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PENSION FUND COMMITTEE AND PENSION BOARD THURSDAY, 15 SEPTEMBER 2022

A MEETING of the PENSION FUND COMMITTEE AND PENSION BOARD will be held VIA
MICROSOFT TEAMS on THURSDAY, 15 SEPTEMBER 2022 at 10.00 AM

All attendees, including members of the public, should note that the public business in this meeting will be livestreamed and video recorded and that recording will be available thereafter for public view for 180 days.

J. J. WILKINSON,
Clerk to the Council,

9 September 2022

| BUSINESS | | |
|-----------------|--|---------|
| 1. | Apologies for Absence | |
| 2. | Order of Business | |
| 3. | Declarations of Interest | |
| 4. | Minute (Pages 3 - 10) Minute of Meeting held on 29 June 2022 to be noted and signed by the Chairman. (Copy attached). | 2 mins |
| 5. | Risk Register Update (Pages 11 - 20) Consider report by Acting Chief Financial Officer. (Copy attached). | 10 mins |
| 6. | Pension Fund Budget Monitoring to 30 June 2022 (Pages 21 - 26) Consider report by Acting Chief Financial Officer. (Copy attached.) | 10 mins |
| 7. | Communication Policy Review (Pages 27 - 40) Consider report by Director – People, Performance and Change. (Copy attached.) | 10 mins |
| 8. | Pension Administration System (Pages 41 - 50) Consider report by Director – People, Performance and Change. (Copy attached.) | 10 mins |
| 9. | Responsible Investment Metrics and Targets Report (Pages 51 - 60) Consider report by Isio. (Copy attached.) | 20 mins |
| 10. | Review of UK Stewardship Code (2021) (Pages 61 - 102) | 15 mins |

| | | |
|-----|--|---------|
| | Consider report by Acting Chief Financial Officer. (Copy attached.) | |
| 11. | Information Update (Pages 103 - 112) Consider briefing paper by Acting Chief Financial Officer. (Copy attached.) | 10 mins |
| 12. | Any Other Items Previously Circulated | |
| 13. | Any Other Items which the Chairman Decides are Urgent | |
| 14. | Items Likely To Be Taken In Private Before proceeding with the private business, the following motion should be approved:- “That und Section 50A(4) of the Local Government (Scotland) Act 1973 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 8 of Part 1 of Schedule 7A to the aforementioned Act.” | |
| 15. | Minute (Pages 113 - 114) Private Section of Minute of Meeting held on 29 June 2022 to be noted and signed by the Chairman. (Copy attached). | 2 mins |
| 16. | Investment Performance Quarter to 30 June 2022 (Pages 115 - 158) Consider report by Isio Investment Authority. (Copy attached). | 30 mins |

NOTES

- Timings given above are only indicative and not intended to inhibit Members' discussions.**
- Members are reminded that, if they have a pecuniary or non-pecuniary interest in any item of business coming before the meeting, that interest should be declared prior to commencement of discussion on that item. Such declaration will be recorded in the Minute of the meeting.**

Membership of Committee:- Councillors D. Parker (Chairman), P. Brown, C. Hamilton, W. McAteer, D. Moffat, S. Mountford, S. Scott, J. Pirone, Mr D Bell, Mr A Daye, Mr M Drysdale, Mr M Everett and Ms K M Hughes

Please direct any enquiries to Declan Hall Tel: 01835 826556
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**SCOTTISH BORDERS COUNCIL
PENSION FUND COMMITTEE AND PENSION BOARD**

MINUTES of Meeting of the PENSION FUND
COMMITTEE AND PENSION BOARD held
via MS Teams on Wednesday, 29 June 2022
at 10.00 am

Present:- Councillors D. Parker (Chairman), W. McAteer, S. Mountford, J. Pirone S. Scott, Mr D. Bell, Mr M. Drysdale, Ms L. Ross.
Apologies:- Councillors P. Brown, C. Hamilton and D. Moffat
In Attendance: Chief Officer Audit and Risk, Director Finance & Corporate Governance, Pensions and Investment Manager, HR Shared Services Manager, Democratic Services Officer (D.Hall).
Also in Attendance: Ms A. Fitzpatrick and Mr A Singh, Isio.

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting held on 17 March 2022.

DECISION

NOTED for signature by the Chairman.

2. **PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE**

There had been circulated copies of the Minute of the Pension Fund Investment and Performance Sub-Committee meeting held on 28 February 2022.

DECISION

NOTED for signature by the Chairman.

3. **SCOTTISH BORDERS COUNCIL PENSION FUND INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2021/22**

3.1 With reference to paragraph 7 of the Minute of the Meeting held on 4 March 2021 there had been circulated copies of a report by the Chief Officer Audit and Risk which presented for approval the Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2021/22. The Plan included the Chief Officer Audit and Risk's independent assurance opinion on the adequacy of the Scottish Borders Council Pension Fund's overall control environment. The report explained that the Public sector Internal Audit Standards (PSIAS) required that the Chief Officer Audit and Risk provided an annual internal audit opinion and report on the adequacy and effectiveness of the Pension Fund's governance, risk management and internal controls to support the preparation of the Pension Fund's Governance Compliance Statement. In order to meet the requirements of the PSIAS the Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2021/22 included the required Internal Audit annual opinion, provided details of the Internal Audit Activity during the year that supported the opinion, and stated the conformance of the Council's Internal Audit service with the PSIAS. The Chief Officer Audit and Risk's opinion was that the systems of internal control spending within the Scottish Borders Council Pension Fund during 2021/22 were sound, and governance and risk management arrangements were effective.

3.2 The Chief Officer Audit and Risk, Ms Jill Stacy, presented the report and responded to Members questions. In response to a question regarding systemic issues in the Business World ERP system, the HR Shared Services Manager, Mr Ian Angus, explained that all of the issues had been addressed and payments were being made – including to third parties. With regard to the uptake rate of the Members Self Service facility, Ms Stacy

explained that uptake was low but that promotional activity was underway to increase the number of pension scheme members using the new facility. In response to a question regarding one discrepancy that had been highlighted in the report, Mr Angus explained that the discrepancy related to one individual and concerned a notification of date of death. The value of the benefit was not significant, and work was ongoing to resolve the issue. Ms Stacy highlighted that despite the value of the benefit being low in value, the discrepancy nonetheless allowed the efficacy of Scottish Borders Councils Pension Fund controls to be assessed and lessons to be learned.

DECISION

AGREED to acknowledge the independent assurance provided on internal controls and governance arrangements as set out in the Scottish Borders Council Pension fund Internal Audit Annual Assurance Report 2021/22.

4. GOVERNANCE POLICY & COMPLIANCE STATEMENT 2022

With reference to paragraph 4 of the meeting held on 10 June 2021 there had been circulated copies of a report by the Director Finance and Corporate Governance that proposed the Revised Governance Policy and Compliance Statement for the Scottish Borders Council Pension Fund following the implementation of the 2015 regulatory changes. The report requested approval of the Governance Compliance Statement for inclusion in the pension Fund's Annual Report and Accounts for 2021/22. Appendix 1 to the report contained the revised Governance Policy and Compliance Statement for the Pension Fund 2022. The Governance Compliance Statement for 2021/22 was included in Annex A to the policy and demonstrated that the Pension Fund was in full compliance with published best practice guidance.

DECISION

AGREED the revised Governance Policy and Compliance Statement 2022 for inclusion in the Pension Fund Annual Report and Accounts 2021/22.

5. PENSION ADMINISTRATION PERFORMANCE 2021/22

With reference to paragraph 4 of the Minute of the meeting held on 14 December 2021 there had been circulated copies of a report by the Director People, Performance and Change which presented the Pensions Administration Performance for 2021/22 and requested approval for its inclusion in the Annual Report for the Fund. Appendix 1 to the report contained the Pensions Administration Performance for 2021/22 as it would be included in the Fund's Annual Report and Accounts. The report explained that during 2021/22 all payments, lump sums and monthly pensions, were made on time. Performance had remained at the expected high standard, which was testament to the continued dedication of the staff within the Pensions Administration Team, having continued to work from home for the majority of the year and adapted to new and improved working practices as a result of the continued global pandemic. The Annual Benefit Statements for all deferred members were issued in advance of the 31 August deadline in all instances and were made available via Members Self Service for all active members. The annual Employer Liaison Meeting was held as a virtual meeting in March due to the continued Covid-19 restrictions in place at that time. The event was well attended with representatives from the majority of the Fund Employers. Updates were provided on Investments, Administration and the Fund Actuary gave a refresher presentation on the accounting report requests. Due to the continued Covid-19 situation, no payslips had been issued to pensioners. Online access had been promoted, and information on the application of the Pension Increase had been published on the Pension Fund Website. The annual P60's had been issued in accordance with the statutory timelines. The HR Shared Services Manager presented the report and responded to Members questions. In response to a question regarding new and improved working practises, Mr Angus explained that the practises involved a shift to further digitalisation, and the use of technology, such as print to post rather than traditional mail, online forms and a general desire to use digital solutions where possible to improve communication with all members.

DECISION

AGREED to note the Pension Administration Performance for 2021 as set out in Appendix 1 to the report and approved its inclusion in the Pension Fund Annual Report and Accounts 2021/22.

6. TRAINING PLAN 2022/23

With reference to paragraph 6 of the Minute of the Meeting held on 10 June 2021 there had been circulated copies of a report by the Director Finance & Corporate Governance which compared the actual 2021/22 attendance for Pension Fund Committee and Board members to the requirements detailed in the current Training Policy approved in June 2019. The report proposed key areas of training for 2022/23 in line with the policy and based on the Skills Knowledge assessment recently undertaken. The report explained that in line with the Training Policy at Appendix 1 to the report, the Pension Fund Committee and Pension Fund Board members were required to undertake an annual knowledge and skills self-assessment to identify the key areas for the future years training plan. The Training Knowledge and Skills Assessments were undertaken in May 2022 and scores received were summarised in the table in paragraph 5.1, and in more detail in Appendix 2 to the report. The proposed Training for 2022/23 would focus on Financial Markets and Products, Investment performance and risk management, Pension Administration and General Pension Fund Regulatory environment. Members were strongly encouraged to actively participate in all training events to demonstrate their commitment to enhancing the governance of the Pension Fund and to support effective decision making. In response to a question, the Pensions and Investment Manager, Ms Kirsty Robb, advised that those members who had undertaken the tool kit in 2017 did not need to do so again.

DECISION

AGREED to:-

- (a) note the Training Policy at Appendix 1 to the report;**
- (b) note the outcome of the 2021/22 training programme and the attendance levels for training and meetings;**
- (c) note the outcome of the Knowledge and Skills Self-Assessment for 2022/23; and**
- (d) approve the Training areas for 2022/23 set out in the report and that all members should prioritise attendance at training events wherever practicable.**

7. BUSINESS PLAN 2022/23 - 2024/25

With reference to paragraph 5 of the Minute of the Meeting held on 14 December 2021 there had been circulated copies of a report by the Director Finance & Corporate Governance which presented the draft Pension Fund Business Plan 2022/23 – 2024/25 for approval. The report explained that best practice suggested that having a business plan for the pension fund was a good way of demonstrating compliance with the “Myners Principle” relating to effective decision making. Appendix 1 to the report contained the first Pension Fund Business Plan, covering the period 2022/23 – 2024.25. The Business Plan identified an Action Plan that would be delivered during the next three years to support the aims and objectives of the Fund.

DECISION

AGREED that the Pension Fund Business Plan 2022/23 – 2024/25 as set out in Appendix 1 to the report was approved.

8. RISK REGISTER UPDATE

With reference to paragraph 5 of the Minute of the meeting held on 17 March 2022 there had been circulated a report by the Director, Finance and Corporate Governance which formed part of the risk review requirements. The report provided the Members of the Pension Fund Committee and Pension Board with an updated full register and proposed management actions to mitigate the identified risks. The report explained that identifying and managing risk was a cornerstone of effective management and was required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It was further reflected and enhanced in the "Managing Risk in the Local Government Pension Scheme" published by CIPFA. A virtual workshop was held on 4 May 2022 with Officers from relevant Department to review and update the full risk register. The output of that workshop was shown in Appendix 1 to the report. The report summarised the changes made during the review and explained that no new risks had been identified. In line with the Council's Risk Management Policy (2018) a paper would be presented at the September 2022 meeting to report progress on the management actions and present any new risks for consideration. Members welcomed the report and highlighted that the majority of risks had been successfully mitigated.

DECISION AGREED

- (a) the updated Full Risk register as contained in Appendix 1 to the report; and**
- (b) to an update on progress of management actions to be presented in September 2022.**

9. RESPONSIBLE INVESTMENT - MONITORING IMPLEMENTATION PLAN

9.1 With reference to paragraph 8 of the Minute of the meeting held on 17 March 2022 there had been circulated copies of a report by the Director, Finance and Corporate Governance which sought approval for the responsible investment objective and metrics for the Pension fund in line with the Fund's Responsible Investment Policy. As part of the Pension Fund's Fiduciary duties it was required to ensure appropriate consideration was given to Environmental, Social and Governance (ESG) issues as part of its investment decisions, whilst acting in the best interests of the scheme beneficiaries. The Committee and Board, to ensure those fiduciary duties are met, and in line with good practice approved a revised Responsible Investment Policy on 16 September 2021. The revised policy stated that the Committee would seek to monitor key ESG metrics and set targets based on their views and how key metrics evolved over time. The Fund undertook an initial survey which was followed by a workshop which highlighted the challenges around the availability of data to allow some of the SDG's to be measured in a reliable and robust way. Due to existing reporting requirements, the Task Force for Climate Related Financial Disclosure and Paris Aligned SDG's relating to climate were the most developed. The Committee had approved the 6 key SDG's as priorities. Those were SDG 13 – Climate Change, SDG 7 – Affordable and Clean Energy, SDG 1 – No Poverty, SDG 2 – Zero Hunger, SDG 3 – Good Health and Well-being and SDG 1- Reduce Inequalities. Appendix 1 to the report detailed the action plan for the commencement of data gathering and reporting for priorities SDG 13 Climate Change and SDG 7 Affordable and Clean Energy. This would allow a baseline position to be established and to ensure the Fund met its agreed responsible investment monitoring requirements and TCFD reporting when required.

9.2 Mr Andrew Singh of Isio summarised the report and responded to Members questions. Mr Singh explained that ESG issues were widely seen as material risks for pension funds, and that climate change, and social risks were increasingly considered in the same way as financial risks. In response to a question regarding added bureaucracy related to climate impact issues, Mr Singh explained that the impact from setting or not setting climate goals could be extremely significant, that climate change was the focus of attention for good and obvious reasons and that other ESG aspects were likely to be subject to considerable focus in the future. Ms Robb added that the monitoring of ESG

matters would be reliant on good communication with fund managers and was something that needed to be managed into the future. In response to a question regarding whether the war in Ukraine had led to increased focus on the Social and Governance aspects of ESG, Mr Singh agreed that the war had brought more attention to Social and Governance issues and explained that the war had resulted in equity markets moving out of Russian holdings.

DECISION

NOTED the action plan detailed in Appendix 1 to the report.

10. PENSION FUND BUDGET OUT-TURN TO 31 MARCH 2022

With reference to paragraph 6 of the Minute of the meeting held on 17 March 2022 there had been circulated copies of a report by the Director, Finance and Corporate Governance which provided the Pension Fund Committee and Pension Fund Board with a final out-turn position of the Pension Fund for 2021/22. The Local Government Pension Scheme (Scotland) Regulation 2014 required Administering Authorities to ensure strong governance arrangements and set out the standards they were to be measured against. To ensure the Fund met the standards a budget was approved on 4 March 2021 following the recommendations within the CIPFA accounting guidelines headings. The report was the final quarterly monitoring report of the approved budgets. Budgets for 2022/23 were also approved on 17 March 2022. The total expenditure to 31 March 2021 was £6.395m against a budget of £7.160m. This resulted in a budget underspend of £765k. The main element of underspend was within Investment Management fees due to the lower than estimated market valuations which formed the basis of the fee charges. A key objective of the Fund was to pay pension benefits when they became due. Due to the maturing nature of the fund and this requirement the Fund had included within its investment strategy the requirement for income generating assets. The graph in paragraph 5.3 of the report showed the Fund had been able to fully meet its cashflow requirements. Ms Robb presented the report and responded to Members questions. In response to a question regarding future projections, Ms Robb explained that whilst no detailed scenario planning had been carried out, the Fund was a “mature fund” which was diversifying its holdings to ensure adequate income generation and was managing its cash flow management adequately. The Director, Finance and Corporate Governance explained that asset allocation was subject to regular monitoring, with assets switched to more income generating assets classes as required to ensure that pensions were paid when they fell due.

DECISION

AGREED:-

(a) to note the actual expenditure to 31 March 2022; and

(b) to note the cashflow position.

11. DRAFT ANNUAL REPORT AND ACCOUNTS 2021/22

With reference to paragraph 10 of the Minute of the meeting held on 10 June 2021 there had been circulated copies of a report by the Director, Finance and Corporate Governance which provided the Joint Committee and Board with an opportunity to scrutinize and approve the Draft Annual Report and Accounts for the Pension Fund for 2021/22 prior to their submission to the External Auditors. The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 specified the elements which must be contained in the Annual Report and Accounts, the list of these are contained in the report. The draft Report and Accounts contained in Appendix 1 fully met these requirements. The report was presented to enable members of both the Pension Fund Committee and the Pension Fund Board to consider the draft Annual Report and Accounts for 2021/22 (the Annual Report) prior to External Audit Inspection by the statutory deadline of 30 June 2022. The draft Report and Accounts were still subject to statutory Audit, which would commence August 2022. Following the statutory Audit process the final Report and

Accounts would be submitted to the joint Committee and Board to review and approve any recommendations. Ms Robb presented the report and responded to Members questions. Regarding whether the Fund should be concerned at the levels of pensions paid out, Ms Robb explained that management of the Fund was aware of the position, and that the focus on income generating assets meant that the issue was managed appropriately. The Director, Finance and Corporate Governance provided further explanation, highlighting the switch to dividend paying assets to ensure that pensions were paid and that the Fund had been classed as a “mature fund” since 2013/14. In response to a question regarding the long-term outlook of the Fund, Ms Robb explained that unless the composition of the Council was changed dramatically, then managing asset allocation and funding levels would have to be managed over time. The Director explained that a key consideration when managing the Fund was to ensure that the Fund had enough assets to pay pensions as they fell due, and that he was confident that sufficient funding levels could be maintained.

DECISION

AGREED to:-

(a) note the Draft Annual Report and Accounts 2021/22; and

(b) approve their submission for review by the External Auditors, Audit Scotland.

12. INFORMATION UPDATE

12.1 There had been circulated copies of a Briefing Paper by the Director, Finance and Corporate Governance which provided Members of the Committee and the Board with an update on a number of areas which were being monitored and areas where work was progressing. Full reports on the individual areas would be tabled as decisions and actions were required.

12.2 Scheme Advisory Board

Ms Robb advised that the last meeting of the Scheme Advisory Board (SAB) had been 20 April, but no papers or bulletins were available from that meeting. The Chairman explained that he had been present at the previous meeting of the SAB. The SAB had not been able to appoint a project manager. The SAB had a full picture of the costs associated with the restructure and were exploring writing a joint letter, if consensus could be reached between the employer and employee representatives, to Ministers. The Chairman did not expect clear guidance until later in the year.

12.3 Stewardship Code

Ms Robb explained that the Fund had submitted an application to become a signatory of the UK Stewardship Code on 29 October 2021. The Fund had received feedback from the FRC, who were responsible for assessing applicants. Despite the FRC declining the submission, the feedback received had been positive. Work on the areas that required improvement was underway, with a view to submitting an application in October 2022. In response to a question regarding the benefits of becoming a signatory, Ms Robb explained that acceptance indicated good stewardship and management of the Fund. It was also anticipated that it may become a statutory requirement in the future.

12.4 Training Opportunities

A number of training opportunities were available in the near future. The full agenda for the DP publishing event was not available, but Ms Robb would circulate once it was.

12.5 Cyber Security Update

Mr Angus explained that on cyber security, Heywood Pension Technologies, the provider of the Pension Fund’s Pension Administration system, had provided a Cyber Review Summary for 2022. A third party security expert had conducted a review, with no critical or high issues identified within the Heywood Cloud infrastructure. In response to a question regarding continuity in the event of a total loss of service, Mr Angus explained

that a mirrored site was in place, and undertook to report back on whether a full systems test was planned.

12.6 **Overseas Life Checks**

Mr Angus explained that at the meeting in March it had been reported that there one member who had not yet returned the life certificate and that payment of pension had been suspended, the certificate had been received this life certificate and payment of pension has been reinstated and the missing periods had been paid to the member.

DECISION

NOTED the briefing paper.

13. **PRIVATE BUSINESS**

AGREED under Section 50A(4) of the Local Government (Scotland) Act 1973 to excluded the public from the meeting during consideration of the business contained in the following items on the grounds that they involved the likely disclosure of exempt information as defined in paragraph 6 and 8 of Part 1 of Schedule 7A to the Act.

SUMMARY OF PRIVATE BUSINESS

14. **MINUTE**

The Committee noted the Private Minute of the meeting of 17 March 2022.

15. **PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITEE**

The private Minute of the meeting held on 28 February 2022 was approved.

16. **INVESTMENT PERFORMANCE QUARTER TO 31 MARCH 2022**

The Committee noted a report by Isio on investment performance

17. **INFRASTRUCTURE PERFORMANCE**

The Committee noted a report by the Director, Finance and Corporate Governance on infrastructure performance.

18. **RESIDENTIAL PROPERTY MANDATE PROCUREMENT**

The Committee approved a report by the Director, Finance and Corporate Governance on the procurement process for a residential property manager.

The meeting concluded at 11.50 am

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RISK REGISTER UPDATE

Report by Acting Chief Finance Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

15 September 2022

1 PURPOSE AND SUMMARY

- 1.1 **This report forms part of the risk review requirements and provides the Members of the Pension Fund Committee and Pension Board with an updated full register and proposed management actions to mitigate the risks.**
- 1.2 Identifying and managing risk is a corner stone of effective management and is required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 1.3 A virtual risk workshop was held on 4 May 2022 with Officers from relevant Departments to review and update the full risk register. The revised Risk Register was approved by the Joint Pension Fund Committee and Pension Fund Board on 29 June 2022.
- 1.4 Appendix 1 details the risks within the approved risk register which have been identified management actions and the progress of these actions to date.
- 1.5 There were no new risks identified during the review.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Committee and Board:**
 - (a) **Note the management actions progress as contained in Appendix 1;**
 - (b) **Notes no new quantifiable risks have been identified since the last review; and**
 - (c) **Agrees to an update on progress of management actions to be presented in December 2022.**

3 BACKGROUND

- 3.1 Identifying and managing risk is a corner stone of effective management and is required under the CIPFA guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 3.2 The Risk Register has been developed in line with the Council's approach to risk management as set out in the "Risk Management process guide" and assesses risks using a risk score based on likelihood and impact. It has been further refined to reflect best practice "Managing Risk in the Local Government Pension Scheme" published by CIPFA.
- 3.3 The Pension Fund's Business Plan 2021/22 – 2023/24, was approved on 29 June 2022, setting out the aims and objectives of the Pension Fund. These aims and objectives fully considered and recognised in the formation and approval of the Pension Funds risk register.
- 3.4 The Council's revised Risk Management process guide uses the following risk scoring:

| Level of risk | Risk score |
|---------------|----------------------------------|
| RED | High – Risk Score Range 15-25 |
| AMBER | Medium – Risk Score Range 6 – 12 |
| GREEN | Low – Risk Score Range 1 - 5 |

- 3.5 To comply with the Council's revised policy of risk management and best practice, a Risk Management reporting cycle was developed around the performance and business plan reporting of the Pension Fund. As a result the following cycle of reporting was adopted:
- | | |
|-------------|---|
| Quarterly | <ul style="list-style-type: none">Quarterly Investment Performance Report;Key risks, escalation of any risks that are perceived to have changed adversely and any new risks need to be considered by the Committee;Update on progress of risk management action delivery. |
| Bi-Annually | <ul style="list-style-type: none">Mid-Year Progress report on Business Plan Actions;Key risks, escalation of any risks that are perceived to have changed adversely and any new risks need to be considered by the Committee;Update on progress of risk management action delivery. |
| Annually | <ul style="list-style-type: none">Annual Governance Meeting with Annual Report and Policy/Strategy Performance Reports;Annual reporting on progress with Business Plan and approval of updated Business Plan;Annual reporting on progress with Risk Management Actions and approval of fully reviewed Risk Register including consideration of any new risks. |

4 RISK REGISTER UPDATE

- 4.1 A full risk workshop was undertaken on 4 May 2022 by Officers from the Pension and Investment Team, Human Resources Shared Services and Internal Audit & Risk in order to ensure that the risk register's contents were still relevant and up-to-date. The updated full risk register was approved by the Pension Fund Committee on 29 June 2022.
- 4.2 The progress of the individual management actions identified in the current risk register is detailed in Appendix 1.
- 4.3 There were no new risks identified during the review.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications of this report.

