interest is discussed and does not receive the preparatory support documentation and the relevant section of the minutes.*
>
> *In addition to the above and in accordance with the Internal Rules, the Directors are also required to:*
>
> - ***notify the Board** of Directors and the Chair of the Nomination and Compensation Committee **before accepting** any personal duties in companies or business activities that compete with Antin. The Board will then determine whether it is feasible for the concerned Director to continue as a director of the Company in view of the duties carried out in the entity exercising a competing activity, and the conditions under which his or her directorship within the Company could be continued. In particular, it will assess the restrictions to be implemented with regard to the sharing of competitively sensitive information, and whether the Director in question will still be able to perform his duties, and comply with his obligations of attendance, diligence, and involvement*
> - *more generally, **inform the Board** of Directors of **any offices** held in other French or foreign companies, including any seats held on the Board **committees** of these companies*
>
> *No conflicts of interest or potential conflicts of interest between any of the Directors’ duties in respect of the Company and their private interests or other duties were brought to the attention of the Chairman or the Board of Directors or the Company in 2023.”*

BlueBay, who manage a Multi Asset Credit (MAC) portfolio for NILGOSC (6.95% of Fund assets as at 30 June 2024) provided a number of detailed examples of potential conflicts of interests, one of which is detailed below:

Manager: *BlueBay, part of RBC Global Asset Management (RBC GAM)*

Potential Conflict: *Personal relationships affecting potential engagement*

Context: *There is a potential conflict of interest where a **close personal relationship** exists between an RBC GAM employee and a member of a firm who is in a position of authority or influence, or between an RBC GAM employee and a client with whom RBC GAM has or is considering entering into a material business relationship. E.g. there would be a potential conflict of interest if a member of an investment team had a close personal relationship with an executive or board director with whom the investment team was initiating an engagement. A potential conflict of interest could also occur if an investment team member has a personal relationship with a client who attempts to influence the investment team's engagement objectives and outcomes in a way that is not in the best interests of the portfolio and RBC GAM clients.*

Mitigating policies & procedures: *The **RBC GAM Code of Conduct** requires all employees to consider and identify **any potential or actual conflicts** of interest that may arise from a close personal relationship. Employees have an obligation to consider and identify potential material conflicts of interest in relation to RBC GAM, themselves and their clients. If there is a situation that may pose an actual or perceived conflict of interest, as a minimum the employee is required to disclose it to Compliance, who will determine whether a material conflict of interest exists. The issue may then be escalated to the head of the business unit **and** the relevant conflicts of interest governing body. The employee may be asked to recuse themselves from any activities related to the engagement, as well as follow any further steps determined by the relevant escalation party.*

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 in May 2022. The Code of Conduct for Committee Members was also approved by NILGOSC's sponsoring Department ahead of adoption.

In the months that followed, the Committee considered and deliberated its conflicts of interest procedures, holding discussions in January 2023 regarding practices up to that point and the potential for future conflicts of interest to arise. The recently established Conflicts of Interest Policy was subsequently reviewed to comply with new guidance issued by the Department of Finance (NI) and an updated policy 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 was updated in June 2024. It 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 each business area to achieving 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 Risk Register was reviewed quarterly by the Committee in August and November 2023, and February and June 2024.

More information on how NILGOSC gains assurance from its risk management framework is provided in the Risk Management Policy. NILGOSC operates a 'three lines of defence' model, which delegates and co-ordinates risk management roles and responsibilities within and across the organisation as follows:

1) First line of defence: Management Control/Internal Measures:
   - Identify, assess, own and manage risks
   - Design, implement and maintain effective internal control measures
   - Supervise execution and monitor adherence
   - Implement corrective actions to address deficiencies
2) Second line of defence: Governance Team (Risk & Compliance Function):
   - Set the boundaries for delivery through the definition of standards, policies, procedures and guidance
   - Assist management in developing controls in line with good practice
   - Monitor compliance and effectiveness
   - Agree any derogation from defined requirements
   - Identify and alert senior management, and where appropriate governing bodies, to any emerging issues and changing risk scenarios
3) Third line of defence: Internal Audit
   - Provide an objective evaluation of the adequacy and effectiveness of the framework of governance, risk management and control
   - Provide proactive evaluation of controls proposed by management
   - Advise on potential control strategies and the design of controls

In this model, the Secretariat (Chief Executive & Secretary, and Deputy Secretary) and the Committee are not considered amongst the lines of defence as they collectively have responsibility and accountability for setting NILGOSC's objectives, defining strategies to achieve those objectives and establishing roles, structures and processes to best manage the risks in achieving those objectives successfully.

NILGOSC outsources its internal audit function to Sumer NI (previously ASM) to provide assurance on the effectiveness of the governance, risk management and control environment in the organisation. Sumer NI 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.

Non-departmental public bodies (NDPB) 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 Departmental Assurance Statements.

Other sources of independent external assurance are provided from external auditors, chiefly the Northern Ireland Audit Office, who have a statutory responsibility for the certification of the Annual Report and financial statements; the sponsoring Department; the Pensions Regulator and external system/accreditation reviews.

Investment Risk

There are two risks on the Risk register relating 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 the economic conditions and expected future investment returns. The review addressed further integration of ESG into the strategy, ensuring that NILGOSC's Statement of Responsible Investment remained embedded in decision making, as well as taking steps to mitigate climate risk in the Fund. The next review is planned for 2025/26.

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.

- PIMCO manage an Multi Asset Credit (MAC) mandate for NILGOSC, managing 6.16% of the Fund's assets as at 30 June 2024. Their approach to climate-related risks (in particular) is described below:

  *PIMCO believes that climate-related factors may have material impacts on issuers' **credit quality** (now and over the long term), affecting the full range of fixed income and related asset classes e.g. mortgage-backed securities, corporate credit, sovereigns and municipalities. Although NILGOSC's portfolio is not managed to any particular climate risk targets, **climate risk is integrated into the firm's overall investment process** through top-down and bottom-up research.*

  PIMCO view the energy transition and global temperature rise as of utmost importance for fixed income investors, considering the ever-growing evidence of meaningful economic impacts and credit risks. In the last few years alone, markets saw the consequences of climate-related catastrophes including deadly wildfires, hurricanes, typhoons and other anomalies across the globe. Climate risk (including transition risk) is integrated into the firm's overall investment process and at the portfolio level through ESG assessments.

*At the **overall firm investment process level**: PIMCO has incorporated climate, energy and sustainability themes into the secular forum where they form their five year investment views (inviting external analysts and scholars that provide their expertise on a wide range of topics).*

*At the **portfolio level**: PIMCO's climate change framework is integrated into their investment process through PIMCO's ESG assessments, using a proprietary methodology and analysis that reflect fixed income's specific features. PIMCO also actively engage with issuers on climate change mitigation and readiness.*

*PIMCO's sector-based and bottom-up analysis involves a focus on issuers' carbon emissions intensity using production-based metrics. A lifecycle methodology enables some comparison within the sector and over time, as well as in relation to climate scenarios and their forward-looking view. For instance, PIMCO's fundamental analysis of credits in the energy sector closely examines companies' exposure to different types of energy sources, environmental and regulatory risks to their business activities, the relative cost positions of companies and their commitments, and steps taken to diversify into lower-carbon sources of energy. Ultimately, **PIMCO look to map the extent to which long-term climate risks are reflected in their credit views and bond prices**, and, if they are not, what this could mean for issuers' credit quality considering bond characteristics (e.g. duration) over time. For portfolio construction, PIMCO evaluate credits based on attractive valuations and potential exposure to climate risks.*

- CBRE IM manage a global property portfolio for NILGOSC, which accounted for 2.38% of the Fund's assets at 30 June 2024. The manager's approach to addressing climate risks is included below:

  ***Long-term ESG risks** and **opportunities** primarily relate to those associated with **climate change**. Climate related risks are initially identified, assessed and mitigated through the **Sustainability Assessment Framework**. Outputs of the Framework include data on the portfolio's carbon footprint, greenhouse gas emissions intensity and energy use and intensity. The results of the assessment are included in papers submitted through the investment process, in submissions to the GIT, the Investment Committee (IC) and in post-IC papers.*

*CBRE IM also encourage underlying managers to utilise the **Carbon Risk Real Estate Monitor** ('CRREM') tool to measure transition risks. In recent years, CBRE IM have used Moody's ESG Solutions' Physical Risk Tool (Climate on Demand) to measure high level exposure to physical climate risks, including flooding, sea-level rise, heat stress, water stress, hurricanes/typhoons and wildfires. The tool also examines earthquake risk. During the second half of 2024, CBRE IM commenced transitioning to use tools and data from a new supplier of physical risk data: Climate X, which will include additional important measures such as subsidence risks, landslip risks and extreme heat days assessments.*

- NILGOSC is invested in two primary funds and one co-investment managed by DIF Capital Partners (now CVC DIF). DIF's approach to addressing climate-related risks is laid out in their Sustainability Report:

*DIF recognises the **critical importance** of addressing climate change as a fundamental component of its risk management framework. Given the multifaceted nature of climate-related risks and their potential impact on DIF's operations, financial performance, and broader stakeholder interests, climate risk has been integrated into DIF's risk management strategy. Within DIF's risk framework, climate risk is categorised and addressed as a **sustainability risk**, reflecting the **interconnectedness of ESG factors** with the company's **long-term viability** and **resilience**.*

