Investment Directorate

Nest's position on UN Global Compact screening

Manager Monitoring – February 2024

Overview

Nest wants to invest in companies that take their responsibilities to people and planet seriously. This means operating in ways that, at a minimum, meets fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption. A good measure for this is assessing companies' adherence to the **ten principles of the United Nations Global Compact (UNGC).** Our approach to implementing the UNGC is based on a number of factors that seek to manage financial and reputational risks as guided by Nest's Investment Beliefs and Responsible Investment Objectives.

To do this, we have developed a high-level position that allows our fund managers to implement their own approach to screening for UN Global Compact violations against the principles and take the appropriate course of action.

Nest will regularly engage with and review the approaches of its fund managers to ensure they remain suitable for our mandate. We will monitor and review our investment portfolio to ensure compliance with the principles and a consistent approach where possible.

The United Nations Global Compact (UNGC) Principles

The establishment of the UNGC principles was aimed at mobilizing the global business community to contribute to sustainable development, promote human rights, and address pressing social and environmental challenges. By adhering to the principles, companies can contribute to a more inclusive and sustainable global economy while gaining reputational benefits and fostering stakeholder trust. The principles provide a framework for businesses to align their practices with universally accepted values and goals.

Any business or organisation is able to become a participant of the UNGC. Currently there are 22,356 participants in 160 countries, including some of the biggest companies in the world. A participant is able to receive help reaching their sustainability goals through accessing frameworks and networking with like-minded businesses.

Many third-party ESG data platforms provide data on the UNGC that allow investors to assess whether the business activities and conduct of companies globally uphold the principles. These assessments are not perfect: different providers can and do reach different decisions on which companies comply with the UNGC and the data on which an assessment has been made may be superseded by newer information which takes time to be incorporated into assessments.

The ten principles cover the areas of human rights, labour standards, environment and anti-corruption.

01	Businesses should support and respect the protection of internationally proclaimed human rights, within the scope of their influence
02	Businesses should make sure that they are not complicit in human rights abuses
03	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
04	Businesses should uphold the elimination of all forms of forced and compulsory labour
05	Businesses should uphold the abolition of child labour
06	Businesses should uphold the elimination of discrimination in respect of employment and occupation
07	Businesses should support a precautionary approach to environmental challenges
08	Businesses should undertake initiatives to promote greater environmental responsibility
09	Businesses should encourage the development and diffusion of environmentally friendly technologies
10	Businesses should work against corruption in all its forms, including extortion and bribery

Source: The Global Compact

- *Human Rights*
- *Labour standards*
- *Environment*
- *Anti-corruption*

Why is it important?

1. Risk Assessment: The UNGC principles cover key areas such as human rights, labour standards, environmental protection, and anti-corruption measures. Companies that breach these principles may face legal, reputational, and operational risks. By having a screen in place, Nest can assess the risks associated with their investment portfolios and work with fund managers to make informed decisions about potential financial implications.

2. Long-Term Performance: Companies that align with UNGC principles may exhibit stronger long-term performance as they manage risks effectively, attract and retain talented employees, and adapt to changing market dynamics. By engaging with, and in some cases avoiding companies, that breach UNGC principles, Nest can enhance the potential for sustainable financial returns and contribute to long-term value creation.

3. Reputation Management: Investing in companies that violate UNGC principles can damage an investor's reputation. Nests members increasingly expect us to consider environmental, social, and governance (ESG) factors when making investment decisions. Using a screen to identify companies breaching UNGC principles, can help us proactively manage our reputation and demonstrate Nest’s commitment to responsible investing.

4. Influence and Engagement: Our fund managers have the power to influence companies and encourage responsible practices. By screening our portfolios for breaches against the UNGC principles, our fund managers can identify potential engagement opportunities and mitigate risk. They can actively engage with those companies to promote positive change, encourage transparency, and foster improvements in sustainability performance.

How we are taking action

Nest’s fund managers, who manage our segregated investment mandates, are charged with applying a UNGC screen to our investment portfolios. This includes portfolios in segregated accounts investing in equities or debt of publicly listed companies. In private markets, where external data is currently insufficient to screen effectively we expect managers to conduct their own due diligence to minimise the risk of investing in assets that undermine these principles.

Nest takes a nuanced approach to identifying, assessing, and managing risks associated with the UNGC principles. We use a range of tools to address the risk and take the most appropriate form of action. Our segregated fund managers will have in place their own individual approach to managing UNGC breaches. The approaches may vary from one another, in some cases consisting of outright exclusions, whilst others use engagements to assess corrective action. Each position will outline the processes for excluding companies and by which an excluded company can be reintroduced back into the portfolio.

Our approach is to require our fund managers to:

- Screen our portfolio, using a third-party data provider of their choice, and identify companies, that have been assessed as violating or potentially have violated one or more of the UNGC principles. Where a company is found to have breached a principle and received a UNGC fail flag, we expect our fund manager to notify Nest of the breach and execute their UNGC position. We subsequently expect our managers to take action in line with their own approach. This may include:

- Engaging with a company/issuer that has received a UNGC fail flag, to understand the breach and encourage corrective action.

- Excluding a security/issuer - with prior approval from Nest.

Implementation and Monitoring

UNGC screens can be heavily subjective and derive different findings depending on the provider. There is also a time lag to consider between a breach being flagged and it being resolved. As a result, some managers may prefer to engage with companies, investigate the breach and perform due diligence to see whether any corrective action is being taken. Nest will develop a 'master list' which comprises companies flagged by managers and Nest's data providers as having breached a UNGC principle. Some companies on the master list will have been excluded as communicated by fund managers. The exclusions will be communicated to our custodian who will monitor the exclusion list for us. In circumstances whereby one manager has excluded a company, and another does not, we will encourage the manager to provide evidence of credible corrective action or updates from their engagement with the company, where applicable. We expect the manager to provide good justification before reintroducing the company back into the portfolio.

In exceptional circumstances Nest may reserve the right to override the screen applied by its managers. The overrides, along with supporting explanations, will be reported on annually.

In order for us to monitor UNGC beaches across our portfolio we expect our fund managers to produce a regular report (at least on an annual basis) detailing companies and their violations of the UNGC Principles. This should include an assessment of each company which has been flagged by data providers. Plus, quarterly updates detailing fund manager engagements.

Nest's responsible investment team will review the implementation of the UNGC screening approach annually and report these findings in our Responsible Investment report. This review will consider the suitability, adequacy, and effectiveness of our approach and ensure our segregated fund managers are complying with the requirements we have set out.

Going forward, where we do not use a segregated account for our investments in an asset class, we may require prospective new pooled fund managers to have a UNGC screen in place.

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