5.2 Risk and Mitigations

The purpose of providing the update to the Committee and Board is to improve the risk management framework for the Pension Fund and demonstrate that the Members of the Pension Fund Committee and the Pension Board understand the risks faced and how it is proposed to manage, mitigate or tolerate these risks. The Additional Proposed Actions as contained in Appendix 1, and recommended for approval by the Committee and Board in this report, are designed to directly enhance the management of risks.

5.3 Integrated Impact Assessment

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance required under the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity and socio-economic factors have duly been considered when preparing this report.

5.4 Sustainable Development Goals

There are no direct impacts from this report on the sustainable development goals of the Council.

5.5 Climate Change

There are no direct climate change impacts as a result of this report.

5.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

5.7 Data Protection Impact Statement

There are no personal data implications arising from the proposals contained in this report.

5.8 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

6 CONSULTATION

- 6.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR, the Clerk to the Council and Corporate

Communications have been consulted and any comments received have been incorporated into the final report.

Approved by

Suzy Douglas

Acting Chief Finance Officer Signature

Author(s)

| Name | Designation and Contact Number |
|-------------|--|
| Kirsty Robb | Pension & Investment Manager, 01835 825249 |

Background Papers:

Previous Minute Reference: Pension Fund Committee and Pension Board 29 June 2022

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. The Pension & Investment Team can also give information on other language translations as well as providing additional copies.

Contact us at: Pension & Investment Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825249 Fax 01835 825166. email: t&cteam@scotborders.gov.uk

Pension Fund - Risk Register actions updates

| No. | Category | Risk | Risk Factor/Cause | Effect/Consequences | Proximity | Risk Owner | Controls | | Current Risk | | | Progress |
|------|--------------------|---|---|---|-----------|---|--|---------------------|--------------|------------|-------|---|
| | | | | | | | Current Controls | Control Assessment | Impact | Likelihood | Score | Actions as at 15/09/22 |
| 1.4 | Asset & Investment | Failure to take expert advice or risk of poor investment/actuarial advice may lead to the Fund's assets not being properly managed resulting in inappropriate investment decisions and poor returns and/or insufficient funding levels | Committee ignores advice provided by expert adviser. External adviser provides inappropriate/inaccurate/ insufficient advice to Committee/Officers. | Wrong or inappropriate decisions resulting in inadequate investment returns and/or insufficient funding levels potentially increasing employers contribution rates. | Ongoing | Pension Fund Committee/ Dir Finance & Corp Govern | Robust procurement processes around the recruitment and appointment process; Investment Adviser in place and performance reviewed annually Benchmark performance against other LAs; Regular benchmarking and cross verification of advice with other LAs through Local Govt. Pension Scheme(Scotland) Investment & Governance Group; Other info sources and discussions with non-Fund investment managers/advisers to validate advice and performance of Fund; Pension Fund Board provides scrutiny role TREAT Ongoing training for elected members of the Pension Board and Committee | Effective | 4 | 2 | 8 | Training plan for 2022/23 approved 26/6/22 based on skills and knowledge assessment. 3 external training events have been circulated, internal event held on 30/8/22 and 2 additional events currently being organised. |
| 1.9 | Asset & Investment | Investment Strategy is inconsistent with Funding Strategy may lead to the fund not being managed properly through setting employer contribution rates incorrectly resulting in the future liabilities of the Fund not being able to be covered by its assets and requiring employers to increase contribution rates to address any funding gap. | Investment Strategy for Fund set without appropriate consideration of the requirements of the Funding Strategy | future liabilities of the Fund not being able to be covered by its assets; Employers increase contribution rates to address any funding gap. | Ongoing | Pension Fund Committee/ Dir Finance & Corp Govern | Full actuarial valuation undertaken on Triennial basis. Funding Strategy Statement and Statement of Investment Principles updated and approved at the same time. Investment strategy completed post valuation. TREAT Implementation of asset strategy approved June 2021 | Effective | 2 | 2 | 4 | Valuation completed and approved March 21. Review of investment strategy approved 10/6/21. Good progress has been made with the implementation of strategy. All new portfolios approved, drawdown of funds commenced. |
| 1.12 | Asset & Investment | Increasing effect of climate change on global economy | Changing consumer demand patterns | Changing consumer demand patterns results in obsolescence, impairment or stranding of assets. Resulting in reduced investment returns. | Ongoing | Pension Fund Committee/ Dir Finance & Corp Govern | Responsible Investment Policy in place and monitored. Only invest with Fund Managers who have strong ESG credentials. Updated Responsible investment policy with agreed priorities TREAT Plan to be agreed and implemented for monitoring of responsible investment policy and climate data. | Partially Effective | 3 | 3 | 9 | Work has commenced with fund managers being contacted and training held for members on 30/08/22 |
| 2.2 | Employer | Adoption of either an inappropriately slow or rapid pace of funding rates for different employers may result in improper management of the Fund and result in inappropriate employer contribution rates and a possible shortfall in assets to cover the employer's liabilities. | Failure by employer to notify the fund of significant changes of membership. | Improper management of the Fund; Inappropriate employer contribution rates and a possible shortfall in assets to cover the employer's liabilities. | Ongoing | Pension Fund Committee/ Dir Finance & Corp Govern | Full actuarial valuation undertaken on Triennial basis, 2020 valuation commenced; Review Pooling arrangements at each Valuation and implement appropriate de-pooling e.g. SBHA, CGI & SOSE to reflect employer situations; Annual declaration made by each Employer for forthcoming changes Ensure full reporting of options are presented to the Committee and Board when employer circumstances change to ensure decision making fully informed. TREAT Monitoring of implementation of 2020 valuation rates Continued monitoring of SOSE and consider mid cycle valuation | Effective | 2 | 2 | 4 | Valuation results approved March 21. Employers notified of rates. Returns from Employers being monitored monthly |

Pension Fund - Risk Register actions updates

| No. | Category | Risk | Risk Factor/Cause | Effect/Consequences | Proximity | Risk Owner | Controls | | Current Risk | | | Progress |
|-----|--------------------|--|--|---|-----------|---|---|--------------------|--------------|------------|-------|---|
| | | | | | | | Current Controls | Control Assessment | Impact | Likelihood | Score | Actions as at 15/09/22 |
| 2.3 | Employer | Failure of a Scheme Employer may lead to a shortfall in the funding levels of whole Fund resulting in increases for all other employers contributions | Scheme employer ceasing to operate | Shortfall in fund as a whole with increases required in all other employers contributions | Ongoing | Pension Fund Committee/ Dir Finance & Corp Govern | <p>Full actuarial valuation undertaken on Triennial basis; Bonds in place for Amey and CGI, and Council agreement in place for Live Borders; Guarantee in place with SG for SOSE; Contribution rates based on open/closed status of employer; Updated Admission Agreement and formal consideration of support at initial set up now implemented; Movement to closed scheme requires actuarial review, results then implemented. Funding Strategy Statement revised to include cessation responsibilities</p> <p>TREAT Undertake review of admission agreements</p> | Effective | 3 | 2 | 6 | Pending access to the office in order to obtain copies of paper files |
| 2.5 | Employer | Loss of income for employer resulting in inability to fund contributions | Global pandemic resulting in closure of facilities Loss of income due to global economy crash | Failure of employer to pay contributions loss of cash flow to pay pensioners | ongoing | Dir Fin & Corp Govern/ Dir People, Perform & Change | <p>Annual Employers Liaison group established to improve two-way communication; Borders College and 2 Admitted Bodies representatives on Pension Board; Active involvement of actuary in projects affecting membership structures; Low number of admitted and scheduled bodies and any new admitted bodies are carefully considered before admission. Annual Declaration to include changes of scheme membership for current and future year.</p> <p>TREAT Undertake review of admission agreements and guarantees</p> | Partial Effective | 2 | 5 | 10 | Pending access to the office in order to obtain copies of paper files |
| 3.2 | Resources & skills | Failure to provide appropriate training and support and/or secure Board/Committee Member engagement in Training Programme may lead to ineffective management of the Fund as a result of poorly informed decision making. | Availability of members to attend training; Inappropriate training programme. | Ineffective management of the Fund as a result of poorly informed decision making. | Ongoing | Pension Fund Committee/ Dir Finance & Corp Govern | <p>Approved Training Policy; Training assessment informs the annual training plan; Training opportunities are made available to members of Board and Committee; Members have access to External Adviser and Council Officers to help advise and inform them in relation to decisions taken by the Committees; Access to the Pension Regulator's website; Participation in training is published in Annual Report. All new members required to complete Trustee Toolkit within 6 months of joining Committee or Board</p> <p>TREAT Annual monitoring and reporting of training undertaken</p> | Effective | 2 | 2 | 4 | Training plan for 2022/23 approved 26/6/22 based on skills and knowledge assessment. 3 external training events have been circulated, internal event held on 30/8/22 and 2 additional events currently being organised. |

Pension Fund - Risk Register actions updates

| No. | Category | Risk | Risk Factor/Cause | Effect/Consequences | Proximity | Risk Owner | Controls | | Current Risk | | | Progress |
|-----|--------------------|---|---|---|-----------|--|--|---------------------|--------------|------------|-------|---|
| | | | | | | | Current Controls | Control Assessment | Impact | Likelihood | Score | Actions as at 15/09/22 |
| 3.3 | Resources & skills | Over reliance on key Members of the Board or Committee may lead to lack of challenge and objectivity in decision making resulting in failure to manage the Fund effectively. | Knowledge and experience gap of new members. | Failure to manage the Fund effectively. | Ongoing | Pension Fund Committee/ Pension Fund Board Chairs | All Members of the Pension Fund Committee and Pension Board are actively involved in the discussions with External Advisers and have access to the same information and training opportunities; Clear scheme of administration and constitutions established for the Committee and Board providing clarity of roles and responsibilities; Training Policy sets out skills and knowledge responsibilities for members. Pension Fund Committee and nominated reps of Board are actively involved in discussions with investment managers. TREAT Annual monitoring and reporting of training undertaken | Effective | 2 | 2 | 4 | Training plan for 2022/23 approved 26/6/22 based on skills and knowledge assessment. 3 external training events have been circulated, internal event held on 30/8/22 and 2 additional events currently being organised. |
| 3.4 | Resources & skills | Lack of sufficient knowledge and expertise on Pension Fund Committee and Board members to discharge their duties could lead to failure to manage the Fund effectively as a result of poorly considered decision making. | Knowledge and experience gap of new members. | Poorly considered decision making. | Ongoing | Pension Fun Committee/Dir Finance & Corp Govern | Pension Fund committee and Board have access to External Advisers and Council Officers to help advise and inform them; Pension Fund committee and nominate representatives of Board have access to Investment Managers via the Investment and Performance sub committee; Members Training Policy for Pensions Fund established, monitored and reported on annually; Annual training programme in place; Skills and training assessment undertaken annually. TREAT Annual monitoring and reporting of training undertaken | Effective | 2 | 2 | 4 | Training plan for 2022/23 approved 26/6/22 based on skills and knowledge assessment. 3 external training events have been circulated, internal event held on 30/8/22 and 2 additional events currently being organised. |
| 3.5 | Resources & skills | Failure of Officers to maintain sufficient level of competence to discharge their duties could lead to failure to manage the Fund effectively as a result of their inability to provide appropriate decision making support and advice. | Changes in legislation; New investment types and vehicles; Lack of documented procedures. | Failure to manage the Fund effectively. | Ongoing | Dir Fin & Corp Govern/ Dir People, Perform & Change | Use of External Advisers provides additional resilience and resources; Competency appraisal process implemented to identified training and development requirements; Active participation in Scottish Investments and Governance Group (IGG) and Scottish Pensions Liaison Group; Procedural notes completed Regular engagement with external Investment Managers to supplement knowledge. TREAT Improvement in quality of procedure notes for officers. Annual review of Competency Framework for all staff | Partially Effective | 2 | 3 | 6 | Continual review of processes and procedural notes to ensure they are compliant with regulations and system requirements (Altair and Business World). Competency Framework implemented for all staff along with new appraisal process |

Pension Fund - Risk Register actions updates

| No. | Category | Risk | Risk Factor/Cause | Effect/Consequences | Proximity | Risk Owner | Controls | | | Current Risk | | | Progress |
|-----|----------------|--|--|--|-----------|---|---|--------------------|--------|--------------|-------|--|----------|
| | | | | | | | Current Controls | Control Assessment | Impact | Likelihood | Score | Actions as at 15/09/22 | |
| 4.5 | Liability | New pension access reforms ("freedom of choice") may lead to pension fund members electing to transfer all or part of their pension entitlement much earlier than projected resulting in the potential for a significant change in the liability profile for the Fund. | Changes in legislation and increase in awareness. | Requirement to release large amounts of cash to members; Disinvest current assets in a much more unplanned manner with the potential to disadvantage the Funding position; Scheme sanction charges for any transfer to unapproved scheme. | Ongoing | Dir Fin & Corp Govern/ Dir People, Perform & Change | Requests for transfers are currently mitigated by obtaining enhanced levels of indemnity for the members, the receiving scheme and written confirmation of the scheme approval from HMRC; Monitoring will be undertaken during the year and reported to Members as part of the annual report. With effect from 1 April 2015 members with funds in excess of £30k must receive professional advice from a Financial Conduct (FCA) regulated adviser, includes signed declaration by individual; Continue to monitor ongoing legislation around this area. Communication Strategy agreed and website launched TREAT Review and watch to be placed on advice and guidance issued from The Pension Regulator and Government and included in the TPR Single Code. | Effective | 2 | 2 | 4 | Continue to monitor advice and information from The Pension Regulator and Government bodies. Review being carried out on changes required to meet the "Single Code". Full report to be presented to Committee. | |
| 5.3 | Administrative | Failure to provide pensions administration service due to major operational disruption could lead to inability to provide a high quality pension service to members | Loss of main office; Computer system; Staff absence. | Ability to process payments on time; Financial distress to members; Reputational risk. | Ongoing | HR Shared Services Manager | Robust business continuity processes in place across the Council around key business processes, including a disaster recovery IT site. Reviewed regularly. Pensions Administration System is hosted system allowing ability for homeworking; TREAT in line with core HR risk review full business continuity review to be undertaken. | Effective | 2 | 3 | 6 | Work to commence on business continuity review with Altair a fully hosted solution. Data centre maintenance is carried out by the system provider on a monthly basis. | |
| 5.4 | Administrative | Failure to prevent fraud or misappropriation by scheme member, employee or scheme employer within the Fund may lead to loss of funds. | Lack of monitoring; Lack of segregation of duties. | Inability to provide a high quality pension service to members; Financial loss to the Fund; Impact on benefits paid to members. | Ongoing | HR Shared Services Manager | Robust segregation of duties and other internal controls to mitigate against this risk; Immediate action taken upon discovery of fraud; Internal & External Audit programme also picks up the monitoring of this risk. TREAT To request from each External Employers audited accounts to provide assurance on their internal controls | Effective | 2 | 2 | 4 | To be incorporated into the 21-22 year end sign off, wording agreed for inclusion | |
| 5.8 | Administrative | Failure to ensure pension transfer payments due to/payable by the fund are calculated accurately and received/paid resulting in incorrect funds being held within the Fund to pay future benefits to individuals | Failure to ensure pension transfer payments due to the fund are calculated accurately and received | Insufficient funds transferred/received to meet future obligations; Failure to protect the solvency of the fund and equivalent rights acquired are transferring members in accordance with the regulations; Referral to the Pension Regulator; Reputational damage; Financial penalty. | Ongoing | HR Shared Services Manager | Pension administration system continues to provide automated support in calculation, using nationally approved scheme based on number of standard assumptions at point of transfer. Procedure reviewed regularly TREAT Specific transfer training has been undertaken and knowledge transfer to then be cascaded across wider team | Effective | 2 | 2 | 4 | | |

Pension Fund - Risk Register actions updates

| No. | Category | Risk | Risk Factor/Cause | Effect/Consequences | Proximity | Risk Owner | Controls | | Current Risk | | | Progress |
|-----|-------------------------|--|---|--|-----------|---|---|---------------------|--------------|------------|-------|--|
| | | | | | | | Current Controls | Control Assessment | Impact | Likelihood | Score | Actions as at 15/09/22 |
| 6.1 | Regulatory & Compliance | Failure to administer and manage Fund in line with requirements of legislation and other regulations e.g. LGPS regulations, HMRC may lead to benefits calculated incorrectly and/or breach legislation | Changes to legislation; Lack of staff training; Lack of knowledge and skills | Wrong pension payments made or estimates given; Breach of regulations; Prosecution. | Ongoing | HR Shared Services Manager/ Pension & Investments Manager | Compliance with new accounting standards and pension fund regulations are subject to robust internal and external audit review and reporting; Participation in the active Scottish Pensions networks and CIPFA updates; External Audit review extends beyond financial controls; Pension Board review of decisions; Appraisal process implemented to identify training and development requirements. TREAT Annual review of Competency Framework to all staff Review and action to be developed for requirements under The Pension Regulator Single Code | Effective | 2 | 2 | 4 | Competency Framework implemented for all staff along with new appraisal process. Annual review meetings taking place. Review commissioned on required changes resulting from Single Code. Full report to be presented to Committee |
| 6.2 | Regulatory & Compliance | Changes in legislation and other regulatory frameworks may impact adversely on the Fund in terms of funding levels and governance structures | Central Govt. legislation changes. Government Actuary Department review and subsequent regulatory changes | Loss of independence in the management of the Fund; Impact on Fund value and benefits; Increased costs to the Fund, employer contributions; Potential loss of active scheme members. | Ongoing | Dir Fin & Corp Govern/ Dir People, Perform & Change | Participation in active CIPFA and Scottish Pension network allow changes and impacts to be identified quickly; Involvement with COSLA discussions on Pensions; Monitoring and highlighting actions and decisions from scheme advisory board; TREAT Seek to input into any of the legislative change through active membership of COSLA; Review and actions to be developed for requirements under The Pension Regulator Single Code | Partially Effective | 4 | 4 | 16 | Responding to all consultations and participating in all national groups. Director Finance & Corporate Governance is active member of Director of Finance group. Monitoring Scheme Advisory Board web site on monthly basis. Review commissioned on required changes resulting from "Single Code". Full report to be presented to Committee. |
| 6.3 | Regulatory & Compliance | Failure to produce accounts, notices and publications correctly or on time resulting in inability to manage the fund effectively and compliantly. | Lack of capacity; Conflicting operational demands, including Transformational activity. | Accounts qualified by External Auditors; Referral to Pensions Regulator or Scheme Advisory Board | Ongoing | Dir Finance & Corp Govern | Compliance subject to robust internal and external audit review and reporting; Participation in the active Scottish Pensions networks; Staff training requirements identified via Appraisal and attendance at appropriate training events. TREAT Annual review of Competency Framework to all staff | Effective | 2 | 2 | 4 | Competency Framework implemented for all staff along with new appraisal process. Annual review meetings taking place |
| 6.5 | Regulatory & Compliance | Changes in LGPS Structures | Review by Scheme Advisory Board on LGPS structures | Fund may cease to exist, assets may be pooled, Administration could be pooled | Ongoing | Dir Finance & Corp Govern | Monitoring of political position via Scheme Advisory Board TREAT Actively engage with Scheme Advisory Board and consultants undertaking review | Partially Effective | 3 | 4 | 12 | Minutes of SAB tabled as meetings for information when available |
| 6.6 | Regulatory & Compliance | Risk of cyber security breach | Security breach due to data hacking or malware incidents | breach of GDPR, inability to process payments to pensioners, loss of data | Ongoing | Dir Fin & Corp Govern/ Dir People, Perform & Change | Hosted environment for pension admin Monitored and regularly improved firewalls security installed on all hardware IT contractual requirements for all IT providers Hymans are adopting Multi Factor Authentication (MFA) for all users of their system from August TREAT Continue engagement with IT providers, introduce annual assurance from providers of cyber security policy and adherence. | Partially Effective | 5 | 2 | 10 | Cyber security report has been provided by Aquila Heywood, Hymans Robertson and CGI |

Pension Fund - Risk Register actions updates

| No. | Category | Risk | Risk Factor/Cause | Effect/Consequences | Proximity | Risk Owner | Controls | | Current Risk | | | Progress |
|-----|------------|--|---|---|-----------|---|---|---------------------|--------------|------------|-------|---|
| | | | | | | | Current Controls | Control Assessment | Impact | Likelihood | Score | Actions as at 15/09/22 |
| 7.3 | Reputation | Failure to appoint relevant advisers and review their performance may lead to inappropriate management of the Fund resulting from poor advice to decision makers | Lack of capacity of Officers to monitor. | Failure to achieve Pension Fund objectives; Inappropriate management of the Fund resulting from poor advice to decision makers; Legal challenge | Ongoing | Dir Fin & Corp Govern/ Dir People, Perform & Change | Identify requirements of external advisers and appoint appropriately. Annual review undertaken with Investment Advisor and Custodian. TREAT Undertake annual review of Adviser; | Effective | 2 | 2 | 4 | Review meetings to be held with Northern Trust and Isio. |
| 7.6 | Reputation | Pension Fund does not fulfil its fiduciary duties with appropriate regard with its ESG responsibilities | Lack of skills & knowledge Lack of information from Managers Lack of clear policy | Failure to manage the Pension Fund properly; Financial loss; Reputation damage. | Ongoing | Dir Finance & Corp Govern | Training provided to Members and Officers on their roles and fiduciary responsibility; Monitoring on quarterly basis of Segregated Portfolios voting policy contained with Statement of Investment Principles including support for UNPRI. Responsible Investment policy approved and annual monitoring report completed TREAT Action plan developed for implementation of revised policy and monitoring | Partially Effective | 2 | 2 | 4 | Work has commenced with fund managers being contacted and training held for members on 30/08/22 |



PENSION FUND BUDGET MONITORING TO 30 JUNE 2022

Report by Acting Chief Finance Officer

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

15 September 2022

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to provide the Pension Fund Committee and Pension Fund Board with an update position of the Pension Fund budget to 30 June 2022 including projections to 31 March 2023.**
- 1.2 The Local Government Pension Scheme (Scotland) Regulation 2014 requires Administering Authorities to ensure strong governance arrangements and sets out the standards they are to be measured against.
- 1.3 To ensure the Fund meets the standards a budget was approved on 17 March 2022 following the recommendations within the CIPFA accounting guidelines headings. This report is the first quarterly monitoring report of the approved budgets.
- 1.4 The total expenditure to 30 June 2022 is £0.113m with a projected total expenditure of £7.400m against a budget of £7.296m. This projects a budget variance of £104k which represents the additional modules for the Pension Administration system and an allowance to allow the review work required for the single code as identified in the business plan.