By acknowledging climate risk as a sustainability risk, DIF underscores its commitment to operating in a manner that not only mitigates negative environmental impacts but also contributes to positive social outcomes and maintains strong governance standards. This approach entails a comprehensive understanding of the various dimensions of climate risk, encompassing both:

- ***Physical risks** associated with the direct impacts of climate change, such as extreme weather events, sea-level rise, and resource scarcity.*
- ***Transition risks** stemming from shifts in policy, regulation, market dynamics, and technological advancements aimed at addressing climate change.*

Newly appointed equity manager Harris Associates (5.09% of Fund assets as at 30 June 2024) provided an overview of how the systematic risk of climate change is built into engagement with underlying holdings, providing an example:

Investment Manager: *Harris Associates (Global equity manager)*

Holding: *Phillips 66 (fuel refining and transportation company)*

Context*: Phillips 66 is exposed to transition risk. In alignment with Harris' policy of engaging on material ESG issues, the manager sought to understand how Phillips 66 is assessing and managing this risk, and its approach to energy transition.*

Engagement: *In May 2024, Harris held a meeting with Phillips 66. The company is exposed to transition risk under a scenario of decreased demand for fossil fuels. Harris reviewed the company's climate transition planning, focusing the discussion on topics such as the resilience of the business to long-term shifts in the energy sector and investment to enable profitable scaling of low carbon technologies (e.g. converting a traditional oil refinery to a 100% renewable fuel/ biodiesel production facility; considering commercial and regulatory drivers, routes to market for low carbon fuels, and the investment in technology and expertise needed to do so). Another key topic discussed was the company's carbon reduction targets. Harris considers the company's Scope 1 and 2 targets to be ambitious and credible, noting significant progress to date. However, Phillips 66 has come under scrutiny regarding its Scope 3 targets, which are set on an intensity basis rather than in absolute terms. Phillips 66 consider a commitment to an absolute target akin to a commitment to reduce the size of the business, by choosing not to meet prevailing demand for fossil fuel products which they regard as being contrary to their fiduciary duty. By setting an intensity-based Scope 3 target, Phillips 66 has committed to expanding its operations in renewable fuels, which Harris sees as future growth opportunity, as well as a meaningful contribution to the transition to a lower carbon energy system.*

Next steps: *Following this engagement Harris noted belief that Phillips 66 is taking steps to manage its climate risk exposure and to align its business with a low carbon transition, in ways that are also in the financial interests of shareholders. Harris will continue to monitor developments and to further engage as necessary.*

Collaboration as a form of risk management

During the reporting period, NILGOSC was a signatory to a number of engagements:

- a joint letter from the IIGCC, PRI and UKSIF to UK Prime Minister Rishi Sunak, making the argument that delaying key targets and lowering climate-ambitions could risk the UK missing out on investment to other regions and nations that are taking a more consistent, long-term approach;
- a statement on Corporate Governance issued by the International Corporate Governance Network (ICGN) to UK authorities and relevant stakeholders, making the case for the UK maintaining robust investor protection and high corporate governance standards, opposing proposals for reforms to the UK listing rules which signatories considered detrimental. Followed by;
- a further letter signed by NILGOSC and six other UK pension funds addressed to the chair of the Financial Conduct Authority (FCA) ahead of the FCA Board meeting to decide whether to approve the proposed changes to the UK listings rules. The letter was intended to remind the FCA of the strength of investor sentiment, again highlighting concerns over weakening governance standards.

NILGOSC also continued its support for various global climate initiatives including the CDP's 2024 Non-Disclosure Campaign; the CDP's 2023/24 Science-Based Targets Campaign; and the Principles for Responsible Investment's (PRI) Spring Initiative, a new stewardship initiative designed for institutional investors to use their influence to halt and reverse global biodiversity loss by 2030.

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 2023/24 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.

In June 2020, NILGOSC became an official Task Force on Climate-related Financial Disclosures (TCFD) supporter. The TCFD was established to develop a reporting framework of comparable and consistent disclosures to demonstrate climate change resilience. 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.

The recommendations have become the foundation for many national and international climate-related disclosure requirements. As a result of the TCFD's success, it was announced in October 2023 that the taskforce had fulfilled its remit and was disbanded.

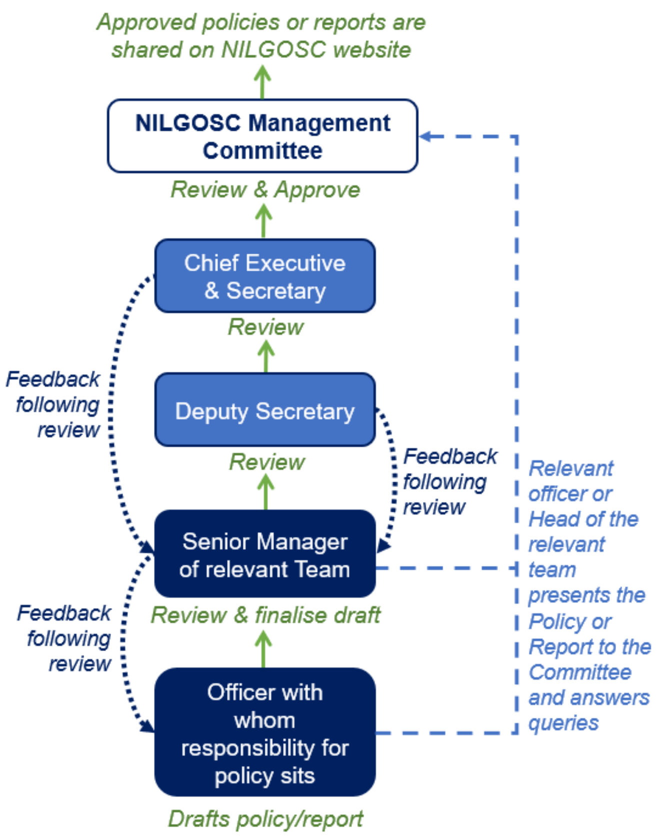
Although regulations applicable to local government pension schemes have yet to come into force, NILGOSC is committed to annually reporting against the TCFD recommendations, and issuing its fourth climate-related disclosures report in October 2024 (covering the carbon analysis of the Fund as at 31 March 2024). As referenced under Principle 5, in 2023, NILGOSC included the long-term provision of TCFD-aligned carbon analytics as part of the remit of its global custodian's service.

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), as well as the formal policy statements that support them.

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 which may be made for reasons such as: compliance with policy changes; legislative updates; or to incorporate feedback from consultants or service providers; a review and further amendments are made by the relevant Senior Manager.

Figure 4: Review and approval process for NILGOSC Policies and Reports



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.

A similar approach is utilised for NILGOSC's reporting of both of the annual TCFD aligned reporting and Stewardship reporting, which are prepared by the investment team (with input from other internal teams and external service providers as required), reviewed and approved by the Secretariat (the Deputy Secretary, followed by the Chief Executive & Secretary); and presented to the Management Committee for final review, queries or challenge, followed by 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 and published in compliance with accessibility regulations.

All RI related policies are reviewed every three years (or more frequently as required).

Table 1: Frequency of formal review and last review date for the investment related policies

NILGOSC Policy/Statement	Frequency of formal review	Last reviewed
Statement of Investment Principles	Triennially	September 2024
Funding Strategy Statement	Triennially	April 2022
Statement of Responsible Investment	Triennially	November 2023
Climate Risk Statement	Triennially	November 2023
Voting Policy	Annually	February 2025
Conflicts of Interest Policy	Triennially	November 2023[1]
Code of Conduct for Committee members	Triennially	April 2022

[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, 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 within the period under review, 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 completed in February 2025.

The Climate Risk Statement commits NILGOSC to producing annual TCFD-aligned reports. NILGOSC's fourth annual Climate-related Disclosures Report, prepared in alignment with TCFD recommendations for the year ending 31 March 2024, was approved in September 2024, 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 therefore expected to encourage TCFD implementation. As a result, NILGOSC voluntarily produced its inaugural report for the year ended 31 March 2021.

Reporting against TCFD has become part of the regulatory framework in many jurisdictions. 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 introduce 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 fourth 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 2024.

As referenced previously, 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. Disregarding a temporary allocation to cash held at year end, it was possible to analyse 47.2% of the of the Fund's holdings (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: 70% lower Scope 1 and 2 emissions at an absolute emissions level; a 70% lower carbon footprint (i.e. normalised emissions based on funds invested); and a 42.8% 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 (-47.9%).

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 trajectory of the part-portfolio is Paris-aligned until approximately 2030, at which point, if no changes were made to the 31 March 2024 holdings, the portfolio will contribute towards an over 1.5°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. Therefore, the output can be influenced by continued engagement with asset managers and the underlying holdings, and will be closely monitored.

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[2] *The portfolio was compared to the performance of a portfolio replicating the MSCI World Index (MSCI World).*

To help plug some of the coverage gap, in addition to securing Northern Trust's analysis, over the period, NILGOSC also requested that all of its investment managers (with the exception of Harris Associates who were appointed in February 2024) complete the Carbon Emissions Template (CET) developed by the joint Pensions and Lifetime Savings Association (PLSA), Investment Association (IA) and Association of British Insurers (ABI) working group, of which NILGOSC partook. Managers were asked to complete data as at 31 March 2024, however it was flagged that given the template was still relatively new to all parties, NILGOSC was keen to work with managers to understand both the availability and limitations of the data set, as well as updates to methodologies, with the expectation that data outputs will strengthen over time. The outputs were compared to Northern Trust's where possible, as well as to the managers' prior year submissions, and used as a tool for engagement with the managers. More detail is provided in the 2024 Climate-related Disclosures Report, but continued engagement with the managers has led to improved disclosure and improved data availability.

