

STATEMENT OF RESPONSIBLE INVESTMENT

1. **PRINCIPLES**

- 1.1. NILGOSC's overriding obligation is to act in the best interests of the Fund beneficiaries. In this fiduciary role NILGOSC believes that environmental, social and corporate governance (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 has developed this Statement of Responsible Investment to outline how such issues are incorporated into its investment practices.
- 1.2. NILGOSC supports the principles set out in the UK Stewardship Code and has published a Statement of Adherence to the Code, which is available on its website at <http://www.nilgosc.org.uk/stewardship>.
- 1.3. NILGOSC has adopted the United Nations Principles for Responsible Investment as a means of publicly demonstrating its commitment to responsible investment practices
- 1.4. NILGOSC expects the companies in which it invests to comply with best practice in terms of corporate governance. NILGOSC sets out this best practice in its Proxy Voting Policy. A copy is available at www.nilgosc.org.uk/voting-policies-and-activity.
- 1.5. NILGOSC believes that engagement is a key part of any responsible investment strategy and engages with companies both directly and via its fund managers. NILGOSC also participates in collaborative initiatives with other like-minded investors and groups, which seek to improve company behaviour, policies or systemic conditions
- 1.6. NILGOSC has developed a Climate Risk Statement to sit alongside the Statement of Responsible Investment. The Statement acknowledges the importance of climate risk as an investment issue and sets out the climate risk framework in which NILGOSC will operate. A copy is available at <http://www.nilgosc.org.uk/climate-risk>.

2. **STEWARDSHIP**

- 2.1. The UK Stewardship Code defines Stewardship as "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.¹" NILGOSC believes that responsible ownership is about recognising that the impacts of corporations on the environment, on workers and on communities can seriously affect shareholder value. It also places a high value on companies' own good governance. This differs from ethical investment, which generally focuses on excluding or including companies from an investment portfolio (positive or

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

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negative screening). By contrast, responsible ownership involves investors using their shareholder power in the companies they invest in.

2.2. NILGOSC does this by voting at shareholder meetings and by engaging, both directly and indirectly, with company senior management when ESG issues of concern have been identified. This may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings.

2.3. NILGOSC is an active investor and seeks to use its influence to engage with policy makers, governments, asset managers and individual investee companies in respect of its equity, fixed income, property and infrastructure holdings.

2.4. **The UK Stewardship Code**

2.4.1. The UK Corporate Governance Code identifies the principles that underlie an effective board. The UK Stewardship Code sets out the principles of effective stewardship by investors. In so doing, the Code assists institutional investors better to exercise their stewardship responsibilities, which in turn gives force to the “comply or explain” system.

2.4.2. NILGOSC supports the principles set out in the UK Stewardship Code and seeks to promote these principles both directly and indirectly through the mandates given to its investment managers. In order to demonstrate effective stewardship of the companies in which it invests, NILGOSC has published a Statement of Adherence to the Stewardship Code. A copy is available at www.nilgosc.org.uk/stewardship.

2.5. **Principles for Responsible Investment**

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

2.6. **Voting**

2.6.1. NILGOSC believes that, as a responsible investor, it has a legitimate interest in the management and corporate governance of the companies in which it invests and supports the use of voting as a means of expressing concern over ESG issues. By exercising its right to vote at company meetings, NILGOSC seeks to improve corporate behaviour and protect shareholder value by maintaining effective shareholder oversight of the directors and company policies, a process on which the current system of corporate governance depends.

2.6.2. NILGOSC expects the companies in which it invests to comply with ESG best practice. NILGOSC’s voting policy provides a basis for communicating with investee companies and holding directors accountable for the stewardship of the company.

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It represents NILGOSC's view on what it believes are important elements of good corporate governance and the principles which will be used to determine voting decisions on specific issues. A copy is available on its website at www.nilgosc.org.uk/voting-policies-and-activity.

2.6.3. NILGOSC will exercise its voting rights, if possible, at all company meetings within its actively managed equity portfolios and will vote against management where there are significant ESG failings. An annual summary of NILGOSC's voting activity is publicly available on its website, as well as detailed quarterly disclosure of votes cast.

2.6.4. For passively managed equities, votes are cast by NILGOSC's passive fund manager according to its own voting policies. The manager reports to NILGOSC on its voting activities on a quarterly basis.

2.7. Engagement

2.7.1. 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.

2.7.2. Where practical, a letter is sent to UK and other European listed companies when NILGOSC has decided not to vote in accordance with management recommendations at the AGM, providing a brief explanation for the voting decisions taken. It is hoped that by providing this explanation, the flow of information between companies and their shareholders can be improved.

2.7.3. NILGOSC will collaborate with other like-minded investors and groups in order to engage with companies, industries and countries in which it invests in order to improve levels of corporate governance where needed.

2.7.4. All active fund managers are instructed to engage, on NILGOSC's behalf, with those issuers where ESG practices fall short of acceptable standards. NILGOSC requires all its external managers to provide regular reporting on such engagement activity and assesses its compliance through its quarterly balanced scorecard monitoring process. This applies to both equities and fixed income mandates.

2.7.5. NILGOSC will seek 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.

2.7.6. 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.

2.8. Climate Risk

2.8.1. NILGOSC believes that climate change is a global challenge for governments, corporations and institutional investors alike. It is aware that a risk exists that climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

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2.8.2. NILGOSC has developed a Climate Risk Statement to sit alongside the Statement of Responsible Investment. The Statement states that the changing climate will have a significant impact on the global economy, corporations and society, whether through direct physical impacts, tighter regulations or reputational damage suffered by those who fail to adequately address it. A copy is available at <http://www.nilgosc.org.uk/climate-risk>.²

3. INVESTMENT DECISIONS

- 3.1. NILGOSC delegates the selection of investments held to its fund managers and does not impose any investment restrictions in regard of social, ethical and environmental issues. NILGOSC does not make any investments specifically for social, ethical and environmental reasons.
- 3.2. NILGOSC has instructed its active fund managers, across all asset classes, to take account of ESG considerations provided the primary financial obligation is not compromised.
- 3.3. NILGOSC seeks to ensure that the fund managers and consultants it appoints are capable of appropriately considering ESG issues. NILGOSC assesses these capabilities at the selection and appointment stage through the tender process and applies mandatory ESG criteria. NILGOSC will only appoint fund managers and consultants who have demonstrated that they meet an acceptable threshold for ESG capabilities. It will monitor the managers' action in this area and will work with fund managers and the investment sector to ensure sufficient data is available to aid effective decision making.
- 3.4. All managers are required to provide regular reporting on responsible investment activity undertaken and compliance is assessed as part of NILGOSC's quarterly balanced scorecard monitoring process.
- 3.5. NILGOSC also encourages its real asset managers to adopt sustainable asset management practices with respect to its infrastructure and property holdings and monitors progress through the quarterly monitoring process.

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