2 RECOMMENDATIONS

2.1 It is recommended that the Pension Fund Committee:-

- (a) Notes the actual expenditure to 30 June 2022; and**
- (b) Agrees the projected out-turn as the revised budget.**

3 BACKGROUND

- 3.1 The Local Government Pension Scheme (Scotland) Regulation 2014 requires Administering Authorities to ensure strong governance arrangements and sets out the standards they are to be measured against. The Fund is required to report on an annual basis within its Annual Report if it has met these standards. To demonstrate full compliance requires the setting and monitoring of a budget for the Fund.
- 3.2 A budget was approved at the Joint Pension Fund Committee and Pension Fund Board meeting on 17 March 2022 for 2022/23. The approved budget follows the Local Government Pension Scheme management costs guidance issued by CIPFA into the following 3 categories.

| Category | Costs included |
|--------------------------|--|
| Investment Management | All expenses incurred in relation to management of pension fund assets. Including costs invoiced direct and fees deducted from fund assets. Custody and performance fees also included |
| Administration | Costs incurred in administration of the fund including staff, IT costs and associated overheads, benefits consultants. |
| Oversight and governance | Costs incurred in the selection & appointment of managers, audit fees, investment advisory services, tax advisory, accounting services, banking service and support to the pensions committee and board. |

4 MONITORING TO 30 JUNE 2021

- 4.1 The table below shows the expenditure to 30 June 2022, projected out-turn to 31 March 2022 and current approved budget for 2022/23.

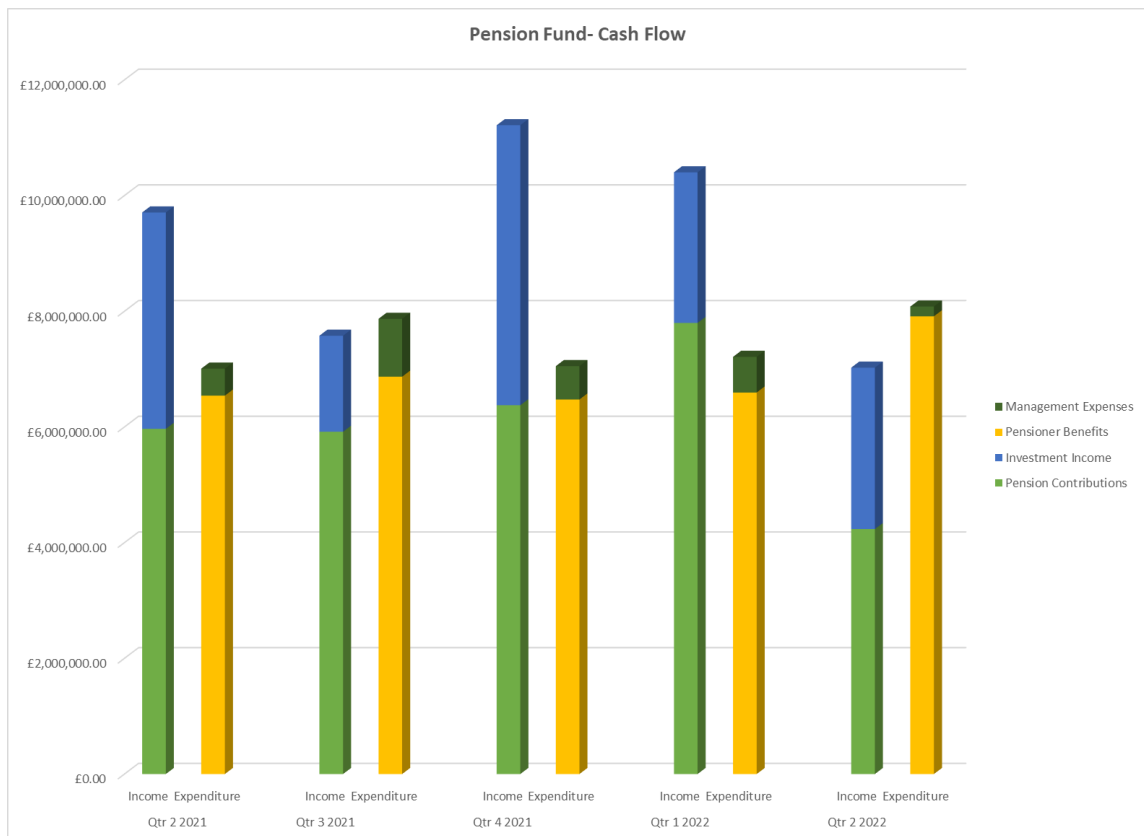
| | Expenditure to 30 June 22 £000's | Projected to 31 March 23 £000's | 2022/23 Budget £000's | 2022/23 Variance £000's |
|------------------------|-------------------------------------|------------------------------------|--------------------------|----------------------------|
| Investment Management | 1 | 6,564 | 6,564 | - |
| Administration | 101 | 497 | 407 | 90 |
| Oversight & Governance | 11 | 339 | 325 | 14 |
| Total | 113 | 7,400 | 7,296 | 104 |

- 4.2 Investment Management fees are charged on a quarterly basis in arrears based on the value of assets held on a quarterly basis. The first quarter's investment management fees are not therefore included in the expenditure to 30 June 2022.

- 4.3 To ensure efficiencies can be realised and improvements to be made for both the scheme members and officers work is required to move records to digitised records. This will require additional modules to purchase from Heywood Technologies, the provider of the Administration System. The part year cost for 2022/23 is estimated at £90k.
- 4.4 The Business plan approved on 29th June approved a review to be undertaken of The Pension Regulators new "single Code" and identify the implications of it upon the governance and administration of the Fund. The work is estimated to cost £14k.

5 CASHFLOW MONITORING

- 5.1 A key objective of the Fund is to ensure the funds are in place to pay the members benefits. The Fund has been a mature fund since 2013/14 with the number of pensioners and their dependants exceeding contributing members. This in turn has resulted in the monthly cash out goings for pension benefits and expenses being higher than the contributions collected from active members.
- 5.2 To ensure the Fund continues to meet its primary objective the investment strategy approved by Committee incorporates an element of income generating assets to supplement member and employer contributions. These income generation assets are expected to enable the cash flow requirements of the Fund to be fully met without the requirement to disinvest from assets.
- 5.3 The graph over reflects cash expenditure for pension benefits, investment manager fees and operational costs of the Fund on a quarterly basis from April 2021 to June 2022. Income shown is the contributions received from employers and employee and investment income received as cash. The figures excluded any principle returned or invested.



5.4 The graph shows some quarter with surplus income and others with deficits. However over the 15 month period shown the total cash received was £45.9m, cash expenditure was £37.7m, resulting in a cash surplus of £8.2m over the period. This surplus has been utilised in part to fund draw down notices from the Infrastructure managers.

6 IMPLICATIONS

6.1 Financial

There are no costs attached to any of the recommendations contained in this report.

6.2 Risk and Mitigations

This report is part of the governance framework to manager the operation of the Pension Fund and reflects the compliance with the best practice recommendations. Risks are managed in line with the Corporate Risk Management framework, with risks and controls monitored and reported on a quarterly basis.

6.3 Integrated Impact Assessment

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance required und the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity and socio –economic factors have duly been considered when preparing this report.

6.4 Sustainable Development Goals

There are no direct impacts from this report on the sustainable development goals of the Council.

6.5 Climate Change

There are no direct climate change impacts as a result of this report.

6.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

6.7 Data Protection Impact Statement

There are no personal data implications arising from the proposals contained in this report.

6.8 Changes to Scheme of Administration or Scheme of Delegation

There are not changes to the Scheme of Administration or the Scheme of Delegation required as a result of this report.

7 CONSULTATION

7.1 The Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR & Communications, the Clerk to the Council and Corporate Communications have been consulted and any comments received have been incorporated into the final report.

Approved by

Name **Suzy Douglas** **Signature**

Title **Acting Chief Finance Officer**

Author(s)

| Name | Designation and Contact Number |
|-------------|--|
| Kirsty Robb | Pension & Investment Manager, 01835 825249 |

Background Papers: Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board 29 June 2022

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. The Pension & Investment Team can also give information on other language translations as well as providing additional copies.

Contact us at Contact us at: Pension & Investment Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825249 Fax 01835 825166. email: treasuryteam@scotborders.gov.uk

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COMMUNICATION POLICY REVIEW

Report by Director People Performance and Change

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

15 September 2022

1 PURPOSE AND SUMMARY

- 1.1 This report provides a review on the Communication Policy and provides an update on the review of forms and communication, including annual benefit statements. In line with the Pension Fund business plan the Policy should be reviewed on an annual basis. This report discharges that requirement.**
- 1.2 **Appendix 1** contains the revised Communication policy which has a number of amendments made to the previously approved version, these are within sections 5 and 6 to update on the improved communication methods that will be deployed by the Fund in response to feedback received in the Stewardship Code application and recognise the implementation of the Member Self Service portal for the delivery of Annual Benefit Statements.
- 1.3 The Pension Fund website continues to prove to be a useful resource and has been visited on a regular basis. This continues to be updated to reflect the current Regulations and any relevant documents or news stories are published accordingly. Additionally, the link to the Member Self Service portal has been added.
- 1.4 The Pensions Administration team have carried out a review of the supporting information published along with the Annual Benefit Statements and officers continue to encourage scheme members to sign up to the Members Self Service portal. Work continues to review processes and associated Forms making use of emerging digital technologies wherever possible.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Pension Fund Committee:**
 - (a) Approves the Communication Strategy as set out in Appendix 1;**
 - (b) Notes the website performance;**
 - (c) Notes that work has continued on the review of Forms and the Annual Benefit statement documentation has been reviewed**

3 BACKGROUND

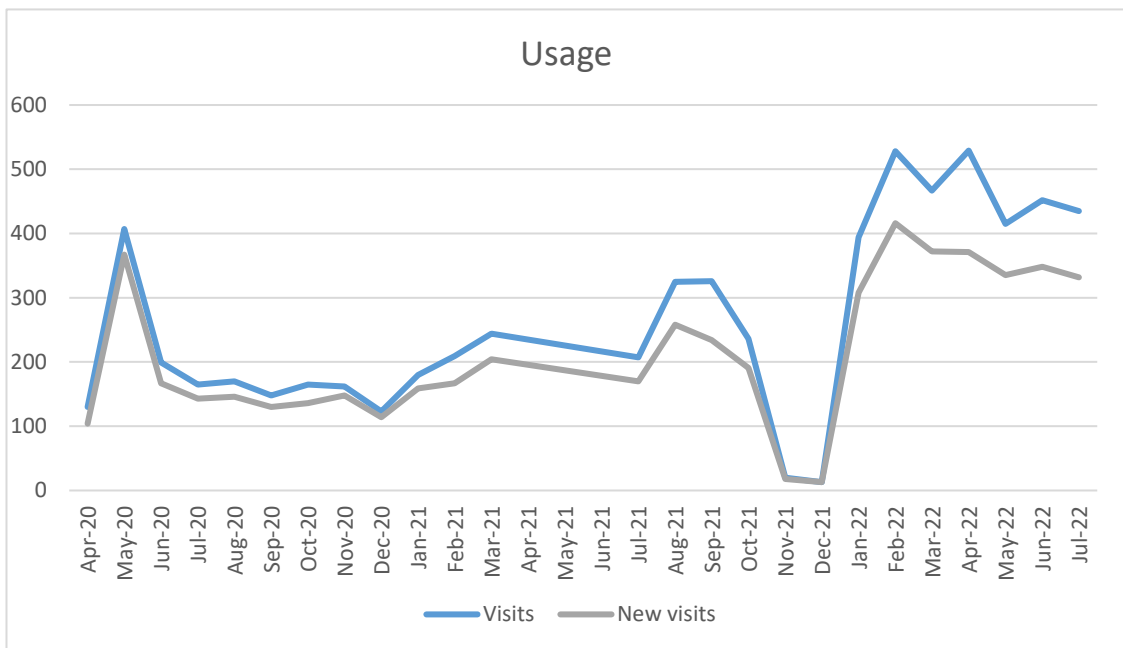
- 3.1 Regulation 59 of the Local Government Pension Scheme (Scotland) Regulations 2018 advises that an administering authority should have a Communications Policy. This should then be published by the administering authority.
- 3.2 In accordance with the Regulations the statement must be revised and published by the administering authority following a material change in their policy on any of the matters listed within Regulation 59.
- 3.3 The Pension Fund Business Plan also outlined a requirement to review the Communication Policy and Action plan, including all forms and communication material, on an annual basis, making sure that this is in line with best practice and technological advancements.

4 PENSIONS COMMUNICATION POLICY REVIEW

- 4.1 **Appendix 1** contains the updated Communication Policy.
- 4.2 The changes made within the Policy are to ensure that this is reflective of the technologies available have been reflected. The updates were made in the following sections:
 - Section 5 – updated Pensions Administration Team to The Pensions Team
 - Section 5 – inclusion of the Scheme Newsletter, being introduced to address feedback received in the previous Stewardship Code application
 - Section 5 - updated Pensions Administration Team to The Pensions Team and introduce time periods for in person meeting requests due to the continued home working arrangements for staff and recognition that online meetings can be accommodate much more readily through the use of the available technology
 - Section 6 – updated to reflect the implementation and availability of the Member Self Service portal for the delivery of Annual Benefit Statements
- 4.3 In the final quarter of 2021 a new version of the Pension fund website (www.scottishborderscouncilpensionfund.org) was developed by Hymans Robertson. Part of the implementation of the new version saw more officers being upskilled in the use of the website, as a result of this there are now more officers able to load content to the website. A link to the Member Self Service portal was also added which gives a further reason why scheme members are visiting the website.
- 4.4 Officers have obtained statistical information from the Website and the following graphic details the number of visits that there have been to the site, this reaffirms the view that the addition of the Member Self Service portal link increases site visits.



The following graphic shows the usage of the website and if the visitor was a first time visitor, with the gap being repeat visitors.



4.5 Prior to the issuing of the Annual Benefit Statements for deferred members the content was reviewed and updated to take account of current Regulations and to encourage members to sign up to the Member Self Service online portal. Annual Benefit statements for all active members have been published on the Member Self Service online portal, an email or letter has been issued to all active members to make them aware, with further follow up messages issued through Yammer for Scottish Borders Council employees.

4.6 Officers within HR Shared Services continue to review processes in light of the continued home working to make sure that they remain fit for purpose.

Further review of the communication policy will be carried out in line with the business plan and this will reflect any changes to process that have an impact on the way in which we communicate with all stakeholders.

5 IMPLICATIONS

5.1 Financial

There are no costs attached to any of the recommendations contained in this report

5.2 Risk and Mitigations

This report is part of the governance reporting framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations. Risks regarding the admission of any new employer organisation have been identified and form part of the considerations for admission to the Fund.

5.3 Integrated Impact Assessment

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance required under the Local Government Pension Scheme (Governance)(Scotland) Regulations 2018. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity and socio-economic factors have duly been considered when preparing this report.

5.4 Sustainable Development Goals

There are no direct impacts from this report on the sustainable development goals of the Council.

5.5 Climate Change

There are no direct climate change impacts as a result of this report.

5.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

5.7 Data Protection Impact Statement

There are no personal data implications arising from the proposals contained in this report.

5.8 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

6 CONSULTATION

6.1 The Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Director (Finance and Corporate Governance), the Clerk to the Council and Corporate Communications have been consulted and any comments received have been incorporated into the final report.

Approved by

Clair Hepburn

Director People Performance and Change Signature

Author(s)

| Name | Designation and Contact Number |
|-----------|---|
| Ian Angus | HR Shared Services Manager 01835 826696 |

Background Papers:

Previous Minute Reference: Joint Meeting of Pension Fund Committee and Board on 16 September 2021

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Ian Angus can also give information on other language translations as well as providing additional copies.

Contact us at Ian Angus, HR Shared Services Manager, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA; Tel: 01835 826696; Fax: 01835 825011; E-mail iangus@scotborders.gov.uk.

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SCOTTISH BORDERS COUNCIL PENSION FUND COMMUNICATION POLICY

**HR Shared Services
People Performance & Change
Version 2021 1.3 DRAFT**

Approved: Joint Pension Fund Committee and Pension Board [15 September 2022]

1. Introduction

Scottish Borders Council administers the Local Government Pension Scheme (LGPS) on behalf of Employers participating in the Scheme through Scottish Borders Council Pension Fund for local government employers and associated bodies within the Scottish Borders.

Regulation 59 of the Local Government Pension Scheme (Scotland) Regulations 2018 requires the following information to be published: -

- (1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with –
 - a) Members;
 - b) Representatives of members;
 - c) Prospective members; and
 - d) Scheme employers.
- (2) In particular the statement must set out its policy on –
 - a) The provision of information and publicity about the Scheme to members, representative of members and Scheme employers;
 - b) The format, frequency and method of distributing such information or publicity; and
 - c) The promotion of the Scheme to prospective members and their employers.
- (3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph 2.

Other Legislation

The Fund must also satisfy the requirements of the Occupation Pension Schemes (Disclosure of Information) Regulations and other legislation such as the Public Sector Pensions Act 2013 which introduced a framework for the governance and administration of public sector pension schemes and regulatory oversight provided by The Pensions Regulator.

A Code of Practice has been issued by the Pensions Regulator that covers the type of information that pension scheme are required to disclose. The Pension Regulator's objectives are to protect the benefits of members, promote and improve understanding of good pension administration and maximise compliance. The Regulator's Code of Practice 14 covers the type of information that pension schemes are required to disclose about the scheme and the benefits provided to members.

2. Vision

Our vision is to provide access to all information required for anyone who has an interest in the Scottish Borders Council Pension Fund, we endeavour to make pension issues understandable to all and promote membership of the Fund.

3. Aims and Objectives

The overall aim of the communications policy is to provide communication in an efficient manner to all stakeholders, ensuring that it is: -

- Delivered in a timely efficient and effective manner
- Provides relevant content to the audience, with a clear purpose and message
- Well written, avoiding being of a technical nature wherever possible based on the differing needs of the stakeholders
- Becoming increasingly digital

The objective of this policy is to ensure that: -

- Pension regulations and the policies of the Fund are communicated in a clear and informative manner
- Benefits of the scheme are promoted to ensure this is recognised as an integral part of the employee reward package
- Information is provided in the most appropriate manner to allow scheme members to make more informed decisions relating to their pensions
- Communication methods are continually evaluated, assessed and redesigned where necessary to ensure continuing effectiveness

4. Stakeholders

Our stakeholders are: -

- Scheme members – Active, Deferred and Pensioners
- Scheme employers
- Scottish Borders Council, the scheme manager
- The Pensions Committee of Scottish Borders Council
- The Pensions Board
- Pensions administration and investment teams
- LGPS (Scotland) Scheme Advisory Board
- Scottish Public Pensions Agency
- The Pensions Regulator
- Scheme Actuary
- Scheme Auditors
- Trade Unions
- HMRC
- AVC Provider
- Other stakeholders and bodies

5. Communication Methods

Fund Website

In order to provide information to as many stakeholders as possible at a time that suits them we provide access to the following: -

- Scheme policies
- Scheme benefits
- Contact details
- Links to other useful sites

The scheme website can be found at www.scottishborderscouncilpensionfund.org

Scottish Borders Council Website

The Pension Committee and Local Pension Board agendas and minutes can be found on the main Council website, www.scotborders.gov.uk

Member Self Service

The Fund has deployed a secure portal for all active and deferred members of the LGPS, which provides direct access for scheme members to view personalised pension data. The portal allows members to carry out the following: -

- View all the details they need about their LGPS Pension in real time
- Carry out pension quotes on demand without needing to contact The Pensions Team
- Annual Benefit Statements available to view
- Check and update nominations of beneficiary
- Upload any documents that the Pensions Team request
- Use the contact facility to raise any questions in an electronic manner
- Provide feedback on the MSS application

Web address for the MSS portal – <https://scotborders.hostingssf.aquilaheywood.com>

General Communications

The fund uses both surface and e-mail to send and receive general correspondence. Our standard business hours are Monday to Thursday 8:45am to 5:00pm and Friday 8:45am to 3:45pm.

E-mail enquiries should be addressed to pensions@scotborders.gov.uk

Postal enquiries should be addressed to

The Pensions Team
Scottish Borders Council
Council Headquarters
Newtown St. Boswells
Melrose
Roxburghshire
TD6 0SA

Telephone enquiries should be made to the HR Shared Services helpline 01835 825052 during standard business hours.

Scheme Newsletter

The Fund will issue a newsletter on two occasions throughout the year, June and December, this will provide all members with information on what has been agreed at Pension Committee meetings and plans for the Fund for the coming period. This will include information on upcoming legislative changes affecting members and information on investments.

Intranet and Yammer

This is available to all Fund members who are employees of Scottish Borders Council and will be used as an additional means of communicating key messages about the Local Government Pension Scheme.

Roadshows/Presentations

We are happy to visit employer workplaces and attend roadshows, seminars, induction and pre-retirement presentations on request, a minimum period of 4 weeks' notice will be required to allow for appropriate preparations.

Visit to our Offices

Scheme members can arrange to visit our offices to speak to a member of The Pensions Team, please pre-book appointments by e-mail or telephone with a minimum of two weeks notice. We are also able to offer virtual meetings through the use of Microsoft Teams where we can share documents with scheme members and answer any questions in the same way as a traditional face to face meeting, these can be booked with less notice dependant on the availability of the appropriate officer within the Team..

6. Specific Communications

Pensioners

On a monthly basis payslips are issued where there is a change in net pay of more than £5.00 when compared to the previous month, pensioners are also able to sign up to access Business World Self Service and view online copies of monthly payslips. On an annual basis P60's are issued and details in relation to the Pensions Increase and how this will apply to them.

Active Members

On joining the scheme new members are issued with a certificate of membership and a copy of the current scheme booklet. All scheme members are issued with an Annual Benefit Statement via the Member Self Service portal, personalised to the scheme member, these are issued by 31 August in accordance with the scheme regulations. Included with the statement are explanatory notes and forms regarding Nominated Beneficiaries to ensure these remain up to date.

In the event of changes to scheme regulations these will be brought to the attention of the scheme members either through direct mail, publication on the Fund Website and/or via the employers normal communication channels, intranet for Scottish Borders Council the Funds main employer.

Deferred Members

All deferred members are issued an Annual Benefit statement via the Member Self Service portal with the same information provided to the Active Members by 31 August each year.

Prospective Members

We work with employers to promote the benefits of membership of the scheme through promotional material, including scheme booklets, and access to the Fund website.

Scheme Employers

We provide an annual Pension Fund Employer Forum where all employers are invited to attend and are provided with information regarding scheme regulations in the past year and requirements for the year end, as such the events are usually held in March to ensure information pertaining to the year end is as up to date as possible. All employers are issued with the Pensions Administration Strategy outlining service standards and performance measurements against these standards.