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.

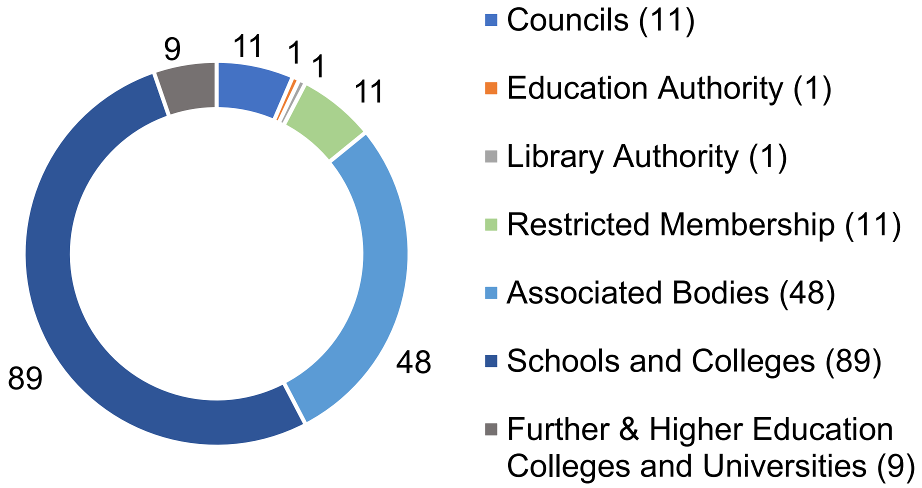
NILGOSC is the administrator of the pension scheme. Although it is an NDPB, it receives no funding from central government. It seeks to maximise income and minimise expenditure. The scheme is funded by contributions made by both employees and employers admitted to the pension scheme. All contributions 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 as at 31 March 2024 was £10.463bn (2023: £9.53bn).

At 30 June 2024, 170 (2023: 169) bodies were contributing to the pension scheme and the Fund had a membership of 171,366 (2023: 165,619) which was composed of: 81,552 contributing members, 46,270 pensioners and 34,886 deferred members, plus 8,658 with a miscellaneous classification.

Most of the 170 contributing employers are public sector, as disclosed in Figure 5.

Figure 5: Contributing employers as at 30 June 2024



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.

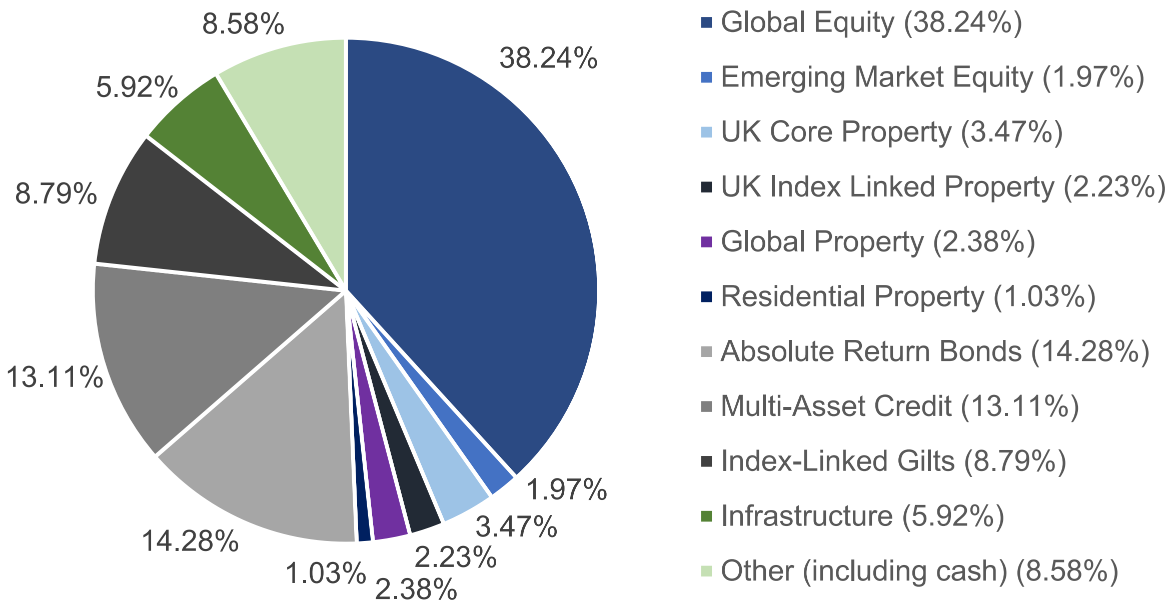
In setting the Fund's investment strategy, NILGOSC first considers the lowest risk strategy that it could adopt in relation to meeting the Fund's liabilities. The investment strategy is designed to achieve a higher return than the lowest risk strategy, while maintaining a prudent approach to meeting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

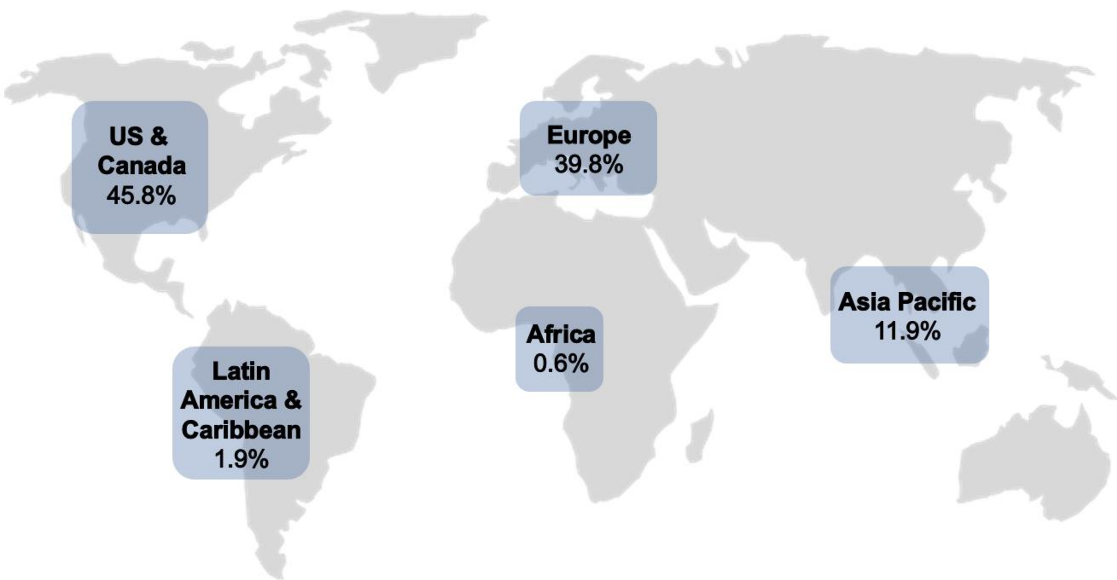
The Fund is currently cashflow positive, meaning the pension scheme's income is greater than its expenditure, and the fund was in surplus at 30 June 2024, which means that the Fund's assets are in excess of its liabilities. The last actuarial valuation was carried out as at 31 March 2022. The overriding 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 6: Fund's unaudited asset allocation as at 30 June 2024



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 7: Geographical breakdown of the Fund's assets (excluding cash and cash equivalents) as at 30 June 2024



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 (last updated in August 2024) 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 58,506 members registered at 30 June 2024 (45.64% of total membership). NILGOSC has moved the default delivery setting for all active and deferred members to ‘electronic’, subject to individual member preference. NILGOSC also utilises social media (X and LinkedIn) as a means of updating followers.

A stakeholder satisfaction survey for the year 2023/24 was undertaken in February 2024 to measure the satisfaction levels of active members, deferred members, pensioners and employers. The aggregate satisfaction rate across all stakeholder groups held steady at 92% (2022/23: 92%), with 94% 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.

Responsible investment and, more recently, climate risk forms a key part of member engagement. NILGOSC 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 and May 2024) can be found on NILGOSC’s website at: Member newsletters.

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**: a list of Industry groups and initiatives NILGOSC is a member of or signatory to; and a list of ESG related activity by year; in addition to relevant hyper-links or NILGOSC news articles providing additional context.

Additionally, NILGOSC frequently receives and responds to requests from members on Responsible Investment topics, made under the Freedom of Information Act 2000. Often the data is available on the website, and signposting the information is sufficient to close off such member queries.

In the year to 30 June 2024 the website had 375,545 users, 394,794 individual sessions and 393,436 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 triennially, 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 most 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 a successful manager is appointed, NILGOSC requires all of 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 an 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 consultant 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 CDP (formerly the Carbon Disclosure Project); Climate Action 100+; and endorses the PRI's Advance and Spring initiatives. Over the period, NILGOSC was and continues to be a member of: the Institutional Investors Group on Climate Change (IIGCC); the UK Pension Fund RI Roundtable; and the Occupational Pensions Stewardship Council (OPSC), the latter two of which merged to form the Asset Owner Council (AOC) in early 2024. More information is provided under Principle 10.