All scheme employers have access to the Fund Website where they can obtain access to the scheme policies, additionally, there is a publicly accessible section of the Scottish Borders Council website where information relating to the joint Pension Fund Committee and Board can be accessed allowing all employers to see what is being discussed.

Pension Fund Committee and Board

In addition to papers for decisions the Pensions Investment and Administration teams present a quarterly paper bringing the Committee and Board members up to date with specific matters and updating on progress of previously agreed actions. This can be found on the Scottish Borders Council website as part of the Agenda pack for each meeting.

VERSION CONTROL TABLE

| Version | Nature of Amendment | Date of Change | Author |
|----------|--|------------------|-----------|
| 2018 1.0 | Creation of Pension Communication Policy | 9 November 2018 | Ian Angus |
| 2020.1.1 | Update on other legislation and code of practice, payslip on line and virtual meetings availability | 4 September 2020 | Ian Angus |
| 2021 1.2 | Update on Member Self Service, Intranet and Yammer | 30 August 2021 | Ian Angus |
| 2022 1.3 | Update to include the issue of Scheme Newsletter on a six monthly basis along with other general updates | 22 August 2022 | Ian Angus |
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 01835 826696, iangus@scotborders.gov.uk

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PENSION ADMINISTRATION SYSTEM

Report by Director People Performance and Change

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

15 September 2022

1 PURPOSE AND SUMMARY

- 1.1 This report seeks approval to delegate the responsibility for the procurement of the Altair Image and Altair Insights modules, as a supplement to the existing Pensions Administration System, for the Scottish Borders Council Pension Fund to the Director People Performance and Change.**
- 1.2 In 2019 the Pension Fund agreed to the procurement and continued use of the Aquila Heywood (now known as Heywood Technologies) Pensions Administration System for a period of five years with the option to extend for a further five year period on the approval of the Joint Committee and Board.
- 1.3 Officers have been in discussion with Heywood Technologies over the pricing of these additional modules and have managed to secure discounts for the Fund. The total additional cost for the licence fees, implementation and annual support and maintenance, less the savings for the Data Quality report are £228,100 over the seven years of the contract.
- 1.4 With the move to homeworking as a result of the global pandemic, that we have all faced over the last two plus years, and the Council looking to rationalise the property estate the Fund needs to consider how we can move away from traditional paper based files for scheme members to a modernised digital solution, addressing the deliverable as agreed in the current Pension Fund Business Plan. This will also deliver a significantly improved experience for the Pensions Administration team who will be able to access all documents/images regarding a member in one single system.
- 1.5 The implementation of the Altair Insights, whilst at an additional cost, does deliver savings on an annual basis in relation to the Pension Regulator Data Quality Report that Heywood Technologies have been providing the Fund. This module will also provide the Fund with access to key reports as we move towards the outcome and implementation of McCloud regulation changes and Pensions Dashboard through the provision of out of the box reporting, as well as reporting capabilities that will be used to produce the data required in the Pensions Administration Strategy annual report.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Pension Fund Committee approves the delegation of responsibility for the additional modules provided by Heywood Technologies to the Director People Performance and Change, with additional costs restricted to a maximum of £228,110 over the seven year duration of the contract, subject to indexation on an annual basis for the support and maintenance, including implementation costs for the new modules.**

3 BACKGROUND

- 3.1 The Pensions Administration Team, within HR Shared Services, currently uses the Heywood Technologies Altair system to assist with the administration of the Scottish Borders Council Pension Fund. The current contract was signed on 4 December 2019 for a period of five years with the option to extend for a further five years. This was agreed after us being named as an interested party on a full market test carried out by Lothian Pension Fund.
- 3.2 The Pensions Administration Team operated with hard copy paper files only for current members of the Fund prior to the global pandemic in 2022 with files securely stored within the Old School Building at Council Headquarters. As a result of the move to homeworking the team had to adapt to new storage methods and created digital files within the corporate shared drive. This in turn has resulted in a mix of both paper and digital files for scheme members and in some instances both now exist.
- 3.3 The current situation is not sustainable for the long term and steps need to be taken to address this and make information relating to the scheme members more readily available regardless of the place of work for the Pensions Administration Team, this in turn will lead to an improvement in service delivery with access to all relevant information immediately. This also meets the desire to remove paper based processes and replace with digital solutions wherever possible.
- 3.4 The Pensions Administration Team currently have access to report writing capabilities within the system, however, this system is not being developed going forward and there will be no addition of standard reporting to meet the challenges that we will be facing as we deal with upcoming legislative changes in relation to McCloud and Pensions Dashboard, to mention a few.
- 3.5 The Fund currently pays an annual fee to Heywood Technologies for the production of the annual Data Quality report required for the submission of data to the Pension Regulator. The fees paid were £5,654.70 per year, which was a discounted rate for a three year period, this period has now ended and only a one year agreement would be permissible with no discount.
- 3.6 The Procurement Team have been consulted on the approach being taken for the addition of these modules to the existing contract with Heywood

Technologies and will continue to do so, along with colleagues from Legal, as we look to agree and sign off on the terms and conditions.

4 PROPOSAL

- 4.1 It is proposed that Scottish Borders Council Pension Fund implement the Altair Image product, which is an integrated Document Management system that has been developed to address the document storage and retrieval requirements of a modern pension administration office. The aims and facilities of the Altair Image module are outlined in **Appendix 1**.
- 4.2 One of the most significant benefits, aside from digitisation and office space reduction, is that all documents are directly linked to member record, thus removing the need to look in multiple sources as at present, even for those images/documents that have been stored electronically on shared drives.
- 4.3 In order to facilitate the use of the Altair Image product and allow for the scanning of the current files, there is a requirement for the Fund to provide a suitably support scanner. Following enquiries with the IT Business Partners there is a scanner available that will become the dedicated scanner for this system at no additional cost for the scanner.
- 4.4 The second module that we are proposing to implement is Altair Insights, this is a modern analytics and reporting platform that Heywood Technologies have developed to help Funds get the most out of our data. Users are able to interrogate live, customisable, visual analytics, effortlessly export information for analysis, and automate reports and alerts. The module offers a standard library of content including Data Quality and Workflow reporting, with the ability to run the Data Quality report as often as the Fund wishes at no additional cost. Further details on the features are outlined in **Appendix 2**.
- 4.5 Altair Insights is the tool that will be developed to help Funds with the upcoming implementation of McCloud and Pensions Dashboard where standard reports will be provided to allow Funds to identify gaps in data held in order to aid the progression of these projects.
- 4.6 Officers have been in discussions with Heywood Technologies over the fees associated with the proposal to implement both Image and Insights and have looked to maximise the discounts available. The following are based on a commitment for a seven year period for these modules: -

Altair Image

| | |
|--|---------|
| One off Licence Fee | £60,270 |
| Annual Support & Maintenance | £14,000 |
| Implementation (time and materials estimate) | £20,140 |

Altair Insights

| | | |
|------------------------------|---------|---|
| One of Licence Fee | £ | 0 |
| Annual Support & Maintenance | £16,000 | |
| Fixed Price Implementation | £ | 0 |

- 4.7 Whilst the current overall contract for the Pension Administration software does not extend to the seven year period there is no intention to be moving supplier at this time, with so much development looming large for McCloud and Pensions Dashboard, and as such we will be looking to exercise the option to extend by a further five year and a paper will be presented to the Joint Meeting at the appropriate time.

However, the use of the seven year period for these modules has been used to maximise the discounts that we have been provided and there will be no additional one-off licence fees for these modules at the point of invoking the five year extension period.

- 4.8 The overall cost for the seven years, excluding any indexation increases for future years, is £290,410. This is somewhat offset by the removal of the annual cost for the provision of the Data Quality report at £8,900.00 per annum or £62,300 over the seven year duration. The net cost over the seven years being £228,110
- 4.9 That responsibility for the procurement of the additional modules from Heywood Technologies be delegated to the Director People Performance and Change, with costs restricted to those stated at 5.1 below for the seven year duration of the contract.

5 IMPLICATIONS

5.1 Financial

- (a) The total cost for the proposed seven year contract, including licence fees and implementation costs are £290,410, with an offset of £62,300 through the removal of the provision of the Data Quality report, resulting in a net cost over the years of £228,110, subject to indexation on an annual basis for the support and maintenance.
- (b) The support and maintenance costs of £30,000 per annum are based on the quotation formally submitted by Heywood Technologies, which are then reduced by the £8,900 for the Data Quality report to give an annual increase in licence fees of £21,100, subject to indexation on an annual basis.
- (c) The one of costs for Licence Fee and Implementation have been discounted by Heywood Technologies following discussion with Officers and represent the best and final offer from them to the Fund, with Insights being delivered for no Licence Fee or Implementation. The total cost being £80,410, with the Licence Fee being payable on signing the contract and implementation costs as they are realised.

5.2 Risk and Mitigations

By agreeing to the proposal the Pension Fund will demonstrate steps taken to continue to address the following risks, as highlighted in the Fund Risk Register:

- Failure to process pension payments and lump sums on time (5.1)
- Failure to hold personal data securely (5.5)
- Failure to administer and manage Fund in line with requirements of legislation and other regulations (6.1)

The addition of these two modules allows the Fund to move all information regarding scheme members to one single repository with easier access and will allow the Fund to be able to address the data requirements for upcoming regulation changes around McCloud and Pensions Dashboard.

5.3 Integrated Impact Assessment

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance required under the Local Government Pension Scheme (Governance)(Scotland) Regulations 2014. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity and socio-economic factors have duly been considered when preparing this report.

5.4 Sustainable Development Goals

There are no direct impacts from this report on the sustainable development goals of the Council.

5.5 Climate Change

There are no direct climate change impacts as a result of this report.

5.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

5.7 Data Protection Impact Statement

There are no personal data implications arising from the proposals contained in this report.

5.8 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

6 CONSULTATION

- 6.1 The Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Director (Finance and Corporate Governance), the Clerk to the Council and Corporate Communications have been consulted and any comments received have been incorporated into the final report.

Approved by

Clair Hepburn

Director People Performance and Change Signature

Author(s)

| Name | Designation and Contact Number |
|-----------|---|
| Ian Angus | HR Shared Services Manager 01835 826696 |

Background Papers:

Previous Minute Reference: Joint Meeting of Pension Fund Committee and Board on 12 September 2019

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Altair Image

Aims of the Altair Image module: -

- Improve efficiency by vastly reducing the time taken to retrieve documentation
- Reduce the office space required for document storage
- Vastly improve document security
- Enable online access to all documents for an individual member
- Allow hierarchic document storage to store non-member related documents, such as Trust Deed and Rules, Trustee minutes, pensions articles
- Fully integrated with the Altair administration, including workflow and document production

Altair Image incorporates the following facilities: -

- The ability to access all documents associated with a member directly from the member record; this includes both imaged documents which have been scanned in and system produced documents
- Full integration with the document production and workflow systems
- Facilities to convert Altair produced documents into images
- Scanning and indexing options to assign images of incoming documents to the relevant member
- Barcode recognition for automated assignment of incoming documents to member records
- Full reporting reconciliation and control

Altair Insights

Insights offers an intuitive user experience with minimal training needed. Optional consultancy for training, implementation and the creation of bespoke reports is available, should this be required. Insights include the following features: -

- Fast, intuitive dashboards which dramatically reduce the time spent analysing data and producing management information
- Straightforward interrogation of data
- A trusted, single source of data; reducing duplication and reconciliation
- Ability to provide a unified view for committee members and management by aggregating data from multiple systems into one
- Simplify regulatory reporting, reducing effort and ensuring you can submit on time
- Comprehensive library of interactive and functionally rich dashboards and reports
- Rapid implementation, with most reports useable straight out of the box
- Automation of scheduled reports and alerts
- User alerts when metrics breach pre-set levels
- The ability to create different views for different stakeholder groups
- Easy visibility of backlogs and trends
- The ability to download background data in seconds for further analysis outside Insights – including directly to a spreadsheet

Reports include the following: -

| | |
|---|--|
| Operational <ul style="list-style-type: none"> • Casework volumes • Casework SLA's & KPI's • Casework backlogs • Casework Trends | Regulatory <ul style="list-style-type: none"> • tPR Data Quality • CIPFA SLA's • McCloud • GMP Equalisation |
| Member <ul style="list-style-type: none"> • Member demographics • Member statistics • Status movements • Website engagement | Miscellaneous <ul style="list-style-type: none"> • Trustee report pack • Employer submissions • Quality assurance |

Altair Insights will provide the following benefits: -

- **Improve pension scheme governance** – clear, easy to follow reports and charts demonstrate transparency and enable decision-makers and auditors to track progress

- **Improve operational efficiency** – speedy, intuitive reports reduce duplication and time spent analysing and reformatting information
- **Engage with data immediately** – visualising key business metrics via a suite of dashboards and reports
- **Make informed decisions** – quickly uncover data trends that can be utilised to prioritise work, reduce waste and enhance processes
- **Meet regulatory commitments** – support and track large projects such as McCloud
- **Optimise customer service experience** – identify and prevent complications before they occur to reduce incoming queries
- **Empower your team** – simple interfaces allow non-technical users to access data and create visualisations
- **Access anywhere, anytime** – up to date analytics wherever you are, based on a consistent source of data

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Scottish Borders Council Pension Fund

Responsible Investment Metrics and Targets Report

September 2022

isio.



Introduction

- This report follows the “Responsible Investment Training - Climate Risks, TCFD, and Metrics” session in August
- The monitoring information shown is also required for alignment for the 2020 UK Stewardship Code and expected to be required to comply with upcoming TCFD regulation
- The report documents each investment manager’s ability to report on the Committee’s agreed metrics and the current portfolio position
- These results should be used to guide decision making and is expected to feed into investment strategy discussion and considerations going forward
- This is the first time this report has been produced for the Fund and it is expected to be updated annually going forward.
- We expect the metrics monitored and the position shown in the report to evolve over time

Background

The Committee has received training on RI & TCFD metrics



Page 53

In August, the Committee received training including:

- A recap on Responsible Investment considerations, climate science and TCFD regulations
- The importance of monitoring ESG metrics
- The various environmental and climate related metrics that can be monitored

What is likely to be required?



Though not yet in scope for TCFD, we believe best practice would be to monitor:

- Two greenhouse gas metrics,
- One portfolio temperature alignment metric
- An additional climate change metric

These should be collected and monitored annually, with at least one target set for one of the metrics.

Purpose of this report



This report details the results of the Fund's first annual Responsible Investment Metrics and Targets assessment

It documents each investment manager's ability to report on the required metrics and their current position

These results should be used to guide decision making and any action taken as a result should be documented

Agreed Responsible Investment/TCFD Metrics

| Metrics | RI metrics agreed as part of previous objectives setting | RI metrics expected to be required by TCFD | RI metrics agreed to take forward for monitoring |
|---|--|--|--|
| Carbon emissions (Scope 1 & 2) | Y | Y | Y |
| Carbon footprint (Scope 1 & 2) | Y | Intensity: 1 of 2 (Isio preferred) | Y (Selected) |
| WACI (Scope 1 & 2) | Y | Intensity: 1 of 2 | N |
| Implied Temperature Rise (ITR) | N | Y | Y |
| Climate-related engagements | Y | Additional: Select 1 | Y (Selected) |
| Fossil Fuel extraction exposure | N | Additional: Select 1 | N |
| Science based target exposure / % of portfolio companies with climate transition targets in place | Y | Additional: Select 1 | N |
| Climate value at risk | N | Additional: Select 1 | N |
| Extent of 'green' revenue exposure | N | Additional: Select 1 | N |

Summary of Metric Coverage



| Metrics | RI metrics agreed to take forward for monitoring over the next year | Predicted coverage in current portfolio |
|--------------------------------|---|---|
| Carbon emissions (Scope 1 & 2) | Y | 70% |
| Carbon footprint (Scope 1 & 2) | Y | 70% |
| Implied Temperature Rise (ITR) | Y | 31% |
| Climate-related engagements | Y | 57% |

Notes: Coverage based on asset values as at 31 March 2022.

Summary of 2022 Results

Manager Data Key
(based on SBPF
total portfolio)

■ 33rd percentile
 ■ 33rd - 66th percentile
 ■ 66th percentile
 No data coverage

| Metric (SDG 13 Focus - Climate Action) | | Alternatives | Credit | | | | | | Equity | | | | Real Estate |
|--|-----------------------------------|------------------------------|----------------|----------|--------------------------------|-------------------------------|--------------------|---------------------|---------------------------|-------------------------------|--------------------------|------------------------------|---------------|
| | Metric | LGT Crown Multi Alternatives | Partners Group | Permira | Macquarie Sub-Investment Grade | Macquarie Infrastructure Debt | M&G Alpha Opps | M&G UK Index Linked | Baillie Gifford UK Equity | Baillie Gifford Paris Aligned | LGIM Future World Equity | Morgan Stanley Global Equity | BlackRock LLP |
| ESG | Isio ESG Rating | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 95 th percentile | Carbon emissions (Scope 1 & 2) | 3088.1 | - | 22,726.0 | - | - | 769,006.0 | - | 820.7 | 1502.1 | - ² | 514.6 | 1555.0 |
| | Emissions intensity (Scope 1 & 2) | 46.0 | - | 40.0 | - | - | 60.5 | - | 26.0 | 12.3 | 31.2 | 4.9 | 0.4 |
| Portfolio Alignment | Implied Temperature Rise | - | - | - | - | - | 3.2°C ¹ | - | - | - | 2.7°C | 1.8°C | - |
| Additional Metric | Climate-Related Engagements | - | - | 1 | - | - | 11 | - | 4 | 15 | 241 | 18 | - |

Source: Investment managers.

Notes: UBS Property has been removed from reporting due to the fund being in wind down. The direct infrastructure investments held in conjunction with the Lothian Pension Fund have also been removed. 1 M&G provided a chart without data points, so this figure is estimated. 2 LGIM have stated they will be able to provide from December 2022 onwards.

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Isio ESG Ratings Key

● Meets traditional criteria
 ● Partially meets criteria
 ● Significantly fails to meet criteria
 ● Not rated

Document Classification: Confidential | 6

Conclusions

1 **Total Greenhouse Gas emissions** for the Portfolio is **799,213.0 metric tonnes**.
Normalised total GHG emissions across the managers that were able to report is **114,179.3 metrics tonnes**.

2 Weighted average **Carbon Footprint** for the portfolio is **17 metric tonnes per \$1million investment¹**.
Normalised Carbon Footprint across the managers that were able to report is the same at **17 metric tonnes per \$1million investment**, given that this metric is a normalised metric already.

3 **Implied Temperature Rise** figures provided by managers ranged from alignment to a **1.8°C to 3.2°C** temperature rise by the end of the century.

Normalised Implied Temperature Rise across the managers that were able to report is **2.5°C**

4 There were **290** individual **Climate Engagements** with companies within the portfolio, where managers were able to report

Normalised engagements across the managers that were able to report is **48 engagements**.

Highest Emitters

The **biggest emitter** in the portfolio is **M&G Alpha Opportunities Fund** from an absolute emissions perspective.

Despite having **lower absolute emissions** than **Permira, LGT** report a higher **carbon footprint**.

We recommend that all three are engaged with and monitoring continues.

Targets

As previously discussed, the Committee desires to adopt a target of “**relative improvement**” as opposed to absolute or fixed targets, and this can be reviewed over time.

We proposed this is done primarily via reductions in **absolute emissions** and **carbon footprint** metrics at the overall Fund level.

Data availability

There are clear **gaps in the data**, largely as a result of **Partners, Macquarie and M&G UK Index Linked Gilt Fund** being unable to report on the requested metrics.

We recommend that each of these are engaged with for improvements in data availability and reporting quality.

Next Steps

We recommend the Committee:

- Engage with the managers of the highest emitting mandates to assess their direction of travel and what is possible
- Engage with managers to continue to drive improvements in data availability and reporting quality
- Consider whether there is appetite for any wider strategy changes off the back of this information
- Continue to assess the position on a regular basis, we purpose annually, both in terms of continued appropriateness of metrics monitored and if the targets set are being met
- Await further guidance from TCFD regulation

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December 2022 Committee meeting Responsible Investment items:

- TCFD Governance Policy
- ESG/Climate Impact Assessment

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REVIEW OF UK STEWARDSHIP CODE (2021)

Report by Acting Chief Finance Officer

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

15 September 2022

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to review and approve the Stewardship Code application for submission by 31 October.**
- 1.2 The Stewardship Code is not a statutory requirement however both the UK Ministry of Housing, Communities & Local Government and the TPR recommends that administering authorities of LGPS funds should become signatories to the code. The Committee agreed on 15th Sept 2021 that the Fund should apply to become signatories.
- 1.3 An application to become a signatory was submitted to the Financial Reporting Council (FRC) in October 2021 reflecting the Funds activities for 2020 but was unsuccessful. The feedback received however was positive and provided guidance of the areas where future applications could be improved on to improve the chances of a successful application.
- 1.4 The feedback provided by FRC has been reviewed and incorporated into a draft application for 2021 contained in Appendix 1.
- 1.5 The Local Authority Pension Fund Forum (LAPFF) is a established organisation representing 85 LGPS funds and 6 LGPS pools across the UK. Membership of LAPFF would enhance the engagement activities of the Fund. A summary of the benefits of joining LAPFF are contained in Appendix 2

2 RECOMMENDATIONS

- 2.1 It is recommend that the Committee:**
 - (a) Approves the proposed application for the Fund to become a signatory to the Stewardship code contained in Appendix 1**
 - (b) Agrees the submission to Financial Reporting Council and**
 - (c) Agrees membership of the Fund to LAPFF**

3 BACKGROUND

- 3.1 The Scottish Borders Council Pension Fund (the Fund) is Part of the Local Government Pension Scheme (LGPS) and is administered by Scottish Borders Council (the Administering Authority). The Fund is administered in accordance with the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance)(Scotland) Regulations 2015.
- 3.2 The legislation referred to above identifies that The Pension Regulator (TPR) has oversight of the Fund and requires compliance with TPR’s requirements.

4 UK STEWARDSHIP CODE 2020

- 4.1 The UK Stewardship Code sets high standards for those investing on behalf of UK savers and pensioners. The Code represents a best practice standard for asset owners and asset managers, with the aim of improving stewardship practices, and setting higher standards reflective of the changing expectations of investors since the Code’s last revision in 2012. The requirements of the revised Code for asset owners and managers extend to establishing clear stewardship objectives, integrating stewardship in investment strategies, and adhering to clearer and more comprehensive reporting requirements.
- 4.2 LGPS funds are not required by the code of practice, or by any legislation, to be signatories to the Stewardship code 2020; however, both the UK Ministry of Housing, Communities & Local Government and the TPR recommends that administering authorities of LGPS funds should become signatories to the code.
- 4.3 The code comprises of a set of 12 “apply and explain” principles which are shown in the table below

| PRINCIPLES FOR ASSET OWNERS AND ASSET MANAGERS | | | |
|--|--|-------------------|--|
| Purpose and governance | Investment approach | Engagement | Responsibilities |
| 1. Purpose, strategy and culture | 6. Client and beneficiary needs | 9. Engagement | 12. Exercising rights and responsibilities |
| 2. Governance, resources and incentives | 7. Stewardship, investment and ESG integration | 10. Collaboration | |
| 3. Conflicts of interest | 8. Monitoring managers and service providers | 11. Escalation | |
| 4. Promoting well-functioning markets | | | |
| 5. Review and assurance | | | |

- 4.4 The Code does not prescribe a single approach but does require signatories to have clear stewardship objectives that integrate stewardship in investment strategies, and adhere to clear reporting requirements. The main areas of reporting are detailed below:-

- Requires annual reporting on stewardship activity and outcomes, with signatories’ reports demonstrating the following to provide greater transparency:

- activities in previous year, and their outcome;
 - engagement with the assets they invest in;
 - voting records;
 - how they have protected and enhanced the value of their investments.
- Signatories are expected to take ESG factors, including climate change, into account and to ensure their investment decisions are aligned with the needs of members and for asset managers their clients. Signatories are expected to disclose the issues that they prioritise for assessing investments prior to holding, and to monitor through holding and exiting. This should include the ESG issues of importance to them.
 - Signatories are expected to explain how stewardship has been exercised across asset classes beyond listed equity investments such as fixed income, private equity, infrastructure, and in investments outside the UK.
 - Signatories are required to explain their organisation’s purpose, investment beliefs, strategy and culture, and how these enable them to demonstrate sound stewardship. They are also expected to show how they are demonstrating this commitment through appropriate governance, resourcing and staff incentives.
 - There is also an expectation within the new Code for signatories to work in a collaborative fashion with regulators and industry bodies to identify and respond to the risk of market and systemic failure. Signatories are expected to show how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets and outline the role they played in any relevant industry initiatives in which they participated.
 - Signatories are expected to explain how they escalate stewardship activities where necessary.