Monitoring effectiveness

The Investment team are also responsible for liaising with the Investment consultant 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 case studies over the period demonstrating how ESG considerations have or will impact their investment decision making, a sample of which follows:

- Listed Equity

Equity manager, **Baillie Gifford**, considers ESG factors that may have a material impact on an investment over the long-term as part of their bottom-up investment analysis before acquisition. The manager provided examples of how ESG factors influenced investment decisions over the period:

Holding: *Enphase Energy Inc*

During Q4 2023 Baillie Gifford took a holding in Enphase, a company that produces microinverters that transform direct current energy from rooftop solar panels into alternating current energy for use in homes and businesses, while also offering complementary products like batteries, bi-directional electric vehicle (EV) chargers and energy management software.

Enphase's ***direct contribution to climate change mitigation*** *through enabling residential solar adoption creates a significant impact on reducing US emissions. The company estimates that their systems have already facilitated the avoidance of 45Mt CO2e over the lifetime of the business.*

Holding: *Rivian Automotive Inc*

During Q1 2024 Baillie Gifford took a holding in Rivian, an EV manufacturer and automotive technology company focussing on producing electric adventure vehicles, specifically pickup trucks, SUVs, and commercial delivery vans.

The manager's climate-related work on Rivian had predominantly focused on the role it could play in emissions reductions. Using its own avoided emissions methodology the manager estimates that the company's vehicles could facilitate lifetime avoided emissions of 216 Mt of CO2e over the next 10 years. This impact is particularly significant because Rivian targets traditionally harder-to-decarbonise vehicle segments, representing c.19% of US transport emissions (around 315Mt of CO2e). Their Amazon delivery van partnership alone could contribute meaningfully to emissions reduction, potentially saving approximately 2Mt of emissions annually through zero-emission deliveries.

The manager also provided an example of continued engagement with a company held in the portfolio, maintaining the investment case:

Investment Manager: *Baillie Gifford (Global equity manager)*

Holding: *Joby Aviation (Joby)*

Investment: *Baillie Gifford acquired shares in Joby in Q2 2023. The company 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 predominantly focused on the role it could play in the ***climate transition****, finding the eVTOL aircraft would: be less noisy; emit less greenhouse gases (GHG); be safer; and, over time, more affordable when compared to internal combustion engine equivalents; all of which supported the investment decision.*

Engagement: *In the year since, Joby has been progressing in its application for regulatory certification with the Federal Aviation Administration (FAA). BG met with Joby to discuss progress:*

- *The company is focused on testing and analysis to demonstrate compliance with safety regulations and has been cooperating closely with the FAA.*
- *Joby emphasised that its vertical integration and partnership with Toyota contribute to both manufacturing efficiency and safety (e.g. Joby has entirely reengineered its production line to reduce the need for employees to walk for long distances to retool, and Toyota engineers are examining the slightest hand movements to redesign production line steps to minimise risks of repetitive strain injuries).*
- *As Joby scales its headcount, workplace wellbeing and culture is a key focus: the company continues to provide employees with three meals/day at all sites; and the collegial culture is evident on site with employees eating together by choice.*

Outcome*: Baillie Gifford noted the discussion was useful in understanding how Joby, whilst still very nascent in its growth, is being thoughtful about societal considerations relating to its business. They were also encouraged that Joby invited Baillie Gifford to provide feedback on its inaugural sustainability report, in preparation for next year's edition.*

- Property

NILGOSC's property managers must also consider material ESG issues in their management of the Fund's assets.

NILGOSC holds units in M&G's UK Residential Property Fund, which has been categorised as Article 8 under the Sustainable Finance Disclosure Regulation (SFDR), meaning it is one which "*promotes, among other characteristics, environment or social characteristics or a combination of those characteristics*". M&G provided an overview of the fund's most recently completed asset:

Investment Manager: *M&G (UK property manager)*

Holding: *Castle Park View*

Forward-funded by M&G and housing association Yarlington, respectively; working in partnership with Bouygues UK, Homes England and Bristol City Council, the scheme added 300 new Build-to-Rent homes and 75 affordable homes to the Bristol market.

Responsible construction*: A sustainable development framework was established during construction. 99.9% of the generated waste was diverted from landfill by reusing materials directly or recycling into new building products. Positive social value was created by stimulating local employment and skills development with c.1,290 apprenticeship weeks, alongside over 300 career support sessions.*

Sustainable by design*: The scheme was designed around the principle of using and sharing sustainable energy sources; and benefits from the use of Bristol's district heating network. Renewable energy is generated on-site via almost 200 photovoltaic roof-mounted solar panels powering the building's communal areas. Energy efficient lighting and high performing fitted appliances in each apartment contribute to a 'B' Energy Performance Certificate rating. Additionally, efficient waste management is incorporated in the building's design with refuse chutes on each floor (reducing the amount of refuse going to landfill by up to 66%). A brown roof across 80% of the structure promotes biodiversity by allowing plants and wildlife to self-colonise. The scheme has been built to a voluntary certification standard known as the 'Code for Sustainable Homes', and will seek BREEAM In-Use Residential certification once the minimum required occupancy level is reached.*

Promoting health & wellbeing*: Measures include a residents' lounge and fitness suite, a terrace garden and dedicated allotment space, as well as a programme of events and activities to encourage residents to socialise and engage with each other.*

By contrast, NILGOSC's UK property manager provided an example of the ESG issues considered prior to acquisition of an already-constructed asset:

Investment Manager: *LaSalle Investment Management (UK property manager)*

"LaSalle recognises that buildings contribute a large proportion of GHG emissions and that failure to mitigate and reduce the growth of GHG emissions will be to the detriment of the broader economy, the environment and society. When acquiring new investments, we integrate ***Net Zero Carbon*** *(NZC) principles into our investment strategy and due diligence (DD). We undertake NZC reviews prior to acquisition and seek operational energy data from the sellers, to understand current energy use and carbon emissions... Once an asset is acquired, and for all existing held assets, we align the* ***Energy Use Intensity*** *(EUI) of each property with leading NZC benchmarks to target energy consumption and carbon reductions."*

Holding*: Student housing assets (acquired December 2023)*

Prior to the acquisition, LaSalle confirmed the ***Energy Performance Certificate*** *(EPC) rating of the building: it is rated 'B', therefore fully compliant with the UK's Domestic Minimum Energy Efficiency Standard (MEES). The manager also assessed the level of* ***physical climate risk*** *(coastal flooding, extreme heat/cold, wildfires, fluvial flooding, tropical cyclones), and undertook a* ***NZC audit****, reviewing the ESG strategy of the tenant (University of Lincoln). LaSalle found the ESG strategy to be "ambitious" with the intention to reduce carbon emissions by 60% by 2030 and achieve NZC by 2040. The assets were subsequently acquired into the portfolio.*

- Fixed Income

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

Investment Manager: *T. Rowe Price (TRP) (Absolute Return Bonds manager)*

Holding: *NatWest Group (UK bank)*

Context: *In Q4 2023, TRP engaged with the bank: to understand recent changes made to its green, social, and sustainable bond framework; to make recommendations on the bank's upcoming impact report for its women-led social bond; and to discuss best practice aspects of its climate strategy.*

Engagement: *NatWest explained updates to its bond framework, such as aligning projects to the EU Taxonomy, introducing new biodiversity-related project categories, and removing the lookback period (depending on the bond). TRP restated their position that the bank should allocate proceeds to new assets as opposed to refinancing existing assets on the balance sheet.*

In March 2023, NatWest issued a social bond whose proceeds were allocated to women-led enterprises and noted plans to publish a post-issuance allocation/impact report in April 2024. TRP highlighted some metrics preferred by investors and pointed to peers demonstrating best practice. Going forward, NatWest aims to have at least 25% of its future issuance to be green, social, or sustainable bonds. TRP discussed the bank's appetite for more targeted issuances such as, bonds that finance affordable housing.

On climate strategy, NatWest highlighted ways in its differentiated product offering: by providing tools for its retail and small business customers to measure their carbon footprint; providing retrofitting-related education to the construction industry; and developing a framework to assess the credibility of clients' transition reports, amongst others. It has prioritized engaging with oil and gas clients, but applied its assessment to other sectors and noted plans to report on its progress in the next ESG report. TRP encouraged the bank to report on how the climate maturity of its clients is evolving and gave examples of peers demonstrating best practice.

Outcome: *The engagement confirmed TRP's view that NatWest's climate strategy is ahead of its peers. The engagement provided an opportunity to give feedback on its ESG bond reporting and client engagement efforts. TRP will monitor for the bank's publication of its 2023 allocation/impact report and for information on the evolving climate maturity of its clients.*

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

NILGOSC's formal monitoring in the year to 30 June 2024

Over the 12 months to 30 June 2024, the Committee were presented with the following investment-related papers (as laid out in Table 3) for note or approval.

Table 2: Committee meeting months and the investment-related papers presented.

Meeting Date	Committee Paper
August 2023	• CBRE IM manager presentation (*Global property*) • Alternative Investments Briefing Note for the year to 31 March 2023
September 2023	• T. Rowe Price manager presentation (*ARB*) • 2023 Q2 Investment consultant's report on quarterly performance • 2023 Q2 Monitoring scorecard for investment managers
November 2023	• PIMCO manager presentation (*MAC*) • Investment costs report for year ended 31 March 2023 • Performance assessment of Investment consultants to 31 March 2023 • Policy Reviews – Statement of Responsible Investment and Climate Risk Policy
December 2023	• Unigestion manager presentation (*Global equity*) • Climate-related disclosures report for the year ended 31 March 2023 • 2023 Q3 Investment consultant's report on quarterly performance • 2023 Q3 Monitoring scorecard for investment managers
January 2024	• William Blair manager presentation (*Emerging Markets equity*) • Partners Group manager presentation (*Global property*)
February 2024	• BlueBay manager presentation (*MAC*) • LGIM manager presentation (*Passive funds*)
March 2024	• Baillie Gifford manager presentation (*Global equity*) • 2023 Q4 Investment consultant's report on quarterly performance • 2023 Q4 Monitoring scorecard for investment managers • Stewardship Report for the year ended 30 June 2023 • Triennial review of Investment Monitoring Guidelines
May 2024	• Royal London Asset Management manager presentation (*ARB*) • Harris Manager presentation (*Global equity*)
June 2024	• LaSalle manager presentation (*UK Core & Index-linked property*) • 2024 Q1 Investment consultant's report on quarterly performance • 2024 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 1 April 2024 to 31 March 2027) was approved by the Committee in February 2024; and the Annual Review of the Risk Register for 2024/25 was signed off at the June 2024 meeting. Progress against both is undertaken more frequently: the Corporate Plan is reviewed by the Committee biannually (November 2023 and May 2024); and the Risk Register is reviewed every quarter (August 2023, November 2023, February 2024 and June 2024). Over the period, the Audit & Risk Assurance Committee (ARAC) Terms of Reference were also reviewed and approved (March 2024). Every six months the Committee is presented with the Departmental Assurance Statement (six months to 30 September 2023 was presented in November 2023, and six months to 31 March 2024 was presented in June 2024).

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 consultant 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.

NILGOSC 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 consultant 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 either the Head of Investment or the Investment Services Manager, 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 a range of ESG topics, for example: their carbon data collection programmes (LaSalle); Net Zero ambition (CBRE IM and William Blair); the assessment of ESG risks and opportunities given short holding periods (TRP); and in what circumstances a holding would be excluded on ESG grounds (BlueBay).

Fund Managers

In addition to investment managers, NILGOSC also invests a small portion of its assets (5.98% of the Fund as at 30 June 2024) 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 consultant, and appointed tax and legal counsel. The DD covers a range of topics, including: a detailed review of the fund's investment strategy and process, the manager's track record, fund structure, attractors, risks and mitigants, and a full review of ESG considerations. The NILGOSC officer conducting the DD draws upon the analysis conducted by our tax advisors and legal advisors, as well as data room documentation, references from other Limited Partners, media reports and discussions with the management, before presenting the DD to senior management for review, and ultimately to the Committee for sign off in the case of a new fund manager.

Extensive work was carried out during 2022/23 and significant commitments were made over the period, namely: a $100m commitment to iCON Infrastructure Fund VI in May 2022; a €100m commitment to DIF VII in July 2022; a €75m commitment to Antin Infrastructure Fund V in September 2022; and a $20m commitment to a co-investment in a renewables asset, managed by DIF in February 2023. Commitments are drawn slowly over the investment period, so although the proportion of infrastructure in the Fund increased over the period (5.76% as at 30 June 2023), NILGOSC did not commit to any new funds nor undertake DD over the period.

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 2024, 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. NILGOSC also asks 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 2023. The review includes an assessment of Minerva's performance against a series of pre-agreed key performance indicators (KPIs), in tandem with a discussion of both what has gone well over the period, and areas that need improvement going forward, as well as general updates from both parties.

Investment consultants

In compliance with the Investment Consultancy and Fiduciary Management Market Investigation Order 2019, NILGOSC formally assesses the performance of its Investment consultants on an annual basis.

Both: NILGOSC's Investment consultant, **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 2024 were presented to the Management Committee in August 2024.

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

The strategy behind the index is to self-decarbonise by reducing exposure to carbon emissions over time. The index has an overall objective, which is to meet the stricter of: a 'carbon emission intensity reduction objective' of at least 70% (except for the UK region, where the reduction is set to 60%) compared to the base regional index; or a 'decarbonisation objective' of at least 7% year-on-year. The universe of holdings within the index covers all developed markets but excludes companies on LGIM's Future World Protection List, namely: companies considered as perennial violators of the United Nations Global Compact (UNGC); certain companies involved in controversial weapons manufacturing and production; and certain companies with involvement in mining and extraction of thermal coal, thermal coal power generation or oil sands. Each holding within the remaining universe is assigned a 'carbon score', based on three indicators: emissions intensity; reserves intensity; and green revenues. Using the overall climate scores, an adaptive tilt away from climate laggards and towards climate leaders is applied to capital allocation within the index.

Engagement

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

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

Day-to-day responsibility for the management of investments is delegated to the 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, LGIM, with whom NILGOSC has passively held equity and index linked gilts (accounting for 38.83% of the Fund's assets at 30 June 2024) provided an overview of their overall approach to stewardship and direct engagement with issuers:

> *"At a firm level, our stewardship activity is guided by our* ***global stewardship themes****. These themes reflect* ***systemic ESG issues*** *affecting the global markets and companies in which our clients are invested, and where we believe we can have an impact. Our themes are organised into six 'super themes' of* ***climat****e,* ***nature****,* ***people****,* ***health****,* ***digitisation*** *and* ***governance****, within which there are 21 'sub-themes', covering topics such as income inequality, biodiversity, deforestation and investor rights. Within our respective themes, our Investment Stewardship team uses our* ***LGIM ESG scores*** *to identify companies with which we plan to engage – this* ***data-driven approach*** *to company engagement helps us identify 'leading laggards' on which to* ***concentrate our direct engagement activities****. These companies are those that have been identified as influential in their sectors, where we believe that we can effect ESG improvements through engagement, and which will then have a knock-on, positive impact across the relevant sector. This supports our* ***overall aim of improving ESG standards****, not just at individual companies, but across the global markets in which our clients are invested."*

Engagement will vary by asset class. NILGOSC asked its managers to provide examples of portfolio specific engagements undertaken over the year, some of which commenced long before:

- Passive Equity

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

Holding: *Nestlé SA (one of the world's largest food producers, owning over 2,000 brands and selling its products in nearly 200 countries)*

Context: *Nutrition is a key focus for LGIM's investment stewardship team: LGIM is a member of both the* ***Access to Nutrition Initiative****, and the* ***ShareAction Healthy Markets Initiative*** *(HMI), which specifically focuses on improving people's health by increasing access to affordable, healthy food.*

Given Nestlé's scale, LGIM believe that its behaviour and decisions as regards the sale and marketing of food products is key to setting the tone of the industry worldwide, and is therefore engaging with Nestlé to encourage the company sets a proportional target to ***increase the sale of healthier products****.*

Engagement: *In Q4 2022 LGIM co-signed letters to 12 food and beverage manufacturers (as part of ShareAction's HMI) including Nestlé, encouraging recipients to: enhance transparency around their nutrition strategy; demonstrate progress; commit to disclosures around the proportion of the company's portfolio and sales associated with healthy food and drinks products (using government-endorsed nutrient-profiling models); and set targets to increase the proportion of these sales. LGIM (together with the HMI) met with Nestle several times in 2023 to discuss concerns, particularly regarding the definition of "healthy" products, and plans not only to monitor, but also actively increase sales of healthier products.*

Outcome: *In September 2023, Nestlé announced that they aim "to grow the sales of their more nutritious products by CHF 20-25 billion by 2030" representing c.50% growth over 2022 sales. Although LGIM acknowledge that a target has now been set, they were disappointed with the scope (as it can be met by increasing sales of 'specialised nutrition products' like baby food or vitamin supplements, without actually increasing sales of healthy products). Therefore, LGIM will continue engaging Nestlé on increasing the proportion of sales from healthy foods, the details of what the target includes, and how they plan to meet it.*

- Global Equity

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

Investment Manager: *Unigestion (Global equity manager)*

Holding: *General Mills Inc*

Context*: Unigestion has had ongoing engagement with General Mills. The manager reached out ahead of the 2022 AGM, in regards to the Shareholder resolution requiring a report on absolute reduction in the use of plastic packaging. After the release of the General Mills' 2023 Global Responsibility Report, Unigestion followed up with a letter requesting more details on the plastic packaging issue, coupled with a call with the Investor Relations team to discuss the matter. Unigestion commended them on the report, but highlighted that it didn't address the shareholder request requiring a report on absolute reduction in plastic packaging, stressing that the brief mentions of plastic in the Global Responsibility Report focussed on recycling efforts rather than what was requested and passed at the AGM.*

Engagement: *After the release of the company's 2024 Global Responsibility Report, Unigestion followed up with a letter to the company. Similarly, the 2024 Report shows further progress in many areas that Unigestion values, but still does not touch upon absolute reduction plans.*

Outcome: *Unigestion have constructed a proprietary engagement tracking tool that looks at KPIs and measures progress towards meeting them; tracking both public and private companies. The engagement is classified as a "3" meaning there is ongoing dialogue, and a conference call will be/was scheduled.*

Unigestion believe that companies must decouple growth from plastic use and begin setting their sights on reductions in plastic intensity. The manager is convinced that additional disclosure on metrics and targets related to the use of plastic packaging would allow shareholders (like Unigestion) to better assess the company's management of associated financial, environmental, and reputational risks. A call to discuss further was set for September 2024.