4.5 The Committee agreed on 15th September 2021 that the Fund should look to become a signatory and a submission was made to FRC on 29th October 2021. The submission included key areas the Fund had to progress and these are contained in the table below.

| Task | Action | update |
|--|--|-------------|
| Revision of ESG Policy | ESG workshop held 23 August and revised policy to be agree 16 September 2021 | completed |
| ESG Impact assessment/Monitoring reporting | Agree methodology and collection of data from managers | In progress |
| Engagement monitoring | Annual report of detailing the extent of voting and engagement adherence to SIP and the voting and engagement undertaken by Managers over the period | In progress |

- 4.6 The Fund was unsuccessful in its submission but received very positive feedback from FRC. This feedback and the work completed to date has been incorporated into the draft submission contained in Appendix 1
- 4.7 The submission contains some key actions the Fund has identified for future improvement which will ensure the Fund fully meets the standards required. These are detailed in the table below
- Enhanced reporting metrics of the approved Responsible Investment Policy and implementation of TCFD reporting
 - Increased of Communication with members
 - Implementation of TPR's Single Code
 - Review work undertaken by LAPFF and consider joining
 - Improve monitoring of managers voting and engagement activities.
 - Agree an escalation policy for managers.

5 ENGAGEMENT - LAPFF

- 5.1 Robust engagement is core to the strong stewardship of the Funds investments. Due to the size and resources of the Fund the ability to actively engage and ability to encourage change is limited.
- 5.2 Currently the Fund looks for engagement activities to be undertaken by its Fund managers. For the segregated funds held by Baillie Gifford the Fund is able to demonstrate engagement activities but there is not the same level of transparency for the pooled funds and for the illiquid assets the Fund is currently invested in.
- 5.3 The Fund has by becoming a support of Climate Action 100+ provided which allows the fund to demonstrate collaborative working to ensure companies are encouraged to improve their carbon emissions.
- 5.4 The Local Authority Pension Fund Forum (LAPFF) is an established organisation which represents £350bn of local authority pensions by promoting the highest standards of corporate governance and corporate responsibility. The LAPFF engages directly with company chairs and boards to affect change at investee companies. Information on the activities undertaken recent are available via the link [here](#) below and information on the benefits of joining LAPFF are shown in Appendix 2

6 IMPLICATIONS

6.1 Financial

- (a) The additional reporting and monitoring requirements identified may require the Fund to engage additional external resources. The level, and therefore cost, of this is currently unknown but will be reported to Committee once the detail is available.
- (b) Membership of LAPFF is currently £10,050 per annum which would be pro-rated for part year dependant on date of joining. This cost would be fully funded by the Pension Fund.

6.2 Risk and Mitigations

This report recommends the strengthening of the governance framework of the management and operation of the Pension Fund and reflects compliance with the best practice recommendations. There are no additional risks identified from the recommendations in the report.

6.3 Integrated Impact Assessment

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance required under the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. Nevertheless, a light touch assessment has been conducted and this will be published on SBC’s Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity and socio –economic factors have duly been considered when preparing this report.

6.4 Sustainable Development Goals

There are no direct impacts from this report on the sustainable development goals of the Council. The recommendation however within the report will ensure the monitoring and reporting of the Fund against the goals are enhanced.

6.5 Climate Change

There are no direct climate change impacts as a result of this report. The recommendation however within the report will ensure the appropriate focus, including the monitoring and reporting, of investments on the Fund’s activities is maintained in future.

6.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

6.7 Data Protection Impact Statement

There are no personal data implications arising from the proposals contained in this report.

6.8 Changes to Scheme of Administration or Scheme of Delegation

You should identify any changes which are required to either the Scheme of Administration or the Scheme of Delegation as a result of the proposals in your report. If there are no changes to be made, then say so. If changes are required then this will require Council approval.

7 CONSULTATION

7.1 The Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR & Communications, the Clerk to the Council and Corporate Communications have been consulted and any comments received have been incorporated into the final report.

Approved by

**Suzy Douglas
Acting Chief Finance Officer**

Signature

Author(s)

| Name | Designation and Contact Number |
|-------------|--|
| Kirsty Robb | Pension & Investment Manager, 01835 825249 |

Background Papers: Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board – 15 Sept 2021

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. The Pension & Investment Team can also give information on other language translations as well as providing additional copies.

Contact us at Contact us at: Pension & Investment Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825249 Fax 01835 825166. email: treasuryteam@scotborders.gov.uk

STEWARDSHIP REPORT 2021

SCOTTISH BORDERS COUNCIL PENSION FUND

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1. PURPOSE AND GOVERNANCE

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.

PURPOSE

The Local Government Pension Scheme (LGPS) is a statutory scheme, established by an Act of Parliament and governed by the Public Services Pensions Act 2013 (PSPA 2013) and the Local Government Pension Scheme (Governance)(Scotland) Regulations 2014. It is a contributory defined benefit scheme to provide pensions and other related benefits for all eligible employees of local government and other participating employers. Under the statutory provision of the Local Government Pension Scheme Scottish Borders Council is designated as an “Administering Authority” and is required to operate and maintain a pension fund – Scottish Borders Council Pension Fund (“the Fund”).

The Fund, is a multi-employer scheme which is open to new membership. The purpose of the Fund is to pay Scottish Borders Council LGPS members’ pensions securely, affordably and sustainably over the short, medium and long term. The LGPS operates on a ‘funded’ basis, this means that contributions from employees and employers are paid into a fund which is invested, and from which pensions are paid. To do this, the Fund seeks to achieve sustainable, risk-adjusted performance of its investments over the long-term.

The Fund operates under the regulations of the Local Government Pension Scheme, which is a public-sector pension arrangement. Scheme membership is made up of active, deferred and pensioner members. To be able to join the scheme, a person must be employed by a relevant employer and not eligible to join another public-sector pension scheme. Teachers are not included as they have a separate national pension scheme.

The Fund currently has 12,178 members and paid pensions totalling £265.3m during 2021/22 with contributions received from employers totalling £20.6m. The Fund had investments of £909.4m at 31 March 2022 across a diversified portfolio of asset classes.

STRATEGY

Funding Strategy

The Fund’s funding objective is to ensure sufficient funds are available to pay all members’ pensions both now and in the future. The Funding Strategy Statement and report on the 2021 Actuarial Valuation are available at

<https://www.scottishborderscouncilpensionfund.org/resources/funding-strategy-statement/>

Investment Strategy

The investment objective is to support the funding strategy by adopting an investment strategy and structure which incorporates an appropriate balance between risk and return. To achieve this the Fund takes a risk based using appropriate asset liability modelling techniques. Details of the investment strategy are available at:

<https://www.scottishborderscouncilpensionfund.org/resources/statement-of-investment-principles/>

Investment Structure

The Fund pursues a policy of lowering risk through diversification of both investments and investment managers. To achieve this, it has delegated the day to day investment decision to external investment managers. In addition the strategic asset allocation is reviewed on a regular basis with the last review report to Committee on 10th June 2021. Following the 2020 Triennial valuation the required investment return (based on a probability level of 70%) was agreed by the Actuary at 3.8% for the next 20 year period. The Fund's investment returns have averaged 7.3% over the last 5 years and have exceeded the 3.8% target over the last 10 years.

CULTURE & INVESTMENT BELIEFS

The Statement of Investment Principles (SIP) sets out the Funds approach to investment and its beliefs. Key principles underlying the investment approach are:

- Long-term perspective – due to the long term nature of the liabilities and employer covenants, the Fund is able to take a long term view and position it's investment strategy accordingly
- Diversification – to reduce risk and volatility the Fund seeks to diversify its investments.
- Stewardship – the Fund recognizes it has a responsibility to ensure the fund is undertaking its investment activities in a socially responsible way. The Fund is fully aware of its Environmental, Social and Governance (ESG) responsibilities and approved an updated Responsible Investment policy relating to ESG in September 2021, strengthen its commitments to ESG and the monitoring of its objectives.

The Fund's approach to Stewardship is summarised in the Responsible Investment Policy which is included in the Statement of Investment Principles. The Fund is fully invested with external investment managers and delegates the day to day management of assets to these managers. The Fund however requires all managers to be PRI registered and will in the future also require managers to be signatories to the Stewardship Code. Each manager will be monitored on an annual basis to ensure they remain signatories.

Future Improvements

A full review of the Responsible Investment Policy was completed in September 2021 which further enhanced the Funds commitment to and the reporting of the Funds' performance on ESG.

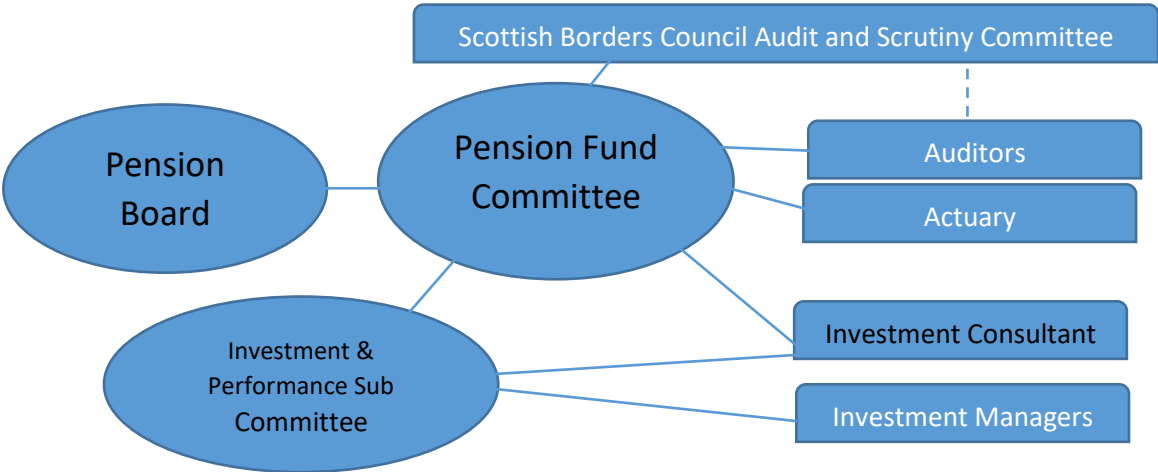
2. GOVERNANCE, RESOURCES AND INCENTIVES

Signatories' governance, resources and incentives support stewardship

SCHEME GOVERNANCE

The Fund believes that effective internal governance arrangements are fundamental to effective stewardship. Also, as a Local Authority, it must adhere to applicable regulations such as the Local Government Act 2000 and LGPS specific regulations such as the Public Service Pensions Act 2013, the Local Government Pension Scheme (Governance) Scotland Regulations 2014 and Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 20016. As such, the governance structures and processes for the Fund are designed to comply with relevant regulatory requirements whilst also seeking to deliver effective oversight and accountability and, ultimately, effective stewardship.

The Governance structure of the Fund can be seen below including the roles each of the parties undertakes. The Pension Fund Committee and Pension Board meet jointly four times a year, with papers and minutes being available one week prior to the meeting. Scottish Borders Council Pension Fund Governance:-



Pension Fund Committee – is the main decision making body for the Fund and consists of seven Scottish Borders Council Councillors.

Pension Board – assists the Committee in securing compliance with the regulations, other legislation and requirements of the Pensions Regulator. The Board consists of four employer representatives and four employee Union representatives.

Investment & Performance Sub-Committee – develops investment strategy and monitors investment performance. Consists of the Pension Fund Committee Members, one employer and one employee representative from the Pension Board.

Actuary – provides advice on funding, this role is currently undertaken by Hyman Robertson.

Investment Consultant – provides advice on all aspects of investment objectives, strategy and monitoring, this role is currently undertaken by Isio.

Investment Managers – manage the investment portfolios.

Auditors – provide audit assurance that the Fund is adhering to regulations, other legislation and requirements of the Pension Regulator. The internal audit function is provided by Scottish Borders Council’s Internal Audit department and the external audit function is provided by Audit Scotland.

Scottish Borders Council Audit & Scrutiny Committee – provides independent scrutiny of the Pension Fund Committee’s adequacy, effectiveness and systems of internal control.

RESOURCES

Stewardship activity is carried out by:

- A requirement that the Fund’s investment managers exercise the Fund’s voting rights, incorporate analysis of ESG issues into their investment analysis and decisions taken on behalf of the Fund and actively engage on these issue with the companies in which they invest.
- The Investment and Performance Sub Group meets every manager on an annual basis to scrutinize both investment performance and adherence to the Fund’s ESG policy and beliefs.

Pension Fund Committee

The membership of the Pensions Committee comprises of 7 members of Scottish Borders Council representing all the key political elements of the Council. Equal weight is given to each member’s vote. Further details can be found at:

<https://scottishborders.moderngov.co.uk/ecSDDisplay.aspx?NAME=SD272&ID=272&RPID=0>

Pension Fund Board

The membership of the Board comprises of 4 representatives from employer organisations (1 Scottish Borders Council, 1 Borders College, 1 LIVE Borders and 1 South of Scotland Enterprise) and 4 employee representatives from Unison, Unite and GMB unions. The Board’s role is to assist Committee to fulfil its functions in relation to all aspects of governance and administration of the Pension Fund. The Board is constituted under the Public Service Pension Act 2013 and the Local Government Pension Scheme (Governance)(Scotland) Regulations 2015 and has no remit as a decision-making body. Where the Board is concerned that due consideration has not been given to matters of non-compliance the Board may refer the matter back to the Committee of further consideration and then the difference in view between the Pension Board and the Pension Fund Committee will be published in the form of a joint secretarial report from the Pension Board on the Pension Fund website and included in the Pension Fund’s Annual Report. There have no incidents of this to date.

Investment & Performance Sub Committee.

The membership of the Sub Committee comprises of 9 members. The 7 members of the Pension Fund Committee and 2 nonvoting members nominated by the Pension Fund Board. The 2 Pension Fund Board members are represented by one employer and one employee representative. The sub-committee meet every manager at least once a year to review

performance. Stewardship and responsible investment are a key area each manager is required to provide updates on.

Internal Staffing resource

The S95 Officer and LGPS Pensions Officers: the experience, qualifications and structure of the team of officers supporting the Council in carrying out its functions as Administering Authority for the Fund as follows:

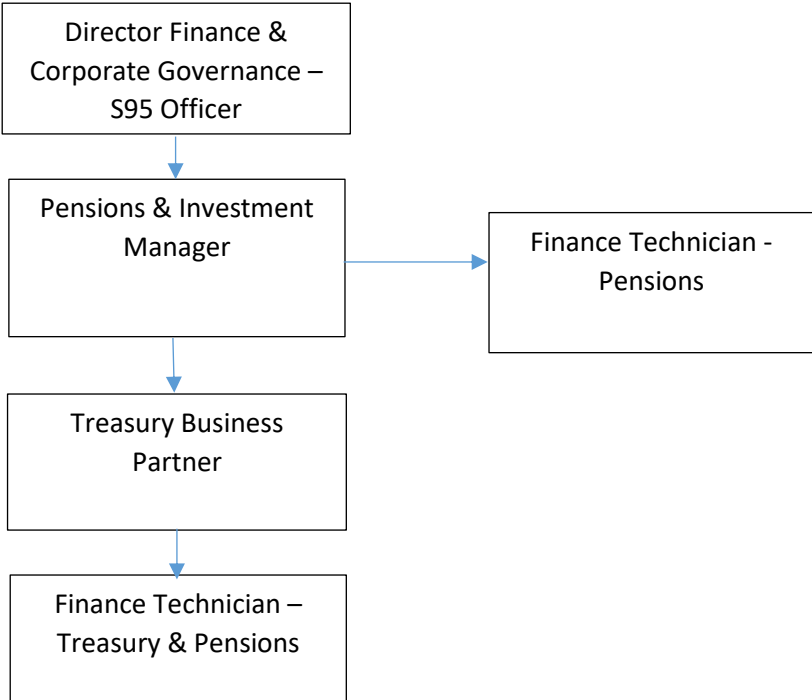
Experience

| | |
|-----------------------|-----|
| < 1 year experience | 0 |
| 1- 5 years experience | 20% |
| 6-10 years experience | 0 |
| 11-15 year experience | 40% |
| > 15 years experience | 40% |

Relevant formal qualifications

| | |
|-------------------------|-----|
| Formal qualification | 60% |
| No formal qualification | 40% |

S95 Officer and LGPS Pensions Officers team structure



Advisors

| Specialism | Company | Key services provide during the year |
|------------|------------------------|---|
| Actuary | Hyman Robertson | Provision of annual IAS19 and FRS 102 accounting valuations, input into the strategic asset allocation review and responsible investment policy |
| Auditor | Audit Scotland | Annual statutory audit of the Funds Annual report and Financial statements and governance of the Fund |
| Bank | Royal Bank of Scotland | Banking services |
| Custodian | Northern Trust | Record keeping/custody of the Pension Fund’s assets, settlement of subscriptions/capital draws/redemptions/distributions, investment accounting |

| | | |
|-----------------------|------|---|
| | | quarterly and annually to LGPS/IFRS regulations and ONS reporting |
| Investment Consultant | Isio | Provision of quarterly performance reports, procurement of fund manager for Passive equities, infrastructure and residential property. Led on update of review of responsible investment policy, agreement of key goals and improvements to the monitoring regime of the policy |

Skills & Knowledge

To ensure the members of the Pension Fund Committee and Pension Fund Board have the required level of skills and knowledge required to fulfil their functions the Fund has a training policy which requires all members to undertake an annual skills assessment, attend at least 2 training events a year and also complete The Pension Regulator trustee toolkit within 6 months of joining the Committee or Board. The outcome of the annual assessment and training attendance is reported on an annual basis to the Joint Pension Fund Committee and Pension Fund Board. If members have not fulfilled their requirements a formal letter is sent and if poor attendance continues they are removed. All members of the committee and Board met the training attendance requirement in 2021. One new member of the Board is currently working through and a timescale has been agreed with them. .

INCENTIVES

As previously noted, the Fund does not directly invest itself. Instead, it appoints investment managers to do this on its behalf. As such, the Fund seeks to incentivise the integration of stewardship into investment decision-making both internally (i.e. when setting its Investment Strategy) and externally (i.e. when appointing specialist advisors and investment managers to assist its governance processes and deliver its investment requirements).

Internal incentives: The key mechanism for motivating the integration of stewardship into investment decision-making internally is the Fund's governance structure. In particular, the setting of a clear Investment Strategy and investment beliefs and the ongoing monitoring of the performance of the Fund from the granular level (such as the performance of individual investments and the ESG activities of the investment managers), through to the strategic level (such as the triennial actuarial valuation and undertaking in-depth Investment Strategy reviews). The key activities undertaken in relation to this during the year ended 31st March 2022 are described below

| Activities | Details |
|---------------------------------------|--|
| Implementation of Investment strategy | Progress made with an appointments to ESG Passive Equities, Residential Property and Infrastructure. 40% of the Funds equities transitioned to a Paris Aligned fund. |
| Responsible Investment Policy revised | Following responsible investment workshop, policy fully revised to include key goals and improve the monitoring of the policy. Policy circulated to all fund Managers. |
| Formal annual review of fund polices | This is considered in detail in Principle 5 |

| | |
|--|---|
| Overseeing performance of the Funds Investment Managers` | This includes voting and engagement activities and is undertaken throughout the year with formal reporting to the Committee and Investment and Performance Sub-committee taking place |
| Production of the Pension Funds Annual Report and Accounts | The Annual Report and Accounts for the year ended 31 March 2021 were published in accordance with statutory timescales, with the draft accounts being open to public inspection. The final audited accounts can be found at https://www.scottishborderscouncilpensionfund.org/resources/annual-report-and-account-2020-21/ And the draft accounts for year ended 31 March 2022 can be found at https://www.scottishborderscouncilpensionfund.org/resources/unaudited-annual-report-and-accounts-2021-22/ These are draft accounts subject to audit which finalised in October 2022. |
| Training on relevant matters | Training was provided in key areas identified to members of the Pension Fund Committee and Pension Fund Board |

External incentives: the first step in this process is selecting external advisors and asset managers which are already closely aligned with the values of the Fund. As such, consideration of a provider's 'fit' with the Fund is a fundamental element of due diligence work prior to appointment. Furthermore, the Fund sets out clear requirements through its contracts / service level agreements. For example:

In accordance with the Competition and Markets Authority (CMA) Investment Consultancy and Fiduciary Management Market Investigation Order 2019, the Fund has set clear objectives for its Independent Advisors and Investment Consultant. The objectives include setting a strategy based on the Fund's goals/objectives and providing advice and assistance to the Pensions Committee on any other relevant issues that could impact the Pension Fund's ability to meet its strategic objectives. During the year the Fund submitted its annual statement of compliance confirming that it has complied with the CMA's requirements.

Once appointed, the Fund incentivises managers to align the work they do for the Fund with the Fund's requirements and expectations in relation to stewardship through regular monitoring and evaluation of their performance and engaging with providers on an ongoing basis. For example:

Future Improvements

- The Fund has highlighted in its annual business plan a number of key actions for 2022 to reflect on the current governance and stewardship of the fund. These are shown below
- Review the communication strategy and agree action plan in line with best practice and technological advancements
- Proactively engage with Pension Fund employers
- Implementation of responsible investment policy and the agree improved monitoring requirements
- Review and implementation of The Pension Regulator Single Code

- Review of feedback from Stewardship Code application and implementation of Stewardship Code review recommendations

3 CONFLICTS OF INTEREST

Signatories' manage conflicts of interest to put the best interests of clients and beneficiaries first.

Conflicts of interest policies – Councillors

All Councillors are legally bound under The Ethical Standards in Public Life etc. (Scotland) Act 2000 to adhere to the Code of conduct contained within the Act. The Code applies to every elected member of a local authority in Scotland. It is the Councillor's own responsibility to ensure they are familiar with and that their actions comply with the code. The code can be accessed via the link

<https://www.standardscommissionscotland.org.uk/codes-of-conduct>

The code is designed to promote and maintain high standards of conduct by elected members of the Pension Fund Committee and Board Fund across all activities including the stewardship of the Fund's assets.

A key element of the Code is the requirement to inform the local authority Monitoring Officer with any notes of interest within one month of becoming a Councillor. Councillors are also required to notify the Monitoring Officer of any changes to their register of interest with one month of the change. The code details the key definitions and included explanatory notes to assist councillors in deciding if they have to register an interest. The key categories are: Remuneration, Related undertakings, Contracts, Elections Expenses, Houses, land & buildings, Interest in shares & securities, Gifts & hospitality and Non-financial interests.