Investment Manager: *Baillie Gifford (BG) (Global equity manager)*

Holding: *Contemporary Amperex Technology Co. Limited (CATL)*

Context: *BG sought to deepen their understanding of CATL's pathway towards its newly released carbon-neutral targets through a visit to a net zero factory in Yibin, Sichuan province, the first zero-carbon battery factory in the world.*

Engagement: *BG have long been monitoring CATL's net zero path, not only because it is a large GHG emitter but also because of its potential on the battery supply chain to unlock a meaningful energy transition. Interestingly, BG were one of only two investors invited on the trip, with the group of 20 attendees predominantly made up of companies in its supply chain who are directly implicated in CATL's net zero transition or journalists. The person in charge of the zero-carbon factory development at Sichuan CATL thoroughly discussed its methods for reducing scope 1 and 2 emissions. BG learned more details, for example, on how CATL works with its natural gas providers for carbon-neutral gas and whether the measures can be replicated in other factories. The tour also touched upon CATL's contribution to the global battery passport rulemaking and the acknowledgement of green energy under the new EU Batteries Regulation. The company also answered questions from upstream material suppliers on the verification of carbon-neutral products during the discussion.*

Outcome: *The visit provided BG with a better sense of how CATL is making net zero efforts in its factories and throughout the value chain, strengthening their conviction in the important role that CATL will play over the next decade and its commitment to mitigate the inevitable environmental and social impacts of battery making. Given the challenges brought out in meetings on the trip, BG believe the company should reinforce supplier training and communication through the procurement department to have a real net zero impact on the supply chain. BG report that they look forward to the unfolding of digital battery passports and the resulting enhanced transparency on the carbon footprint.*

- Fixed Income:

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

Investment Manager: *T. Rowe Price (TRP) (Absolute Return Bonds manager)*

Holding: *Southern Company (Southern)*

Context: *Engagement with Southern Company (a US based, natural gas and electric utility holding company) to discuss its climate strategy and to find out if management planned to set new GHG reduction targets.*

*In **Q4 2023** TRP's Head of Corporate Governance alongside an RI Analyst; met with Southern representatives: two Senior Vice Presidents; the Vice President, Corporate Governance; and a Director, Sustainability, Strategy and Planning.*

Engagement: *Southern had targeted a 50% reduction in emissions by 2030 (from a 2007 baseline), but due to progress in decarbonising its power generation fleet over the prior decade, it was expected to achieve that target by 2025 (five years ahead of schedule). TRP asked if there was a plan to set an updated emissions reduction target for 2030, to which Southern said it would start a process to review the target by the end of 2023 and would seek to include scope 2 emissions in any new targets (although the timing for publishing a new target was uncertain).*

In November 2021, Southern's CEO had disclosed that the company would close over half of its coal-fired power generation fleet by 2028, as it moves toward a goal of net zero carbon emissions by 2050. When asked for more information by TRP, Southern said it has less visibility on its coal closings over the longer term, citing uncertainties about the potential load growth in its services areas and coal closures requiring regulatory approval or agreement. Southern plans to give more details on the timing of coal closures in its next integrated resource plan.

TRP also asked whether Southern plans to set a scope 3 target (given that such emissions account for c.30% of the company's GHG footprint). Management replied that it was not yet ready to do so, though does plan to in the future. Southern added that it expects to see another shareholder proposal regarding scope 3 emissions at its 2024 AGM.

Outcome: *Looking ahead, TRP will update the company's medium-term GHG reduction target (including scope 2 emissions) and check on progress in one year.*

Investment Manager: *PIMCO (Multi-Asset Credit manager)*

Holding: *Leading telecommunications/media company*

Context: *PIMCO first engaged with the issuer on the back of their inaugural Green Bond in 2021, to clarify its allocation and strategy. Subsequent engagement sought a clarification regarding the company's management of risks related to GHG emissions, digital inclusion and supply chain, in line with PIMCO's materiality map.*

Engagement: *In Q1 2024, PIMCO engaged with the issuer ahead of its 2024 green bond issuance, and further to the validation of its new GHG emission reduction targets by the Science-Based Target Initiative (SBTi), which provided the manager with the details of the benchmark used to determine the eligibility for its digital access programs.*

Progress to date: *The issuer:*

- *published impact and allocation reports for previous green bonds.*
- *responded to the 2023 CDP climate questionnaire (of which PIMCO was a signatory to the targeted CDP Non-Disclosure campaign)*
- *advanced its Scope 3 GHG inventory and asserted it will disclose emissions from more Scope 3 categories in its next sustainability report, which PIMCO will monitor in 2025.*

Even within fixed income, engagement can vary by asset class. One of NILGOSC's other fixed income managers, BlueBay, provided commentary on how their approach to engagement differs depending on issuer type:

Investment Manager: *BlueBay (Multi Asset Credit manager), part of RBC GAM*

"[Our investment teams] primarily engage with issuers through private dialogue, over time. We have a strong preference for maintaining an ***open and private dialogue*** *and engaging with our investee issuers to consider material factors, which may include ESG-related factors. Although we may consider more public avenues of change, such as filing shareholder proposals at corporate issuers or making public statements, we use these methods sparingly. We do* ***not believe that broad-based divestment is an effective tool compared to engagement****. However, at any stage*

of their analysis or engagement with an issuer, our investment teams may choose to divest from an investment or group of investments based on their judgement of the investment case. The outcome of an engagement is generally not a sole factor in any investment decision. Instead, the information obtained from engagements on material factors is one element that can help inform the investment case.

- ***Fixed income – corporates**: Engagement with issuers may form part of the ESG integration and investment process for our corporate fixed income teams. However, the scale and effectiveness of such engagement may vary. Engagement can occur through various mechanisms, may be proactive or reactive in nature, and may occur through participation in industry initiatives, where this is deemed in the best interest of our investments and portfolios. In some cases, our corporate fixed income investment teams may also engage directly with other stakeholders, such as credit rating agencies.*
- ***Fixed income – sovereigns, supranationals and agencies (SSA)**: SSA engagement is a multi-pronged process and can include multiple stakeholders. E.g. Our SSA fixed income investment teams may engage with sovereign issuers, national institutions, ruling parties, supranational agencies like the World Bank and the International Monetary Fund, and/or others. Methods of engagement vary depending on access to the issuer, legal standing, and issuer obligations. The purpose of engagement in this asset class is typically to help under-stand and manage material ESG factors of our investments and portfolios, incorporating these into our investment teams' views on credit risk, balance sheet, and economic fundamentals. We may also engage to seek improvements in fiscal transparency and aim to ensure an operating environment that is consistent with well-functioning capital markets.*
- ***Fixed Income – securitized credit:** Where possible and applicable, engagement within securitized credit may occur at the manager, originator, or servicer level for the securitized instrument, rather than at the collateral pool or issuer level. As in other asset classes, engagements focus on those factors deemed material to the investment."*

- Property

NILGOSC's UK property manager, LaSalle, provided a snapshot of activity undertaken over the period to engage with tenants and enhance the ESG credentials at assets in the portfolios, two examples of which are:

Investment Manager: *LaSalle Investment Management (UK Property manager)*

Case Study: *Occupier engagement surveys*

Engagement: *During the year, LaSalle completed occupier engagement surveys across seven of the portfolio's assets (Burgess Hill, Harlow, Bournemouth, Lancaster, Tottenham, Aylesford, Peterborough).*

Outcome: *The survey included a number of sustainability questions (eg. ESG areas of interest, willingness to share energy data, top three ESG priorities), the results of which are being incorporated into LaSalle's asset management plans.*

Case Study: *Installation of Solar Photovoltaics (Solar PV)*

Context: *During refurbishment, solar PV can be installed at properties, serving to generate 100% renewable electricity for the tenants, as well as additional income for the asset owner.*

Engagement: *Over the period, LaSalle worked alongside NILGOSC's tax advisors to identify a compliant structure by which NILGOSC could sell power generated from newly installed solar PVs on NILGOSC-owned properties to the tenants of the properties. Pursuing such an arrangement allows tenants to acquire power at a discount to their usual rate and to also make progress towards their own decarbonisation goals, whilst also generating additional income for NILGOSC. Furthermore, the arrangement improves the financial viability of installing solar PV, facilitating a faster roll out of the carbon-reducing intervention.*

Outcome: *At period end, the manager was in the process of documenting the first lease to generate revenue from solar PV.*

- NILGOSC

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 2024, NILGOSC issued engagement letters to 24 companies, where votes were cast against management recommendations.

The main issues which caused NILGOSC to vote against management were:

- Inadequate sustainability disclosure (noting disappointment where companies failed to respond to CDP's questionnaire);
- No evidence that an external auditor has taken climate risks into account on their report;
- Concerns regarding the company's remuneration policy; and
- Board composition (primarily issues surrounding the independence of non-executives).

Two of the letters resulted in engagement and clarification from the companies contacted to address some of NILGOSC's concerns, notably, Bayer AG drew attention to the formal inclusion of an "executive session" as a separate agenda item at each ordinary meeting, during which no Management Board are present.

While the other letters did not result in continued engagement with the investee companies over the year, NILGOSC continues to believe that by providing this explanation, it can help companies understand their investors' concerns, and 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 3: The collaborative engagement bodies of 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 167 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
The Asset Owner Council (AOC) *(inaugural member)*	Collective group of asset owners working together to promote responsible investment and high standards of stewardship. Formed in 2024 following the merger of the UK Pension Scheme RI Roundtable and the OPSC, both of which NILGOSC was a member of.
Task Force on Climate-related Financial Disclosures (TCFD) *(Since June 2020)*	A (now disbanded) working group tasked with creating a set of comparable and consistent disclosures to demonstrate climate change resilience. The framework of recommendations has become the foundation for many national and international climate-related disclosure requirements

NILGOSC identifies 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. 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 initiatives 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 2024

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 to 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 lead to improvements. For example, CDP report that companies engaged in their annual Non-Disclosure Campaign are twice as likely to disclose[3]. Collaborative engagements undertaken by NILGOSC over the period include:

- Alongside 31 other investors and financial institutions, in September 2023 NILGOSC supported a joint letter from the IIGCC, PRI and UKSIF to UK Prime Minister Rishi Sunak. The letter makes the argument that delaying key targets and lowering climate-ambitions could risk the UK missing out on investment to other regions and nations that are taking a more consistent, long-term approach.
- Signatory to the CDP's 2023/24 Science Based Targets Campaign, which ran from October 2023 to October 2024. The annual campaign, which first launched in 2020, aims to incentivise high-impact global companies to set science-based targets. For the second year NILGOSC supported the campaign, co-signing letters to more than 2,100 high-impact companies, requesting they commit to

[3] *https://www.cdp.net/en/campaigns/non-disclosure-campaign*

and set a science-based target aligned with 1.5°C temperature scenarios to achieve net-zero value chain emissions before 2050.

- In opposition to proposed reforms to UK listings rules, considered detrimental to investors, NILGOSC co-signed a statement issued by the ICGN to UK authorities, making the case for the UK maintaining robust investor protection and high corporate governance standards. That statement was followed by a letter to the chair of the FCA in June 2024, in which NILGOSC and six other UK pension funds sought to remind the FCA of the strength of investor sentiment and again highlight concerns over weaking corporate governance standards.
- NILGOSC endorsed the PRI's Spring initiative. The initiative was launched with the intention of addressing the systemic risks of biodiversity loss to protect the long-term interests of investors. It is designed for institutional investors to use their influence to halt and reverse global biodiversity loss by 2030.
- Alongside 275 other financial institutions with over $21 trillion USD in assets, NILGOSC renewed its signatory status to the CDP's 2024 Non-Disclosure Campaign (NDC). In the 2024 campaign, co-signers engaged with 1,998 of the world's highest-impact companies to demand that they disclose environmental data (on climate, forests and/or water security) via CDP questionnaires (marking a 26% increase on targeted companies from the 2023 campaign). CDP signatories that participate can either be a lead or a co-signer: lead signatories are responsible for selecting the non-disclosing companies to target and manage the overall engagement, with administrative and logistical support from CDP; and co-signers (like NILGOSC) demonstrate their support by undersigning all company-specific engagement letters sent by the lead signatories to the targeted companies. Per the CDP[4], companies were targeted as follows:
    - *1,329 companies targeted to disclose on climate (191 disclosed)*
    - *373 companies targeted to disclose on forests (51 disclosed)*
    - *1,029 companies targeted to disclose on water (216 disclosed)*

The full summary of results (including case studies demonstrating the benefits of engagement) will be published by CDP.

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

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

Asset managers

During the 12 months to 30 June 2024, 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: *Royal London Asset Management (ARB manager)*

Context: *Royal London Asset Management have been advocating for a 'just transition' since 2019, in collaboration with the Friends Provident Foundation (FPF), asking companies and governments to consider the social implications of moving to a low-carbon economy. It is an inclusive approach which helps avoid exacerbating existing injustices or creating new ones. Capital providers play an important enabling role in transitioning customers to sustainable low-carbon economies. By developing and having a 'Just Transition' policy in place, banks can better assist the wide range of sectors, regions and communities that they finance. In 2022, Royal London Asset Management attended the AGMs of, and met with, four major UK banks (Barclays, Lloyds, NatWest and HSBC) advocating for the integration of a just transition into their climate plans and reiterating the opportunities banks could capitalise on from financing net zero.*

Collaboration: *Over the period, in collaboration with FPF and Border to Coast, Royal London Asset Management published investor expectations for the banking sector regarding the integration of just transition, providing clear expectations of how to turn ambition into action and to help other investors engage on the topic. The work underpins their long-term engagement with the four banks and following publication the manager organised meetings with each bank to go through the expectations in detail, after which the manager intended to assess their disclosures against the expectations and provide feedback. Royal London Asset Management and its partners presented to both the IIGCC and CERES bank working groups on the topic, and also hosted a just transition masterclass on the role of banking in the just transition on Asset TV.*

- Listed equity manager

Investment Manager: *Unigestion (Global equity manager)*

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

- ***Votes Against Slavery:*** *a new collaborative initiative coordinated by Rathbones**.** Modern slavery is a widespread, criminal activity which has a significant economic impact globally. Unigestion expect the members of the FTSE 350 and FTSE AIM to be leading in this area, and to take substantial action to address the prevalence of slavery within their supply chains.*
- ***Spring:*** *a PRI stewardship initiative for nature, convening investors to use their influence to halt and reverse global biodiversity loss by 2030. Unigestion are a supporting investors in the engagements with Banco Bradesco, L'Oreal S.A., Reckitt Benckiser Group plc and Toyota.*

- Infrastructure manager

Fund Manager: *Copenhagen Infrastructure Partners*

CIP acknowledges that decarbonising the supply chain of CIP's funds' underlying investments relies on the decarbonisation efforts of its suppliers – and, in turn, the decarbonisation efforts of their respective suppliers. As such, cross-value chain collaboration is central to success.

*CIP also anchors its ESG approach through more formalised partnerships with NGOs, collaborations which help to broaden its horizons, fill in knowledge gaps, as well as strengthen its ambitions and capabilities. CIP has been a formal signatory of the **UN PRI** since 2021. In addition, CIP is a member of the following organisations:*

- ***World Economic Forum*** *since 2023,* ***WindEurope*** *since 2024,* ***Global Renewables Alliance****, and* ***Global Wind Energy Council;***
- *Formal signatory to the* ***UN Global Compact*** *(UNGC) as of 2023;*
- *Reports against* ***Global Real Estate Sustainability Benchmark*** *(GRESB) for CIP IV (the fund to which NILGOSC is committed); and*
- *Joined the* ***Solar Stewardship Initiative*** *as a general member in 2023.*

- Global property

Investment Manager: *CBRE IM (Global property manager)*

Case Study: *Collaborative Industry Initiative - **ARESI***

*Within the EU, the EU Taxonomy, SFDR and EPBD set out essential guidelines for reducing emissions and aligning real estate investments with climate goals. Yet, the lack of clarity, consistency and interoperability of these regulations leaves investors struggling to interpret **ambiguous standards, KPIs** and **conflicting criteria**. The result is an undermining of effective GHG reduction efforts and increased likelihood of assets becoming stranded.*

Addressing these ambiguities is not only key to investor confidence and regulatory compliance, it is vital for achieving genuine, industry-wide progress towards a low-carbon, resilient future and long-term value protection and creation.

*To address this challenge the Institutional Investors Group on Climate Change (IIGCC) and the Royal Institution of Chartered Surveyors (RICS) convened industry bodies, alongside consultants, academics (University College London), valuers, investment managers (like CBRE IM) and banks under the banner of: **Aligning Real Estate Sustainability Indicators (ARESI)**. CBRE's Head of Sustainability has been an active contributor to this working group. ARESI aims to build consistency across key market-recognised value points by uniting perspectives from different stakeholders within the real estate sector.*

- Looking forward

During the 2024/25 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 consultants 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.

Fixed income manager, Royal London Asset Management (7.62% of the Fund's assets at 30 June 2024) provide an overview of their escalation approach in their annual Stewardship and RI report:

Investment manager: *Royal London Asset Management (ARB manager)*

"Our escalation approach is critical to our engagement strategy and is applied to equities and credit. We take action when faced with companies that are unresponsive to engagement or fail to address material risks, yet have significant, persistent or intractable ESG issues and pose a risk to our clients' assets

- ***Internal escalation:*** *We first escalate issues to the Head of Desk, the Chief Investment Officer and the Head of Responsible Investment for in-depth discussion and decisions on subsequent actions.*
- ***Investment Committee reporting****: If we escalate an engagement, we report our decisions and actions to the Investment Committee for information and recording.*

We may also take direct firm-level actions:

- ***Senior-level engagement****: We may escalate matters to the company's chair or senior executives*
- ***Shareholder voting****: Using our votes at annual or general meetings to influence directors or management*
- ***Shareholder resolutions and public comments****: We may file or co-file shareholder resolutions or issue public statements when appropriate."*

Unigestion, the global equity manager (accounting for 5.66% of the Fund's assets as at 30 June 2024), provided commentary on their approach to the escalation of their stewardship activities:

Investment manager: *Unigestion (Global equity manager)*

"We have further refined our engagement methodologies by including more measurable KPIs aligned with our pre-defined objectives. This, in turn, allows us to monitor the progress of company engagements on a more quantitative basis within the pre-determined timelines. Furthermore, we have formalised the inclusion of our Fundamental Equity Analysts into our engagement activities. Finally, we have begun to ***implement a spectrum of stronger escalation strategies*** *to clearly signal the implications of unsuccessful responses to our requests.*

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."*

The manager provided an example of escalation of engagement by voting against management at a company meeting over the period:

Investment Manager: *Unigestion (Global equity manager)*

Holding: *Oracle Corporation (US Information Technology company)*

Context: *Concerns had been raised regarding a number of matters, namely:*

- *insufficient Board responsiveness to low 'say-on-pay' vote results; as well as,*
- *substantial pledging activity; and*
- *significant concerns regarding risk oversight.*

Furthermore, in advance of the November 2023 AGM, a shareholder proposal requesting the company report on median and adjusted gender/racial pay gaps was presented.