Conflicts of interest policies – Employees

As the Adminstrating Authority all employees are required to adhere to the Employees Code of Conduct set out by Scottish Borders Council. The code details the high standard of conduct required from all local government employees and includes key areas of Relationship & personal conduct, Conflicts of interest, Openness & disclosure of information, Paid & voluntary work outside the authority, Hospitality, gifts and Corruption. The full policy can be accessed via the link below.

https://www.scotborders.gov.uk/downloads/file/8006/employees_code_of_conduct

The policy requires all employees to register via the Authorities online system any private interests which could influence their decisions. Employees are required to maintain their register as circumstance change. Employees must declare an interest with their line manager if there is a conflict and should be removed from the work where required and not attend any relevant meetings.

Investment Managers and Service Providers

The Fund requires all its investment managers and services providers to maintain a Conflicts of Interest policy and confirm to provide the Fund with an electronic version of this on an annual basis as part of the annual due diligence review. Investment managers are also required to provide assurance of their internal control systems and to report any breaches of

these. The Fund also reviews the annual audit report produced by each of the manager’s independent service auditors.

Given the key role of service providers have within the Fund obtains annual assurance on the adequacy of the internal control systems operated by them. These are reviewed annually and form part of the annual service review meeting with service providers

Identification and management of Conflicts of interest

The Council delegates responsibility for the management of the Fund to the Director of Finance and Corporate Governance (S95 Officer) and the Pensions Committee. This includes the overall responsibility to ensure that systems, controls and procedures are adequate to identify, manage and monitor Conflicts of Interest.

In order to be able to identify and manage potential and actual conflicts of interest, Members, Advisors and Officers responsible for governing the Fund need to have a clear understanding of them. As such, training is a key tool to ensure Members and Officers are aware of and understand their responsibilities in relation to the Fund, including the identification and management of conflicts of interest. Further details on the Fund’s training policy and plan can be found in Principle 2

Other key steps: the table below sets out the key steps employed by the Fund in the identification and management of actual and potential conflicts of interest relating to the stewardship of the Fund’s assets. Case studies of how actual or potential conflicts have been addressed are set out at 3.3 below.

| Identification | Management |
|--|--|
| <p>Members of the Pensions Committee and Pension Fund Board(‘Members’): The Code of Conduct requires that all Members must declare any pecuniary or other registerable interests.</p> | <p>Details of the declared interests of Council Members are maintained and monitored on a Register of Interests. These are published on the Council’s website under each Member’s name and updated on a regular basis e.g. the Chair of the Pensions Committee: These can be found via the link below: https://www.scotborders.gov.uk/councillors/name</p> |
| <p>The Code of Conduct requires that Members consider whether they have an interest in any matter on the agenda for a meeting and if so whether there is a need to disclose such an interest.</p> | <p>Full details of the process for the management of declarations of interests at meetings are set out in Section 5 stage 3 of the Standards Commission Code of Conduct for Councillors. https://www.standardscommissionscotland.org.uk/codes-of-conduct</p> |
| <p>All formal meetings of the Committee and Board have ‘disclosures of interest’ as a standing item on the agenda. At that point each Member formally considers conflicts of interest they may have in any item on the agenda or during discussions throughout the</p> | <p>Unless a dispensation has been granted, they must then leave the meeting room and may not participate in any discussion, vote on, or discharge any function related to the matter.</p> |

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| meeting and the outcome is declared in the public minutes. | |
| <p>Advisors to the Fund: upon appointment Independent Advisors are required to sign a declaration statement outlining any potential conflicts they may have</p> <p>Once appointed they must immediately report any changes of circumstance directly to the Chair of the Committee for their consideration and further action should this be necessary</p> | <p>Post appointment: where a matter arises, which presents a potential or actual conflict of interest then the action taken to manage the conflict is considered by the Chair of the Committee in consultation with Fund Officers. Examples may include requiring the Advisor to not participate in the relevant discussion or to leave the meeting during the consideration of the matter.</p> |
| <p>Officers of the Fund ('Officers'): The Employees' Code of Conduct requires that Officers make a formal declaration about any financial or non-financial interests which could bring about a potential or actual conflict of interest. Such declarations should be discussed with their line manager and submitted using the Council's online reporting tool.</p> | <p>Where a potential or actual conflict of interest is identified then the Officer is removed from the relevant work stream.</p> <p>In line with the Officers Code of Conduct the interactions of officers with Investment Managers is subject to the requirement for any gifts or hospitality to be declared and captured by the Fund.</p> |
| <p>Investment Managers: The Fund expects the asset managers it employs to have effective stewardship policies including conflicts of interest and voting & engagement, and that these are all publicly available on their respective websites.</p> <p>These are considered as part of due diligence work undertaken prior to the appointment of a manager and manager policies are informally considered as part of the annual review process.</p> | <p>All managers are required to maintain a conflicts of interest policy and are required under the annual due diligence review to confirm it is place and is adhered to.</p> |
| <p>Political Interests and beliefs: The primary mechanism for the identification of potential and actual conflicts relating to political matters is for Members of the Committee, Members of the Committee, Board and</p> | <p>The Scheme of Administration requires all major political parties to be represented on the Committee. Induction training to the Pension Fund Committee and Board highlights their fiduciary duties to the Fund come before any personal or political objective. The Committee makes decisions on a politically neutral basis in order to deliver the overriding objective of the Fund (i.e. to</p> |

| | |
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| Officers to the Fund consider all matters from a neutral position focussed on what serves the best interests of clients and beneficiaries of the Fund. | achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due). |
|--|--|

Outcome

All conflicts of interests have been managed effectively during 2021/22 and a detailed example is given below

A possible conflict of interest was referred to the Councils Monitoring by an individual who was uncertain if the issue was a conflict under the Code of Conduct. The issue was fully investigated by the Monitoring and information gather from Fund Officers. The Monitoring Officer deemed the issue not to be a conflict of interest due to the scale and decision making process of the Committee.

4 PROMOTING WELL FUNCTIONING MARKETS

Signatories' identify and respond to market wide and systemic risks to promote a well-functioning financial system.

Identification of systemic & market wide risks

The identification of and response to systemic and market-wide risks by the Fund is a key tool in its approach to addressing barriers to effective stewardship. For example, the incorporation of ESG considerations into investment decisions can help improve long-term value by minimising the risk of, for example, stranded assets and the impact of regulatory change.

The Fund's risk management process is in line with that recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA). This is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities, which includes systemic and market-wide risks in addition to Fund-specific risks. Risk identification is enhanced through liaison with investment managers, other administering authorities and regional and national groups, including the SAB, CIPFA, and various investor collaborations and initiatives.

Once identified, material risks are documented on the Fund's risk register, which is the primary control document for the subsequent analysis and classification, control and monitoring of those risks. The register is formally reviewed on an annual basis with further quarterly monitoring of progress on agreed actions being reported to Joint Pension Fund Committee and Pension Fund Board. Committee and Board members are therefore afforded the opportunity to regularly scrutinise risks and satisfy themselves that the Funds response to these risks i.e. whether to tolerate, or treat risks through mitigation actions are acceptable to those charged with Governance.

Examples of areas of risk the Committee have reviewed and discussed during 2021 are shown below

| Risk | Response |
|--|--|
| <p>Performance: Adverse market movements impact on the Fund's long-term performance: e.g. Continued Global COVID-19 Pandemic, inflation etc.</p> | <ul style="list-style-type: none"> • Adherence to the Fund's Investment Strategy ensures that the assets of the Fund are invested in a diverse portfolio of investments, the impact on overall performance is therefore not as extreme as that experienced in any one asset class alone. • Potential new investments are closely scrutinised by officers and Fund Advisors to assess • Potential new investment category of Residential property fully investigated and training to members provided. Included in strategy to increase diversification of the fund and mitigate risk. • Review of Responsible investment policy undertaken, including detailed discussion climate change risks. Investment Strategy update to move funds into areas of reduce reliance on fossil fuels and increase areas of renewable green energy to mitigate the investment risk. • Quarterly investment advisor reports to the, Pension Committee, highlight market wide risks and macroeconomics d |
| <p>Regulatory Changes: There is a risk that the LGPS is mandated to invest in particular markets or risks that may otherwise impact onto the sovereignty of the Fund. This may be caused by government policy or amendments to regulations.</p> | <ul style="list-style-type: none"> • Officers of the Fund respond to government consultations where relevant to help influence policy. • Where relevant, the Fund will support lobbying or lobby directly to ensure that its voice is heard in the development of national policy. • Officers within the Fund ensure that they are aware of impending amendments to regulations and advise Pensions Committee and the LPB (and, where relevant, employers and scheme members) in a timely way as to any amendments and their impact to the Fund. |

The Fund has actively work with its Investment Advisor and managers to diversify the portfolio of investments. This diversification reduces the possible effect on the performance of the Fund from any one asset class. The full effect of the COVID market drop and the financial impact of the Russian/Ukraine conflict has been partially mitigated by this diversification.

Investment Managers

The Fund ensures that its investment managers fully integrate ESG related risks into their decision making processes and are reflected in their responsible investment policies. Managers are also encouraged via the annual due diligence process to become signatories to the Stewardship Code, Climate Action 100 and TCFD. The Fund requires all its managers to be either signatories or demonstrate they are actively working towards

becoming signatories of the Stewardship Code from 2021 incorporated this as a mandatory requirement for any selection process.

The Fund as defined benefit scheme is a long term investor and is less impacted by short term market events. In recognition of this throughout the COVID-19 pandemic the Fund continued to maintain its focus on what it believes is a sustainable investment strategy to protect the long-term interests of its beneficiaries. Its investment strategy and approach were unaffected, with relatively few changes made to underlying portfolio holdings.

Promotion of well function financial system

Due to the small size of the Fund and the limited resources the Fund is not able to actively participate in initiatives. The Fund however is a signatory to Climate Action 100 and encourages its managers to be. The Fund also actively encourages all its Managers to engage in relevant industry initiatives.

Procurement

All investment managers and advisors are appointed following public procurement regulations including the use of the Norfolk Framework and the associated standards of transparency. Contracts with managers are regularly reviewed to ensure they continue to meet requirements and the objectives of the asset allocation strategy. Where they do not, mandates are terminated and re-tendered.

Future improvements

During 2021 the Fund is reviewed and updated it's of its Responsible Investment Policy to further enhance its commitment to Climate Change and ESG consideration. The Fund has agreed objectives and will during 2022 provide further training to members and work with managers to implement the identified improvements to the monitoring of the policy. A key part of the work will to prepare the Fund for TCFD reporting requirements.

The Fund is also currently in discussion with LAPFF to understand the work the undertaken and how the Fund can work them to further become more active and involved in industry initiatives.

5 REVIEW AND ASSURANCE

Signatories' review their policies, assure their processes and assess the effectiveness of their activities.

Sources of assurance

Policies

The Fund reviews its key policies on a regular basis as part of its annual governance and compliance statement. The key policies reviewed every June are Funding Strategy Statement and Statement of Investment Principle's. Other policies are reviewed at a minimum of every 3 year. The Fund identifies the cycle of review in its annual 3 year business plan which is approved by the Joint Pension Fund Committee and Pension Fund Board. The implementation of the Business plan is monitored thereafter.

Financial Regulations

The pension Fund adopts the financial regulations of the Council in full. The regulations can be found via the link below:

https://www.scotborders.gov.uk/downloads/file/156/financial_regulations

Pension Fund Board

The role of the Board is to assist Pension Fund Committee to fulfil its functions in relation to all aspects of governance and administration of the Pension Fund. As such, it plays an integral part in providing assurance that the Fund is undertaking its governance and stewardship effectively and appropriately. The membership of the Board has equal Employer and Employee representatives, with the Employee's being represented by Trade Unions.

Internal Audit

Internal controls are in place to ensure procedures and policies are followed. Internal Audit undertake an audit of the control environment in line with agreed public sector standards for Internal Audit, subject to a pre-agreed remit, to provide an assessment on the internal controls in operation and whether they are applied consistently.

External Audit

The annual Fund Report (including Accounts) for the Fund are subject to external audit by Audit Scotland. The External Auditor prepares an 'Audit Findings Report' in accordance with the requirements of the under Part VII of the Local Government (Scotland) Act 1973 and prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003, auditing standards and other professional requirements. This work provides assurance that the financial statements of the Fund, which include details of investment performance and other core stewardship information such as expenditure in relation to budget, present a true and fair view of the financial transactions during the reporting year and of the amount and disposition of the Fund's assets and liabilities at the end of that year.

The 2021 review found the Fund has appropriate arrangements in place to support governance and accountability.

Annual Governance Statement

As Part of the Local Government Pension Scheme (LGPS) the Fund is administered in accordance with the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance)(Scotland) Regulations 2014. It is a requirement of the LGPS Regulations that the Pension Fund maintains a Governance Policy and Compliance Statement. The statement is reviewed on an annual basis as part of the annual compliance review and subject to External Audit as part of the annual audit process. The 2020 Governance and Compliance statement was fully compliant with published best practice guidance.

Actuary

The Actuary prepares the valuation and sets the contribution rates to ensure Fund solvency and long-term efficiency with due regard to LGPS Regulations. The Actuary is instrumental in assisting the Fund in the production of its Funding Strategy Statement and the Actuary's

valuation assumptions play a key role in the development of the Investment Strategy Statement (both of which are key stewardship policy documents).

Independent Advisors

The Fund employs an external Independent Advisors, whose remit includes the provision of clear, concise and understandable investment and governance advice to the Committee and the ISG; and supporting the Committee, ISG and Officers in developing and reviewing the Investment Strategy Statement relevant to the Fund's current funding level and risk appetite. Their input into and challenge of the Fund's approach to the stewardship of its assets is integral to providing assurance to the Committee that the Fund's approach to stewardship is efficient and effective.

Reporting

The Funds seeks to ensure its stewardship is fair, balanced and understandable. In addition to the sources of assurance set out above the Fund also undertakes the following

- Sets and monitors a 3 year Business plan which identifies areas of improvements and timetables regular review of key assurance policies and procedures.
- Sets an annual budget which is monitored on a quarterly basis via formal reports to the Joint Pension Fund Committee and Pension Fund Board
- All reports to the Joint Pension Fund Committee and Pension Fund Board undergo a formal internal consultation process involving key senior officers of the Council. The agendas and reports published via the Councils website one week prior to the meeting date.

Future improvements

The Fund submitted an application to the Stewardship Code but was not accepted on that occasion. Good clear feedback however was received and further work has been completed and identified to improve the submission for 2021.

The Business Plan for 2022/23 to 2024/25 has also approved a review of the TPR Code and the identification of actions required to ensure the Fund fully adhere to it. This work will allow a fully health check to be carried out on the overall governance of the Fund..

Following the review for the Single Code the Training Policy will be reviewed and updated to ensure it fully meets the skills and knowledge requirements.

INVESTMENT APPROACH

6 CLIENT AND BENEFICIARY NEEDS

Signatories' take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Beneficiaries

The Fund is a defined benefit scheme and comprises of 17 employer organisations with Scottish Borders Council representing 88% of members. The table below details the size and profile of membership as at 31 March 2022.

| | Active members | Deferred members | Pensioners | Total Beneficiaries |
|-------------|----------------|------------------|------------|---------------------|
| People | 4,703 | 3,194 | 4,281 | 12,178 |
| Percentage | 38.6% | 26.2% | 35.2% | 100% |
| Average age | 46.7 | 49.9 | 70.6 | |

Investment Time Horizon

The Fund is a defined benefit scheme which is open to new members (excluding two employers who represent 2% of the Fund). This means the Fund is investing to pay pension benefits to members over a long term timescale going forward and that timescale continue to extend as each new benefit accrues. The Fund's investment time horizon is therefore very long-term with the overriding objective of the Fund to achieve and maintain a 100% solvency level, the current level assessed in the 2020 triennial valuation is 110%.

As a maturing fund the Fund must also consider cash flow to ensure it has the funds available to pay pension to beneficiaries as they become due.

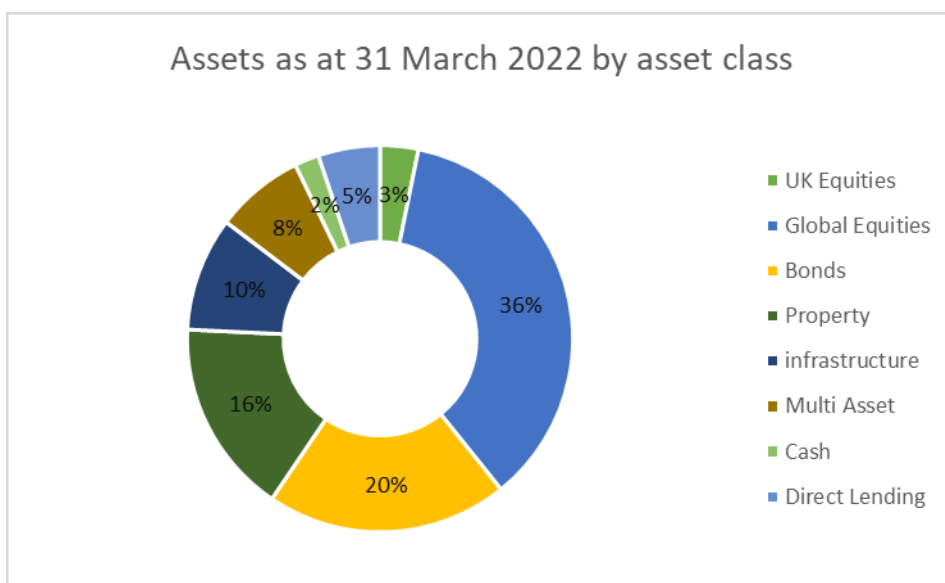
Activities to achieve both the ultimate investment time horizon and maintain the funding level are described in the Funds published Funding Strategy Statement and its Statement of Investment Principles which are reviewed on an annual basis and published on the Funds dedicated website. These documents can be access via the link below:

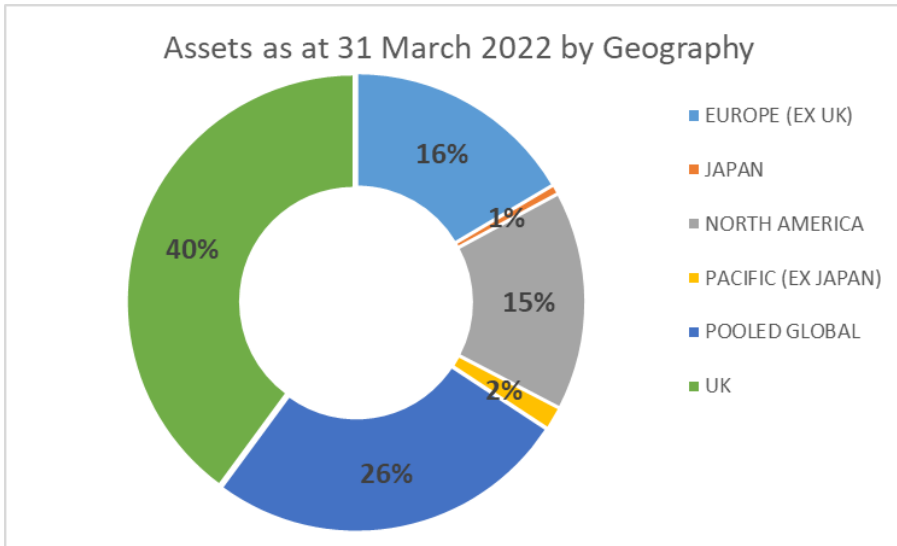
<https://www.scottishborderscouncilpensionfund.org/resources/>

Breakdown of Assets

The Fund as at 31 March 2022 held assets valued at £909m. The Strategic Asset Allocation contain the Statement of Investment Principles sets the investment classes. The Fund has a very diversified portfolio which spreads the risk and allows the Fund to meet its objectives, at the same time ensure cashflow is in place to ensure cash commitments can be met. A full listing of assets are available on the Funds website and can be access via the link below

The graphs below show the assets as at 31 March split over both asset class and geography.





Communications

The Fund approved the current Communications Policy on 16 September 2021. The overall aim of the Communications Policy is to provide communication in an efficient manner to all stakeholders, ensuring that it is: -

- Delivered in a timely efficient and effective manner
- Provides relevant content to the audience, with a clear purpose and message
- Well written, avoiding being of a technical nature wherever possible based on the differing needs of the stakeholders
- Becoming increasingly digital.

The objective of this policy is to ensure that: -

- Pension regulations and the policies of the Fund are communicated in a clear and informative manner
- Benefits of the scheme are promoted to ensure this is recognised as an integral part of the employee reward package
- Information is provided in the most appropriate manner to allow scheme members to make more informed decisions relating to their pensions
- Communication methods are continually evaluated, assessed and redesigned where necessary to ensure continuing effectiveness

The communication methods utilized are:-

Fund website to provide information to as many stakeholders as possible at a time that suits them we provide access to the following: -

- Scheme policies
- Scheme benefits
- Contact details
- Links to other useful sites

The Fund has deployed a secure portal for all active and deferred members of the LGPS, which provides direct access for scheme members to view personalised pension data and further enhances the communications with active and deferred scheme members in a modern digital manner. The portal also allows members to carry out the following: -

- View all the details they need about their LGPS Pension in real time
- Carry out pension quotes on demand without needing to contact [The Pensions Team](#)
- Annual Benefit Statements available to view

- Check and update nominations of beneficiary
- Upload any documents that the Pensions Team request
- Use the contact facility to raise any questions in an electronic manner
- Provide feedback on the MSS application

Scottish Borders Council Website for Pension Committee and Local Pension Board agendas and minutes can be found on the main Council website, www.scotborders.gov.uk The Fund uses both surface and e-mail to send and receive general correspondence. Roadshows and presentations are available to employer workplaces and attend roadshows, seminars, induction and pre-retirement presentations on request, a minimum period of four weeks' notice will be required to allow for appropriate preparations. Scheme members can arrange to visit our offices to speak to a member of our Pensions Administration Team, they can arrange to pre-book appointments by e-mail or telephone.

The introduction of the Pension Fund website in June 2018 has allowed members to access information and documents. The table below details the number of visits to the site since it was launched to end of March 2022. The scheme website can be found at www.scottishborderscouncilpensionfund.org



COMMUNICATION PERFORMANCE

The following communications took place during 2021/22

- The Employer Liaison meeting was held as a virtual meeting due to the restrictions in place as a result of the Covid-19 situation. In addition to the meeting an email was issued to all employers providing the details of the requirements for the year end reporting for the scheme and action to be taken in preparation for the coming years' payroll
- Deployment of Member Self Service with emails issued to all active members to encourage sign up and provide access to the Annual Benefit Statement
- Annual Benefit Statements were issued in hard copy format to all deferred members including information on how to sign up for the Member Self Service portal and newsletter
- A total of 6,971 Annual Benefit statements issued
- Information continues to be posted within the Scottish Borders Council Pension Fund website, this included the following: -

- Notice that we were unable to issue payslips and guidance on how to sign up for online access to payslips
- Information regarding Pensions Increase
- Details of Shared Cost AVC
- Investments held – updated on twice annually

Seeking the view of beneficiaries – how and the reason for chosen approach

The Fund’s framework for communication is contained in the Communication Policy which can be accessed via the link below :

<https://www.scottishborderscouncilpensionfund.org/resources/communication-policy/>

The ultimate beneficiaries of the Fund are the scheme members. However, as the scheme member benefits are determined by regulations rather than performance of the Fund’s assets (benefits payable are guaranteed by statute and thereby the pensions promise is secure for members), the fund recognises that employers in the Fund (a significant proportion of which are funded by local taxpayers) are key beneficiaries. This is because from an investment stewardship perspective, employers bear the majority of the financial risk and reward.