Engagement: *Cognisant of the concerns, at the AGM, Unigestion **voted against** the election of Directors at Oracle, withholding votes for non-independent nominees (Lawrence Ellison, Safra Catz, Michael Boskin, Jeffrey Berg, Bruce Chizen, George Conrades, Jeffrey Henley, Renee James, Naomi Seligman and Vishal Sikka), flagging the following rationale:*

- *a lack of a two-thirds majority independent board;*
- *a lack of independence on key board committees; and*
- *multiple consecutive years of insufficient responsiveness to low 'say-on-pay' vote results.*

The manager also tried to engage with the company (by letter and email) to voice these concerns and request the opportunity to discuss the matter further. The company has not yet replied, thus providing Unigestion with further evidence of a lack of responsiveness.

Outcome*: Many directors only received c.75% shareholder support; and the shareholder proposal for a gender and racial pay gap report received about one third support, which while meaningful, meant the motion was defeated.*

Unigestion's team of fundamental analysts participate in the direct engagement activities and the outcomes of the actions further inform their views, influencing further escalation of engagement or activities.

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 2024 Non-Disclosure Campaign, which focused on companies that failed to respond to CDP's climate change, forests and water security questionnaires in previous years. CDP assert that the campaign is a proven way to scale the availability of environmental data. 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. 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. The campaign has had noted success, with names such as BMW successfully disclosing on water impacts following the 2023 campaign, alongside first-time disclosers Equinix and Hugo Boss[5]. 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 2024, NILGOSC received £7,550.55 (2023: £2,977.67) from class action settlements.

[5] *https://www.cdp.net/pt/press-releases/a-turning-tide-investor-demand-for-data-on-corporate-water-risks-more-than-doubles-in-a-year*

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 sustainability, 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. During the period, coverage was 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 for its actively held equities. 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. For the passively managed equities, LGIM operate a securities lending programme on behalf of its clients for non-UK equities, operating within LGIM's risk control parameters.

Proxy voting in the year to 30 June 2024

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 2024, 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 2024, NILGOSC voted at 229 shareholder meetings held by 193 companies (2023: 203 meetings held by 151 companies), listed in the following jurisdictions: Brazil, Canada, China, Denmark, France, Germany, Hong Kong, India, Indonesia, Italy, Japan, Mexico, Netherlands, Singapore, South Africa, South Korea, Switzerland, Taiwan, Thailand, United Arab Emirates, United Kingdom, and United States.

NILGOSC voted on 2,919 resolutions (2023: 2,308), voting contrary to management recommendations on 42.62% of resolutions (2022: 39.82%).

Table 4: Summary of NILGOSC's voting over 12 months to 30 June 2024

Resolution Category	Total number of resolutions proposed	NILGOSC Dissent	Average Shareholder Dissent*
Audit & Reporting	352	67.05%	2.25%
Board	1621	36.89%	8.11%
Capital	211	14.22%	3.23%
Charitable Activity	5	20.00%	2.77%
Corporate Actions	62	17.74%	3.39%
Other	11	100.00%	-
Political Activity	18	83.33%	19.79%
Remuneration	361	65.37%	7.83%
Shareholder Rights	153	17.65%	14.15%
Sustainability	125	63.20%	13.13%
Total	**2,919**	**42.62%**	**7.55%**

**Average Shareholder Dissent calculated from resolutions in respect of which shareholder voting results were available. No poll data was collected for 11 'Any Other Business' resolutions in the 'Other' category, as no shareholders proposed an agenda item for consideration.*

In the period to 30 June 2024, only one of the management-proposed resolutions NILGOSC opposed was defeated. The resolution concerned the approval of the remuneration report at Salesforce Inc. In the prior year, six of the management proposals NILGOSC opposed were defeated, of which, four concerned remuneration reports.

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 27 shareholder resolutions concerning environmental practices. These proposals covered topics such as climate change, biodiversity, water risk management and the use of plastics. The environmental proposals received 14.23% average support, and none were successful.

NILGOSC also supported a further 103 shareholder resolutions, of which there were: 37 related to human rights and workforce issues; 10 on board related issues, such as the adoption of a policy requiring the chair to be an independent director; 15 on political activity, mainly requesting enhanced disclosure or prohibition of, political donations and/or lobbying; 15 on shareholders rights; 14 remuneration-related proposals; 11 proposals on other ESG issues; and one proposal seeking enhanced transparency on charitable contributions. Nine of these shareholder proposals were successful, each of which was targeted at improving shareholder rights and sustainability practices:

- **Shareholder Rights:** five proposals seeking the removal of supermajority voting provisions (ConocoPhillips, NVIDIA Corp, Roper Technologies Inc, Tesla Inc and Verisk Analytics Inc); and two proposals seeking a lower threshold for the shareholders' right to call an SGM (General Mills Inc and Warner Bros Discovery Inc);
- **Board:** one proposal requesting the board to adopt annual director elections (Tesla Inc); and
- **Political Activity:** one proposal requesting the provision of enhanced reporting on the policies and procedures for making political expenditure, and the disclosure of monetary and non-monetary contributions and expenditure for political purposes on a semi-annual basis (DexCom Inc).

The year to 30 June 2024 continued to demonstrate the consecutive decline in average shareholder support on shareholder proposals, as the downward trend of shareholder proposals receiving a lower level of average support (i.e. votes cast in favour) than in the year prior continued (18.28%, compared to 20.32%). Although the number of shareholder proposals NILGOSC supported which were successful increased from six in 2023, to nine in the period ended 30 June 2024.

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 21.66% of the fund assets at 30 June 2024 (2023: 29.92%), votes are cast by NILGOSC's passive manager, LGIM, according to its own voting policies. LGIM provides NILGOSC with quarterly ESG reports on both engagement and ESG metrics, 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 2024, LGIM provided some case studies detailing significant votes, two of which (both shareholder resolutions) are provided below:

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

Holding: *Amazon.com, Inc. (Amazon)*

Summary of the Resolution: *Report on Customer Due Diligence*

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

Communication of Voting decision: *LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management.*

Rationale for the Voting Decision: *A vote in favour was applied as enhanced transparency over material risks to human rights is key to understanding the company's functions and organisation. While the company has disclosed that they internally review these for some products and has utilised appropriate third parties to strengthen their policies in related areas, there remains a need for increased, especially publicly available, transparency on this topic.*

Outcome of the Vote: *16.44% Support*

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: *Pre-declaration and High-Profile Meeting*

Amazon is one of the largest companies and employers (not only within its sector but) in the world, therefore LGIM believe that Amazon's approach to human capital management issues has the potential to drive improvements across both its industry and supply chain. LGIM voted in favour of this proposal last year and continue to support this request, as enhanced transparency over material risks to human rights is key to understanding the company's functions and organisation. While the company has disclosed that they internally review these for their products (RING doorbells and Rekognition) and has utilised appropriate third parties to strengthen their policies in related areas, there remains a need for increased, especially publicly available, transparency on the topic. Amazon's coverage and reporting of risks falls short of LGIM's baseline expectations surrounding AI. In particular, LGIM would welcome additional information on the internal education of AI and AI-related risks.

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

Case Study: *Walmart Inc. (Walmart)*

Summary of the Resolution: *Establish a Company Compensation Policy of Paying a Living Wage.*

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

Communication of Voting decision: *LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is their policy not to engage with investee companies in the three weeks prior to an AGM, noting their engagement is not limited to shareholder meeting topics.*

Rationale for the Voting Decision: *Shareholder Resolution – Income inequality: LGIM intended to encourage the company to establish a compensation policy that ensures employees earn a living wage, which in turn may reduce the potential negative financial impacts that stem from issues such as low worker morale, poor health and absenteeism, high staff turnover etc.*

Outcome of the Vote: *4.4% Support*

Implications of the Outcome: *LGIM will continue to engage, publicly advocating their position on the issue and monitoring company and market-level progress.*

Criteria for "significant" vote: *Pre-declaration and High-Profile Meeting*

LGIM has been engaging with Walmart on the topic of living wages for several years, and in 2023 launched their income inequality engagement campaign which targeted 15 of the largest global food retailers asking them to set out their policy on living wages for workers within their own operations and their supply chain. Walmart, as the largest food retailer in the world, is part of this campaign.

Although the company has improved on some areas (e.g. training opportunities) the company does not have a policy on the living wage, and its minimum wage of $14/hour for store employees is much less than the living wage of c. $25/hour.

In both cases, NILGOSC holds these companies in its actively managed equities portfolios, and therefore voted on the resolutions also. In both cases, NILGOSC also voted 'for' the shareholder resolutions (against management recommendation) for similar reasons as LGIM detailed above, namely that increased transparency is considered to be in shareholders' best interests in the case of the Amazon resolution, and that the Walmart proposal may lead to greater alignment between executive compensation and shareholder interests.

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 2024

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.