The key communication channels with the beneficiaries used for seeking views in relationship to stewardship to the investments assets are shown below

Pension Fund Committee – The core functions of the administration authority are delegated to the Pension Fund Committee. This forms the key decision making body for the Fund. The membership of the Committee comprises of 7 elected members for Scottish Borders Council which represents 88% of the beneficiary. In the main the Fund seeks the views of the Committee through formal quarterly meetings. The members of the Committee can, however, meet informally under certain circumstances. In August 2021 the Committee and Board met informally to receive training and to decide on the direction of the Responsible Investment Policy prior to its formal updating.

Performance & Investment Sub Group – The Sub group comprises of all members of the Pension Fund Committee and 2 representative from the Pension Fund Board (1 employee and 1 employer representative) Due to the highly complex and technical nature of investments and their stewardship requirement the Sub Group meets allow detailed consideration and challenge of Fund Managers and the individual investments.

Pension Fund Board: Member representation arrangements adhere to the Local Government Pension Scheme (Scotland) regulations 2015. The Boards comprise of equal numbers of employer and trade union representatives (employee). This is consistent with established local government practice whereby recognised trade union representation ensures that members’ voices are heard and their needs addressed. The 4 employer representative represents 94.5% of the total membership. The Trade union representatives seek member’s views via responding to individual enquires, meeting members at branch meetings and national and regional Union conferences. The Board meets jointly with the Pension Fund Committee and is party to all papers and training opportunities.

Formal Consultation with employers: In addition to the above channels the Fund also undertakes formal and informal consultations with employers including

- Where proposing material changes to its Administration Strategy

- Where proposing material changes to its Funding Strategy Statement and Statement of Investment Principles
- During the triennial valuation process.

The Fund also holds a formal annual meeting with all employers which includes presentations on the annual accounting requirements, any changes to policies and an overview of the investment strategy and investments held by the Fund.

What actions has been taken as a result

| | |
|--|--|
| Investment Performance (at Fund & manager level) | |
| When | Quarterly |
| How | Detailed written reports provided to Joint Pension Fund Committee and Board and to Performance & Investment Sub-Committee. Reports provided by the Funds investment advisors, Isio. Report presented at meetings, followed by detailed questions from members |
| Outcome & Actions | <p>Key actions and outcomes in 2021/22 included</p> <ul style="list-style-type: none"> • In response to concerns raised around the maturing nature of the fund and the ability to pay beneficiaries and exercise was undertaken to review current arrangements for dividends and disbursements. Review confirmed current arrangements meeting requirements. Actions was quarterly cashflow monitoring being included in quarterly budget report to Pension Committee. • Concern raised about the long term effect on office accommodation resulting from changed working habits during COVID been seen to becoming the new norm. Question was directed to property fund manager, who demonstrated need still there and assets held could be adapted if required. Action was the agreement to monitor position but no additional action required at this point. |
| Strategic Investment Review | |
| When | June 2021 |
| How | Detailed written report provided to Joint Pension Fund Committee and Board by Offices. Report detailed the current asset allocation and recommended changes to further enhance the diversification of the fund and its commitment to ESG focused funds. |
| Outcomes & Actions | <p>Approved the following actions</p> <ul style="list-style-type: none"> • Reallocation of passive equity funds to an ESG focused passive fund. • Transfer of global equity fund with Baillie Gifford into their Paris Aligned Global Equity Fund • Additional allocation to a new Infrastructure Manager, with strong ESG criteria. <p>Authority delegated to the Executive Director Finance & Regulatory to implement the changes.</p> |
| Responsible Investment Review and policy update | |
| When | September 2021 |
| How | Detailed written report provided to Joint Pension Fund Committee and Board by Offices. Report detailed the outcome from the informal Responsible investment workshop held on the 23 rd August and incorporate the key elements agreed into a revised and strengthened Responsible Investment Policy. |
| Outcomes & actions | <p>A revised Policy approved and the following actions agreed</p> <ul style="list-style-type: none"> • Further work agreed to take forward scope of reporting and monitoring requirements |

| | |
|--|--|
| | <ul style="list-style-type: none"> • Commitment to Responsible Investment reinforced as key principal for the Fund. • Policy agreed voting to remain with managers but in compliance to the Funds ESG principles. Managers to be reminded of this duty. <p>Formal monitoring of ESG to be augmented formally by the Performance and Investment Sub-Committee during their interaction with Fund Managers.</p> |
| Review of Stewardship Code | |
| When | September 2021 |
| How | Detailed written report provided to Joint Pension Fund Committee and Board by Offices. Report detailed the principals for the Stewardship Code and recommended the Fund submit an applications in October 2022. |
| Outcomes & Actions | <p>A detailed discussion held around the principles and some key areas of work the Fund would require to undertake to fully meet the code. The Fund agreed to submit an application in October 2022 highlighting the areas of future improvements it is planning on implementing. The Fund Agreed on the following actions</p> <ul style="list-style-type: none"> • Submit application in October 2022 • Approved the requirement for all Fund Managers to be a signatory to the Code • Approved an action plan of key work to be undertaken to improve areas of stewardship highlighted in the initial review of the code as requiring improvement |
| Responsible Investment Monitoring | |
| When | December 2021 |
| How | Detailed written report provided to Joint Pension Fund Committee and Board by Offices. Report detailed the annual assessment undertaken on all Fund Managers. |
| Outcome & Actions | <p>Assessment highlighted 98.8% of the Funds' assets are managed by managers who are UNPRI signatories and agreed to encourage the remaining one manager to become a signatory. Agreed no investment would be made with any manager who was not a signatory.</p> <p>As a support of Climate Action 100+ continues along with 615 investors and 167 companies to provide it support to enable Climate Action 100+ to achieve a number of keys commitments in a number of sectors. The fund agreed to provide its continued support.</p> |
| Responsible Investment – Objective & Metric setting | |
| When | March 2022 |
| How | Detailed written report provided to Joint Pension Fund Committee and Board by Offices. Report detailed the output from the workshop held on 28 February to identify and priorities the areas with the UN Sustainable Development Goals for the Fund. |
| Outcomes & actions | <p>The Fund agreed its 6 key SDG's priorities as SDG13 – Climate Action, SDG 7 – Affordable & Clean Energy, SDG 1 – No Poverty, SDG 2 -Zero Hunger, SDG 3 – Good health & well-being and SDG 10 Reduce inequalities.</p> <p>The fund agreed to develop an action plan on how it would implement this and develop a monitoring plan.</p> |

Signatories should explain where managers have not followed their stewardship and investment policies and reason why

There are been no incidents where managers have not followed their stewardship and investment policies.

Future improvements

Communication policy being reviewed and updated to reflect the increased level of information available on the website and the commitment to two newsletters per annum,

7 STEWARDSHIP, INVESTMENT & ESG INTEGRATION

Signatories systematically integrate stewardship and investment, including material environmental social and governance issues, and climate change, to fulfil their responsibilities.

Integration

The Fund's investment beliefs and approach to assessing investments are set out in its Investment Strategy Statement. This includes beliefs, as long-term investors, that integrating ESG considerations into the investment management process improves risk adjusted returns. The Fund seeks to integrate stewardship and ESG into all its investment decisions.

The Fund integrates these beliefs during its procurement process. Only managers who are UNPRI signatories can be considered. The Fund also requires all managers to demonstrate their continued active commitment by providing it annual UNPRI report, these are reviewed as part of the annual good governance review of all managers.

Investment Managers

The Fund approved its second Statement of Responsible Investment Policy on 16 September 2021 setting out the approach to responsible investment and arrangements to monitoring manager performance against the principles of the policy on an annual basis. The key principles within the policy are:

- All new managers adhere to and report on the United Nations Principles for Responsible Investment (UNPRI) Code & Stewardship Code, Managers will be expected to use ESG factors as a tool for gathering information to improve decision making, thereby managing risks.
- The Fund minimises any harm to the environment and society, whilst ensuring it builds up a portfolio of assets that are best placed to meet its future liabilities.
- The Fund wishes to see its environmental footprint minimised, its social responsibilities maximised and the highest standards of employee relations and corporate governance maintained.
- The Fund requires its Investment Managers to adhere to these standards in all their investments activities and plans to monitor how these standards are upheld for the following set of overarching principles

The annual review of the managers for 2021 reported that 16 out of 17 Managers were signatories of UNPIR representing 9838% of the Fund. The Fund continues to engage with the remaining managers to encourage them to become UNPRI signatories.

Future Improvements

The Fund will look to include a requirement for all managers to also be signatories of the Stewardship Code to ensure the Fund only works with managers with strong and robust stewardship. Data gathered during the 2021 due diligence review showed 6 out of 17 of the current managers are signatories, these managers represent 78% of the Fund's total investments.

The Fund is currently look to expand its annual due diligence return to draw out how managers are incorporating ESG Factors into their decision making for new investments as well as ongoing monitoring. The Fund is also currently undertaking an exercise to identify the current levels of information available from each manager across all the asset classes. This will enable information gaps to be identified and more detailed discussions to be held with the appropriate managers.

8 MONITORING MANAGERS AND SERVICE PROVIDERS

Signatories' monitor and hold to account managers and/or service providers.

Monitoring arrangements Investment Managers

The Fund actively engages with managers to ensure they are meeting the key principles identified in the Funds Responsible Investment Policy and are incorporating ESG considerations into all their investment decisions.

The Responsible Investment Policy requires the Fund to review and report on an annual basis the performance of Managers. The 2021 report was present highlighted the following key high level assessment:

- 16 out of 17 Managers are signatories of UNPIR representing 98.8% of the Fund.
- PRI annual assessment scored 10 out of 15 Managers as higher than median.
- Internal scoring methodology scored 96.8%; of the funds managed by managers, scored 80% or more than the total available scores.

For managers scoring less than 80% in the internal scoring methodology additional monitoring and engagement was undertaken. Fund officers

Monitoring arrangements Service Providers

Custodian – Annual monitoring meetings are undertaken between Officers and the custodian. The performance is measured against key agree performance indicators.

Actuary – Annual review and monitoring meetings are undertaken between Officers and the actuary. Performance is measured against previously agree work load targets and timelines. These are agreed on an annual basis.

Investment Advisor - In line with good practice, Pensions Regulator guidance and the Competition and Markets Authority requirements, the Fund's Investment Consultants are monitored annually against an agreed set of objectives. These objectives are reviewed on a regular basis.

Investment & Performance Sub-Committee

The Sub Committee meets every manager at least once a year to discuss performance against agree benchmarks. A standard item on the agenda for each manager is ESG and

how it is integrated and request key examples to demonstrate the integration process and procedures is being fully utilized.

Annual Due Diligence Review

Every manager is required to complete a due diligence questionnaire and requested to provide key documents. The questionnaire has developed over time to take account of regulatory changes, audit requirements and responsible investment initiatives. A summary of the responses are reviewed by Audit Scotland to demonstrate governance review of each manager.

Future Improvements

The Fund is looking to improve the information received from investment managers to be on a more consistent basis to allow more robust monitoring of carbon emission in preparation for the TCFD reporting requirements. The Fund is working with the Isio the Investment advisor to identify information gaps from individual investment managers which will all detailed discussions to be held with them. The Fund will look to see managers reporting how they are looking to close any information gap identified.

The Fund is currently look to expand its annual due diligence return to draw out how managers are incorporating ESG Factors into their decision making for new investments as well as ongoing monitoring. The Fund is also currently undertaking an exercise to identify the current levels of information available from each manager across all the asset classes. This will enable information gaps to be identified and more detailed discussions to be held with the appropriate managers.

ENGAGEMENT

9 ENGAGEMENT

Signatories engage with issuers to maintain or enhance the value of assets

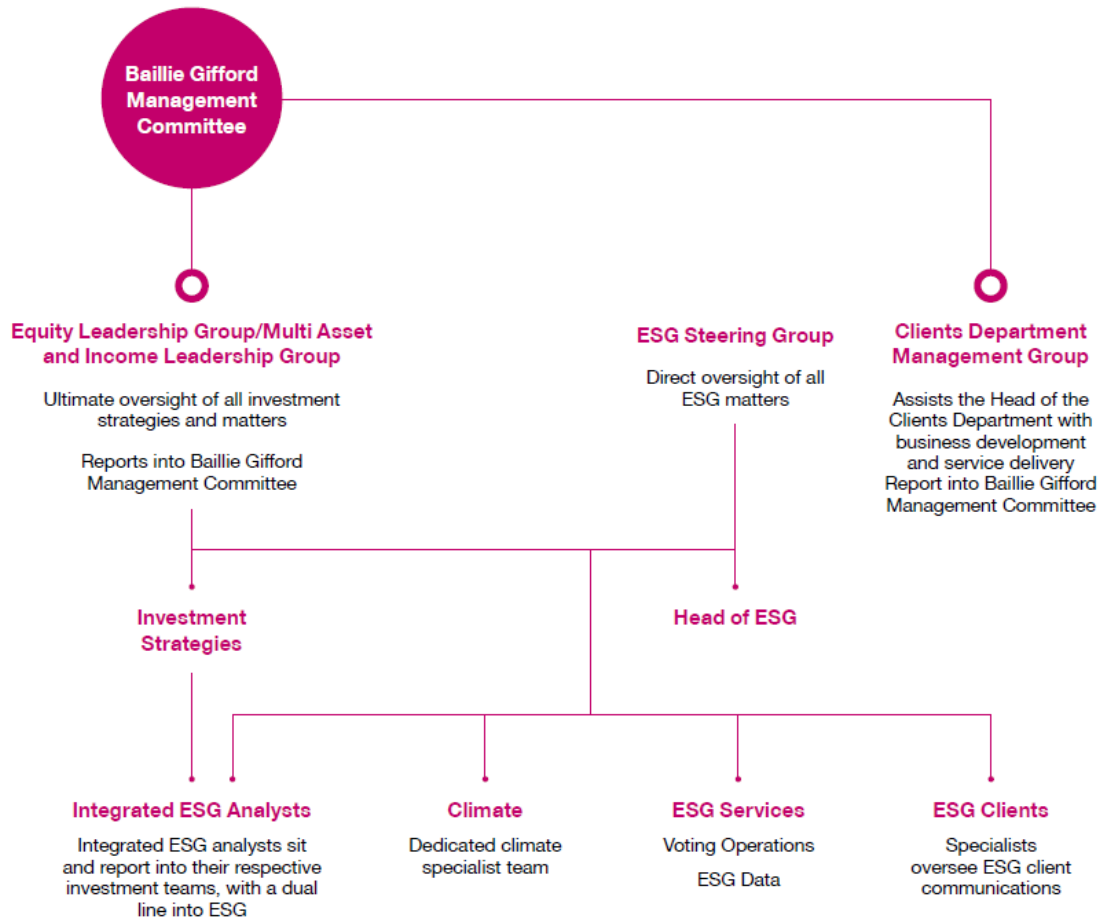
The Fund is small fund and recognises it does not hold the resources to actively engage directly with companies. The Fund therefore delegates all voting and engagement to its investment managers to vote in line with the Funds Responsible Investment Policy. The Fund believe

- ESG factors are relevant to all asset classes, whether liquid or illiquid investments, and managers have a responsibility to engage with companies on ESG factors.
- The Committee believes that engaging with managers is a more effective way to initiate change than by divesting and so will seek to communicate key ESG actions to its managers in the first instance. Divestment will however be considered on a pragmatic basis in the event that the engagement with the investment manager has not produced positive results.
- That managers should be able to demonstrate the impact and effectiveness of voting and engagement activities.

The Fund reviewed and updated its Responsible Investment Policy and agreed its key ESG objectives. These have been fully communicated to all investment managers and work is ongoing with Managers to identify data which will allow the fund to fully monitor and report on.

Monitoring

Segregated Funds - The Fund y receive quarterly voting information for all its segregated investments along with annual reports of the Stewardship activities and TCFD Climate report. The Funds segregated investments are all held with Baillie Gifford who have fully integrated ESG and stewardship into its investment ethos. The table over shows Baillie Gifford's structure to ESG and engagement. Baillie Gifford provide regular reports on the voting undertaken on behalf of the Fund and these are discussed at the Performance and Investment Sub Committees.



As at 31 December 2021.

Shown below are examples of voting activity undertaken by Baillie Gifford on the funds behalf.

Remuneration



For: 91.2%
Against: 5.1%
Abstain: 3.7%

Example – Abiomed

We opposed executive compensation due to concerns with one-off equity awards granted during the year. We believed these awards undermined the integrity of the standard compensation policy and misaligned the experience of the senior management team and shareholders. We disagreed with the rationale provided by the company for granting these special payments, outlining our strong belief that we did not consider them to be appropriate. At the AGM, the pay proposal narrowly passed with 51 per cent support. Given this large oppose vote, we think it is important for the company to engage with shareholders and we look forward to encouraging better pay practices in the future.

Voting Result: For 91.2%; Against 5.1%

Shareholder Proposals



For: 21.1%
Against: 71.1%
Abstain: 7.9%

Example – Booking Holdings

We supported a shareholder resolution requesting the company produce a climate transition report. The climate audit of the portfolio completed during the year identified Booking Holdings as a laggard with regards to its climate strategy. Specifically, the company fails to provide sufficient disclosure of its emissions and does not outline reduction targets. We engaged with the company ahead of the AGM to encourage enhanced reporting and to explain our voting intention. We were pleased to see the resolution pass and look forward to the company improving its environmental disclosures.

Voting Result: For 21.1%; Against 71.1%

Director Elections



For: 93.4%
Against: 0.7%
Abstain: 0.8%
No Vote: 5.1%

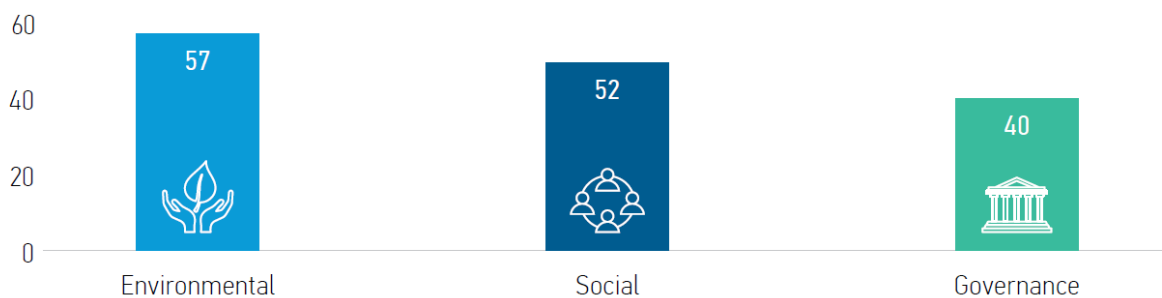
Example – Deutsche Börse

We opposed the election of the chair of the risk committee, Mr Andreas Gottschling. Subsequent to Mr Gottschling being put forward for re-election, he had to stand down from a similar position at Credit Suisse due to an ongoing investigation regarding the company's risk practices. While no evidence of wrongdoing has been found against Mr Gottschling specifically, the ongoing investigations made us feel unable to support his re-election to the same position at Deutsche Börse at this time.

Voting Result: For 93.4%; Against 0.7%

Morgan Stanley, an active pooled equity fund, also provide the Fund with regular reports detailing the engagement activities undertaken by them on behalf of the pooled funds. These demonstrate strong engagement across a range of themes. The table below shows these themes from a recent report.

Number of times ESG-related topics were discussed, 1H 2021 ^{2,3}



Future Improvements

The Fund overall has recognised engagement as a key area where further improvement is required across its wider investments. The Fund continues to investigate the use of an

Engagement manager and other opportunities via organisation like LAPFF. As the fund continues to diversify away from equities into other areas the ability to engage via traditional voting methods will reduce and engagement methods will need to be sought.

The Fund is currently working with its pooled funds to obtain the same information from its investment managers. This will be summarised on a quarterly basis for report to the Joint Pension Fund Committee and Pension Fund Board. This will enhance the current monitoring undertaken by the Investment & Performance Sub-Committee during its meetings with investment managers.

10 COLLABORATION

Signatories', where necessary, participate in collaborative engagement to influence issuers.

The Fund recognises the benefits of collaborative working and actively looks for opportunities to increase its collaborative working. Accordingly the Fund currently collaborates via the following organisations and arrangements

Climate Action 100+

The Fund as part of its responsible investment policy has become a signatory to Climate Action 100+ which was launched in December 2017 with the support of 225 investors representing \$26.3 trillion of assets. It now has 700 investors with assets of \$68 trillion under management. Scottish Borders Council Pension Fund became a signatory to this in March 2020.

They have continued to make strong progress with key activities for 2021

- Continued growth of the initiative
- A selection of focus company commitment from around the world
- Record results achieved during a historic proxy season
- Launch of ground breaking net zero company benchmark and global sector strategies work stream
- Key goals set for 2022.

Scottish IGG/RI Group:

The Fund is also a member of the Scottish Asset Owners Responsible Investment Roundtable: a collaborative initiative between mainly Scottish Asset Owners. Members include local authority funds, Universities, and corporate defined-benefit and defined-contribution pension funds. The group has a wide remit and aims to share best practice with the aim of improving Responsible investment standards throughout the industry.

Investment collaboration.

The Fund actively collaborates with Lothian Pension Fund Investments Ltd (LPFI) on a range of infrastructure investments. Within this collaboration, which allows the Fund to access investments not normally available to Pension Fund of our size on a cost effective basis, the Fund is focussed on minimising the impact of any investments on the environment.

Future Improvements

The Fund will continue to look opportunities and areas where it can work in collaboration with other groups and organisation such as LAPFF to increase the overall influence when engaging with issuers.

11 ESCALATION

Signatories, where necessary, escalate stewardship activities to influence issuers

The Fund recognises that its size and scale means that it has limited to materially beneficially influence the overarching policies of its Investment Managers. Instead, the Fund seeks to ensure that its expectations regarding stewardship activities including escalation are met through selecting and appointing 'best in class' managers and monitoring them on an ongoing basis.

Examples of escalation undertaken by Baillie Gifford on behalf of the Funds are shown below. These are highlighted and discussed at the Performance and Investment Sub Committees

| | |
|--|---|
| CRH - Objective: Discuss updated climate strategy | |
| Discussion | We had a call with the Chief Operating Officer and Investor Relations to discuss CRH's updates regarding its approach to decarbonising its business. Before Christmas, we had a call with the Chief Executive Officer who felt strongly that CRH had an important role to play in decarbonising cement - one of the company's building materials which accounts for 16 per cent of its sales but 82 per cent of its carbon emissions. We explained that we felt the company's targets were limited in scope and were pleased to see that earlier this year the company announced broader and more ambitious carbon targets. It was encouraging to hear that various parts of the business have developed their own decarbonisation strategies to implement the new targets. Executive remuneration has also been amended and decarbonisation now represents 5 per cent of the long-term incentive plan. The company has also announced an innovation fund to encourage those within the business to think about the solutions needed to decarbonise at scale. |
| Outcome | We welcome the positive development of updated climate targets and funding to incentivise decarbonisation. We have joined the Climate Action 100 collaborative engagement group for CRH to support our dialogue with the company. Ensuring the company finds a solution to decarbonise at scale is vital to ensure a competitive advantage and the sustainability of revenues. This will continue to be the key focus of our engagement |
| Amazon - Objective: We met with the company's head of ESG engagement to discuss a broad range of ESG topics including climate strategy, unionisation and employee health and safety. | |
| Discussion | We were encouraged to learn that work to progress Amazon's climate strategy is ongoing. This work includes a plan to publish a science-based target later this year and expand carbon labelling on products and delivery choices. Unionisation is a high-profile issue, and we discussed the recent successful vote at a New York facility as well as |

| | |
|---|---|
| | employee engagement efforts. On a related note, we spoke about the company's recently disclosed health and safety statistics. This is an area where we have been encouraging enhanced disclosure for several years and we are pleased to see the company has responded positively to our requests. The data shows a positive year-on-year trend in employee injury rates, although these remain average relative to the broader industry. |
| Outcome | We are encouraged by Amazon's ongoing efforts to develop its approach to environmental and social practices. Going forward, we will continue to monitor the company's interaction with employees and their efforts to unionise, as well as supporting the business to lead the industry in workplace health and safety. |
| Stericycle - Objective: We engaged with the company as part of its Fall shareholder engagement programme. | |
| Discussion | We spoke with non-executive director Lynn Bliel and members of investor relations. The focus of our discussion was on the company's developing environmental efforts. Our ongoing dialogue has encouraged better disclosure of carbon data, target setting and establishing a long-term climate strategy. Over 2020 and 2021, Stericycle has built its baseline data and filed its first CDP Climate Change survey. It plans to publish emissions reduction targets in the next two years. As one of the portfolios most carbon-intensive businesses we encouraged them to do this as soon as possible, setting ambitious goals aligned with the objectives of the Paris Agreement. |
| Outcome | We are pleased by the ongoing progress in the company's approach to matters of ESG. Future discussions will repeat our requirements for science-based emissions reduction targets and a comprehensive climate strategy. |

Future Improvements

The Fund will continue to work with non-equity managers to ensure reporting and monitoring of escalation activities are provided. The Fund is also investigating other ways to escalate stewardship and is currently in discussion with LAPFF around membership.

EXERCISING RIGHTS AND RESPONSIBILITIES

12. EXERCISING RIGHTS AND RESPONSIBILITIES

Signatories' actively exercise their rights and responsibilities.

Voting

The Fund believes exercising shareholder rights and responsibilities is fundamental to improving investment outcomes. As an asset owner, the Fund must make best use of these rights in order to manage a sustainable and solvent Local Government pension fund on behalf of current and future members of the Fund.

The Fund currently delegates its voting to its listed equity managers the Investment managers and encourage them to actively vote. The Fund's holdings in listed equities are managed as follows

- Actively managed equities – by Baillie Gifford in two segregated funds and Morgan Stanley in a pooled fund.

- Passively managed equities – UBS up to August 2021 and LGIM from January 2022.

Investment managers are expected to approach the subject of voting with care and attention as other matters which influence investment decisions and voting should be undertaken where it is believed to be in the best interests of the Fund. Where a resolution is put forward which is deemed to be controversial, investment managers should liaise with the Fund as appropriate. The Fund’s investment managers are required to report quarterly on their voting actions for every appropriate investment. Any responses received from companies concerned should also be report. Both should be held and made available to the Fund for a full voting audit trail.

The Fund has an active stock lending programme for its segregated funds. Where stock lending is permissible, lenders of stock do not generally retain any voting rights on lent stock. The Fund’s procedures enable stock to be recalled prior to a shareholder vote. Stock is recalled ahead of meetings, and lending can also be restricted including and not limited to, if the resolution is contentious, the holding is of a size which could potentially influence the voting outcome or the Fund manager has co-filed a shareholder resolution.

Regular reports are provided by Baillie Gifford and Morgan Stanley as the Funds active equity managers.

The table below details the topics addressed during 2021 of the engagement activities undertaken by Morgan Stanley.



The below provided examples of shareholder proposals and the rationale used by Morgan Stanley when voting.

| COMPANY | RESOLUTION DESCRIPTION | OUR VOTE | OUR RATIONALE |
|--|---|----------|---|
| American medical devices and health care company | Shareholder Resolution: Report on Racial Justice | FOR | The company has committed to disclosing more information on diversity and inclusion, including adding EEO-1 type data. While we approve of this commitment, a vote FOR signals to the board and market the importance of this issue to shareholders. |
| American technology conglomerate | Shareholder Resolution: Report on Takedown Requests | FOR | We recommended a vote FOR as we believe shareholders would benefit from a better understanding of the constraints the company faces when handling government takedown requests, as well as its management of related risks. |
| American soft drink manufacturer | Shareholder Resolution: Report on Sugar and Public Health | AGAINST | In 2020, the proposal garnered the support of 7.7 percent of the votes cast. Reasons that we voted AGAINST the proposal were the same as last year: the proponent highlights a serious risk associated with consuming the company's products, but it is one that is already very well-documented by scientific journals and public health agencies. Having the company publish its own scientific report on the topic would not provide new information. Plus, the company has made strides to diversify its product line simply as consumer tastes change and as some local regulators (e.g. NYC) clamp down on the issue. This proposal would not add value to investors. |
| American business and financial services company | Say on Climate | FOR | The company reports in line with the Taskforce on Climate-related Financial Disclosures (TCFD), has 2030 carbon reduction targets for Scope 1&2 (50% reduction) and carbon neutrality by 2050 using science-based targets. We recommended a vote FOR the proposal at this time. |

The table below details the topics addressed during 2021 of the engagement activities undertaken by Baillie Gifford.

Future Improvements

Voting and engagement has been identified as a key area for improvement. The Fund will investigate the use of an Engagement manager and other opportunities via organisation like LAPFF. This will ensure the Fund is able to demonstrate its fully exercising its rights and responsibilities.

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BENEFITS OF LAPFF MEMBERSHIP

Acting together - achieving more!

Protecting shareholder value

- The Local Authority Pension Fund Forum (LAPFF) is a non-profit making, voluntary association of 85 local authority pension funds and 6 LGPS Pools with assets of more than £350 billion. **The Forum seeks to protect the investments of its members** by promoting the highest standards of corporate governance and corporate social responsibility (i.e., responsible action by the companies in which its members invest) on environmental, social and governance (ESG) issues. **The climate emergency and covid crisis have, of course, brought such issues into much sharper focus.**
- The effectiveness of funds' action in this context is improved beyond measure by collaboration. In other words, by joining the LAPFF each fund can influence the collective action of (currently) 85 other local authority pension funds and achieve so much more than it can by acting alone. **Put simply it's a case of 'strength in numbers.'**
- **Because of its size the LAPFF is also able to collaborate much more effectively with other major institutional investors both within the UK and internationally**

So why join the LAPFF?

For a modest annual subscription of £10,050 (which is reduced pro rata for new members as the year progresses) member funds secure the following benefits:-

- Access to the highest quality research into ESG issues at minimum cost
- Effective engagement with investee companies
- Collaboration with other major institutional investors
- Unparalleled networking opportunities for elected members and officers involved with the management of the LGPS
- Saving officer time and costs
- Two free places at the LAPFF Annual Conference

For more information visit our website at www.lapfforum.org or Contact Forum Officer, Keith Bray on 01633 255685 or 07811800612 or Email Keith at postmaster@keithbray.plus.com

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INFORMATION UPDATE

Briefing Paper by Acting Chief Finance Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

15 September 2022

1 PURPOSE AND SUMMARY

- 1.1 **This briefing paper is to provide members of the Committee and the Board with an update on a number of areas which are being monitored and areas where work is progressing. Full reports on the individual areas will be tabled as decisions and actions are required.**

2 CYBER SECURITY UPDATE

- 2.1 At the June meeting officers were asked when Heywood Technologies had last carried out a full Business Continuity exercise for the Scottish Borders Council Pension Administration system. This was last carried out in September 2021 and officers were able to gain access to the swap over site and carried out testing on the disaster recovery service. The 2022 test is scheduled to be carried out this month.
- 2.2 Since the June meeting, AON in collaboration with PLSA offered Funds the opportunity to complete the LGPS Cyber Scorecard. Officers have completed the questionnaire and are waiting on the resulting report to be issued. A further updated will be provided at a future meeting.

3 ANNUAL BENEFIT STATEMENTS

- 3.1 The Annual Benefit Statements for the year ended 31st March 2022 have been produced and are now available for all active and deferred members within the Members Self Service portal. For Scottish Borders Council members announcements were made on the Intranet/Yammer and all outside bodies were asked to share a similar news story with their members, details were also published on the Fund website.

4 COST CAP

- 4.1 The final results for the 2016 (2017 in Scotland) Cost Cap valuations have been released and these suggest no changes to member benefits of contribution rates in the LGPS, however, results are still subject to legal challenge for the final outcome remains unclear. Please Appendix 1, sixty second summary as produced by the Hymans Robertson, the Fund Actuary, for more details.

5 LGPS SCOTLAND WEBSITE

- 5.1 As part of the fees that we pay to the Local Government Association (LGA) they have developed an updated website specifically for Scottish LGPS Funds, Employers and Members. This provides access to useful materials for all stakeholders. Details of the changes made are included in the attached in Appendix 2.

6 SCHEME ADVISORY BOARD

- 6.1 The last reported meeting of the Advisory Board was 23rd February was reported to Joint Committee and Board on 29 June 22. No further updates or meetings are available from the SAB website.
- 6.2 Councillor Parker has been appointed Chair for SAB.

7 TRAINING OPPORTUNITIES

- 7.1 DG Publishing are holding a DB Strategic Investment Forum on 28th September 2022 at The Sheraton, Edinburgh. The program has been circulated and 6 members noted attendance. Bookings have been completed for these members.
- 7.2 LGC are hosting a seminar on 20 & 21st October at the Kimpton in Edinburgh. The agenda has been circulated and 9 members have noted an interest. Bookings have been completed for these members.
- 7.3 Baillie Gifford are hosting their bi-annual LGPS Conference on 9th & 10 November. The agenda has been circulated and 9 members noted an interest. The fund however only has 5 places allocated to it. The places have been allocated between the Committee and Board members. Those members whose have been selected have been notified. Officers have informed Baillie Gifford that if additional places become available the fund would be interested in these.
- 7.4 Pension Age are holding a one day conference on 9th November at Waldorf Astoria, Edinburgh. The agenda will be circulated once it is available.

7.5 Officers continue to monitor other training opportunities and these will be shared with the Committee and Boards as they become available.

8 FUTURE MEETINGS

8.1 The dates of future meetings are given below for information.

Joint Pension Fund Committee and Pension Fund Board

- Wednesday 19 October 2022
- Tuesday 13 December 2022

Pension Fund Investment Performance Sub Committee

- Monday 26 September 2022

Author(s)

| Name | Designation and Contact Number |
|-------------|--|
| Kirsty Robb | Pension & Investment Manager, 01835 825249 |
| Ian Angus | HR Shared Services Manager, 01835 826696 |

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Sixty second summary

Cost cap results: breaking news



Robert Bilton
Partner and Fund Actuary

Final results of the 2016 (2017 in Scotland) Cost Cap valuations suggest no changes to member benefits or contribution rates in the LGPS England & Wales¹, Scotland² and Northern Ireland³. The results however are still subject to legal challenge so the final outcome remains unclear.

Brief recap on the Cost Cap

Following the Hutton review, the Cost Cap was introduced as part of the 2014 (2015 in Scotland) reforms as a “safety valve” mechanism for public sector employer pension costs.

The first national Cost Cap valuation for the LGPS in England & Wales and Northern Ireland was at 31 March 2016 (2017 for the LGPS in Scotland). If the scheme’s assessed costs change by more than 2% of pay from the baseline target cost, then action is taken via changes in benefits or member contribution rates to bring the cost back in line with the target cost.

Prior 2016/17 Cost Cap valuation results were communicated in Autumn/Winter 2018 and identified savings of more than 2% of pay, i.e. the benefits had got “cheaper” by enough to breach the Cost Cap floor. Employers at the time would be forgiven for asking how the valuation could show the benefits getting cheaper, but it’s because the Cost Cap valuations ignore some of the key factors affecting real world contributions (e.g. discount rates).

Before any benefit improvements could be implemented, the 2016/17 Cost Cap valuations were ‘paused’ as the Government addressed the fallout from the McCloud judgement. In the Government’s view, the costs associated with McCloud should be included in the Cost Cap valuation and could result in the Cost Cap breaches either being reduced or totally offset. Until the nature and format of the McCloud remedy was known, the Cost Cap valuations could not proceed.

Latest position

Following the McCloud consultation, and Government’s confirmation of their preferred approach for remedying McCloud, the Cost Cap valuations were ‘un-paused’. The Government Actuary’s Department (GAD) have just published the results of the updated valuations including McCloud costs.

The updated results for the LGPS show there has been no breach of either the Cost Cap floor or ceiling. The table below details the results of the LGPS Cost Cap valuations both before and after amendments to allow for McCloud.

¹ <https://www.gov.uk/government/publications/cost-cap-valuation-of-the-local-government-pension-scheme-england-and-wales>

² <https://www.gov.uk/government/publications/cost-cap-valuation-of-the-local-government-pension-scheme-scotland>

³ <https://www.gov.uk/government/publications/cost-cap-valuation-of-the-local-government-pension-scheme-northern-ireland>

| | LGPS England & Wales | LGPS Scotland | LGPS Northern Ireland |
|---------------------------------------|-------------------------|-------------------------|-------------------------|
| Cost Cap result before McCloud | Decrease of 2.8% of pay | Decrease of 2.9% of pay | Decrease of 3.2% of pay |
| Cost Cap result after McCloud | Decrease of 1.2% of pay | Increase of 0.2% of pay | Decrease of 1.6% of pay |
| Implied cost of McCloud | 1.6% of pay | 3.1% of pay | 1.6% of pay |

These results confirm that there will be no changes to member benefits and/or contribution rates as a result of the 2016/17 Cost Cap valuations. However, these are still subject to ongoing legal challenges about whether the process should have been paused in the first place, and whether the way the McCloud cost has been calculated is appropriate.

Impact on LGPS stakeholders

Assuming the published results stand then:

- From an employer's point of view these results are likely to be welcome as it means that no contribution increases will be required - as a result of the Cost Cap at least.
- Funds may also be breathing a sigh of relief as it means no additional work to administer backdated benefit changes or contribution refunds.
- The impact on members will vary. Most members may be unaware of this highly technical process. However, any members who have engaged with the process may have been expecting benefit improvements.

Comments on the results

The magnitude of the McCloud cost is surprising, especially considering that for funding valuations we expect the costs to be small. The high cost is down to two key factors:

- **Salary increase assumption:** The Cost Cap salary increase assumption is 1.5% above CPI inflation. This is noticeably higher than the local assumption used by most funds, but consistent with that used in the original Cost Cap calculations. A higher salary increase assumption increases the cost of final salary benefits and therefore makes the final salary benefit underpin more valuable.
- **Pace of recouping the costs:** The HMT Direction Order specifies that the cost associated with McCloud should be recovered before the outcome of the next Cost Cap valuation in 2020 comes into force on 1 April 2023 i.e. a 4 year period (3 years in Scotland). Local funding valuations will seek to recoup any McCloud costs over each employer's funding time horizon which could be as long as 15-20 years. This may explain some of the reason why the McCloud cost in Scotland is much higher.

We understand the policy justification for this approach is that the members present in the schemes today should "pay for" the cost of McCloud since they will benefit from it. However, considering that the Cost Cap valuation uses a recovery period of 15 years for all other sources of cost increases/decreases, the adoption of such a short recovery period for the McCloud costs does raise eyebrows.

Next Steps

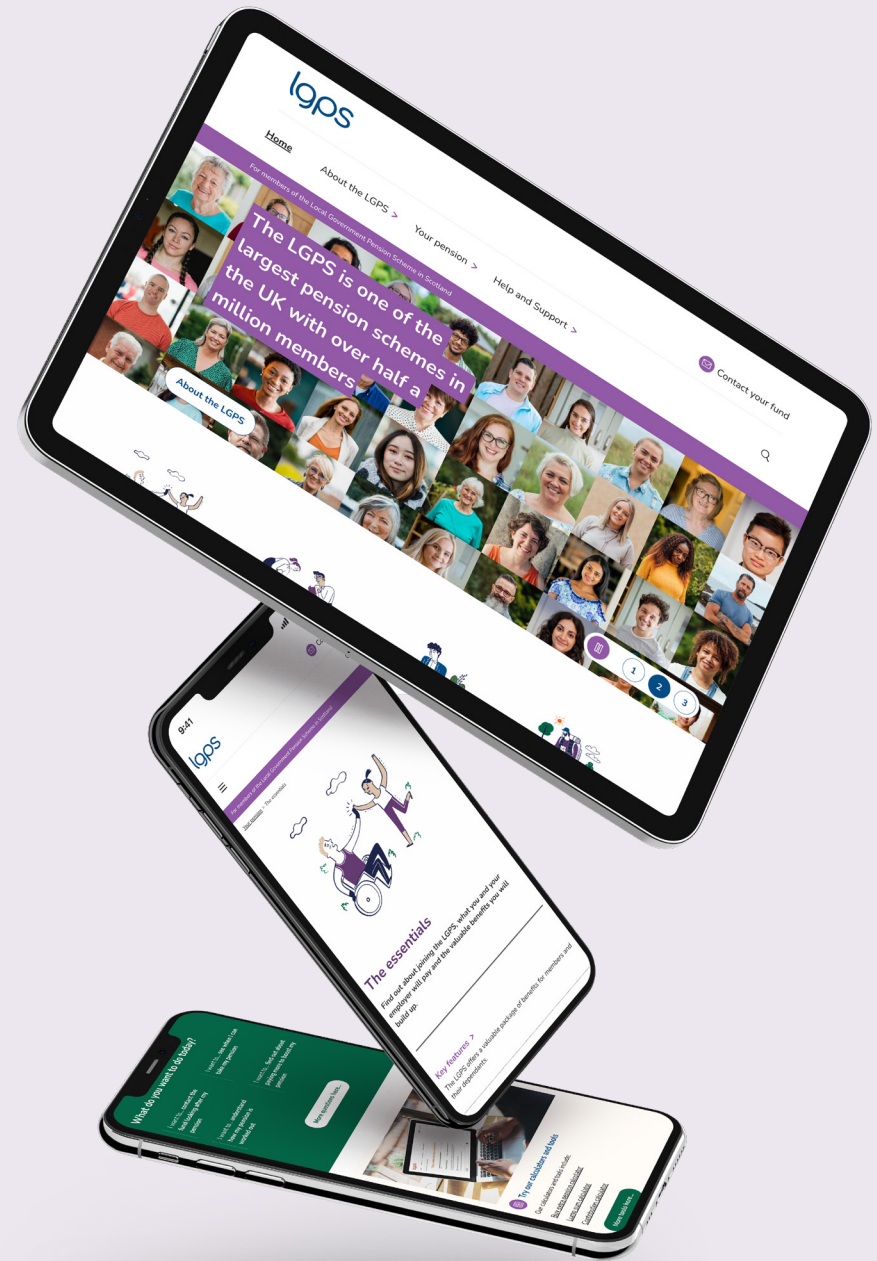
Provided the legal challenges are unsuccessful there is no immediate action for LGPS funds to take but, given it has rolled on for nearly 4 years, you may wish to note the outcome at your next Committee meeting and employer event.



Local Government
Pension Scheme

Welcome to our new brand and website

Page 109



Simple | Friendly | Confident

Our new brand

The Local Government Pension Scheme (LGPS) has created a new brand identity. It expresses a modern and distinctive brand image that asserts a professional authority while remaining open and accessible.

The identity consists of a new brandmark, colour palette, font family and a set of illustrations.

To obtain master artwork files, please visit the LGPS Regulations and Guidance website:

<https://www.scotlgpsregs.org/resources/branding.php>

Brandmark



Full colour version without descriptor – Scotland



Full colour version with descriptor – Scotland

Colour palette



LGPS Scotland Blue



LGPS Scotland Purple



LGPS Blue



LGPS Dark Grey

Fonts

Nunito

Arial

Illustration style



Our new website

www.scotlgpsmember.org

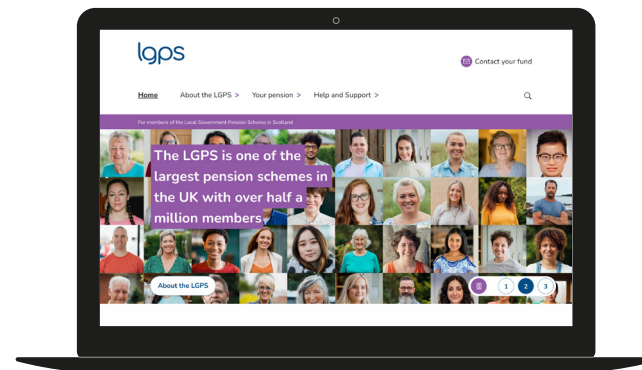
LGPS has developed a new website to improve the member experience and make it easier to understand their pension.

A key requirement for the website is to make all of the content available to everyone, including those with disabilities.

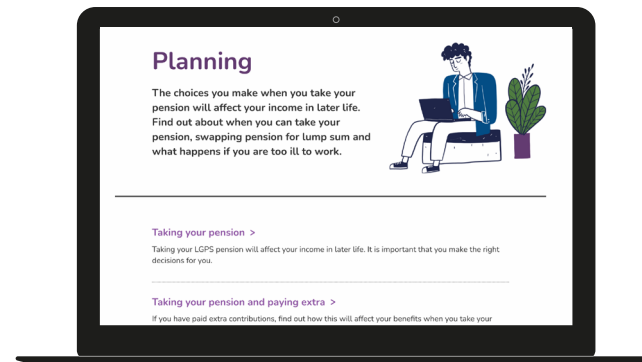
It meets the Government accessibility requirements for public sector websites.

The website has been built with a content management system so that it is easier to update in line with regulation changes.

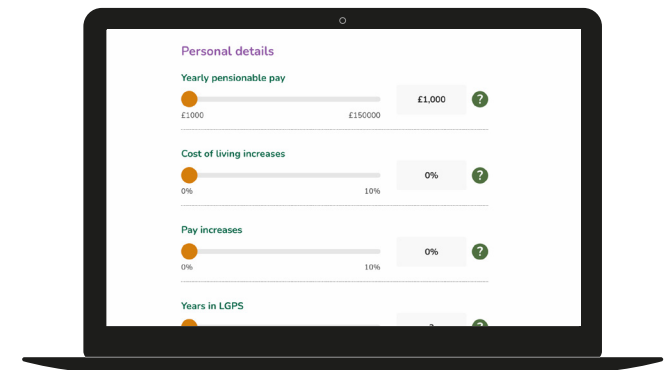
Clear navigation



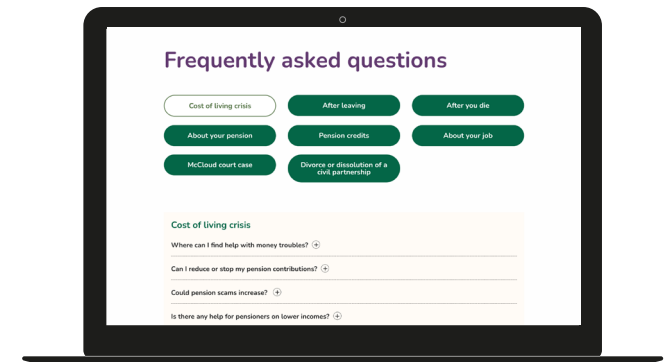
Engaging content



Tools and calculators



Help and support



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