



# **SCOTTISH BORDERS COUNCIL PENSION FUND STATEMENT OF INVESTMENT PRINCIPLES 2020**

**Finance  
Chief Executive  
Draft for Approval- Pension Fund Committee - 22 June 2020**

## Introduction

This is the Statement of Investment Principles (the SIP) adopted by the Scottish Borders Council to govern the investment operations of its Pension Fund. It covers the matters required by regulations together with certain other aspects of investment management, which it is felt should be included for the sake of completeness.

This version of the SIP was agreed by the Pension Fund Committee (the Committee) on 13 June 2019

## 1. The statutory requirements concerning the SIP

1.1 The Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 1998 as amended require administering authorities to prepare, maintain and publish a Statement of Investment Principles (SIP) that includes the policy on:

- The types of investment to be held
- The balance between different types of investment
- The risk considerations, including the ways in which risks are to be measured and managed<sup>1</sup>
- The expected return on investments
- Realising of investments
- Taking account of social, environmental or ethical considerations in investments
- Exercising the rights (including voting rights) attaching to investments
- Stock Lending<sup>1</sup>

1.2 The Statement must also explain the extent to which guidance issued by Scottish Ministers has been complied with. This guidance requires reference to the 6 principles of investment practice published by CIPFA in December 2009.<sup>1</sup>

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<sup>1</sup> “Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles (2009)”

## 2. Governance

- 2.1 Scottish Borders Council (the Council) is the Administering Authority for the Local the Scottish Borders Council Pension Fund (the Fund). The Fund is part of the Local Government Pension Scheme (LGPS.)
- 2.2 The Council has delegated its pension's functions to the **Pension Fund Committee** (the Committee) which has ultimate responsibility for making decisions in relation to the maintenance and revision of the SIP, and approving decisions in relation to any changes in fund managers, investment adviser or custodian.
- 2.3 The **Pension Fund Investment and Performance Sub-Committee** (the Investment Sub-Committee) is a sub-committee established to undertake specific investment monitoring responsibilities as set out in **Appendix 1**.
- 2.4 The **Pension Board** (the Board) is established under the provisions of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 with the remit to securing the Fund's compliance with the Regulatory Framework. A constitution has been agreed for the Board with the responsibilities set out in **Appendix 2**.
- 2.5 The SIP sets out the principles governing decisions about the investments of the Fund. The Fund recognises the importance of corporate governance and responsibility in ensuring the long term financial performance of the organisations in which they invest.
- 2.6 The SIP forms part of a governance framework that includes:
  - The Statutory Regulations
  - The Pension Fund Committee
  - The Pension Fund Investment & Performance Sub-Committee
  - The Pension Board
  - The Fund's Advisers
  - The Funding Strategy Statement<sup>22</sup>and
  - The Governance Policy and Compliance Statement<sup>2</sup>.
- 2.7 Underlying the SIP and the Council's related decision making processes is the requirement that the Council must obtain and consider "proper advice" and this is provided by Council Officers and expert, professional advisers under contract to the Council.

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<sup>2</sup> Funding Strategy Statement and Governance Policy and Compliance Statement can be found at [www.scotborders.gov.uk/pensions](http://www.scotborders.gov.uk/pensions)

## 3. The Fund's Objectives

### Primary Aim

3.1 The primary aim of the Fund is:

*“To provide for members’ pension and lump sum benefits on their retirement or for their dependants’ benefits on death before or after retirement, on a defined benefits basis.”*

In order that this primary objective can be achieved, the following funding and investment objectives have been agreed.

### Funding Objectives

3.2 The funding objectives are set out in the Funding Strategy Statement (the FSS) and are as follows:

- To set levels of employer contribution that will build up a Fund of assets that will be sufficient to meet all future benefit payments from the Fund.
- To build up the required assets in a way that produces employer contributions, which are as stable as possible.

3.3 The funding objectives must complement the Fund's investment strategy so that the appropriate amount of risk is adopted in the pursuit of investment returns.

## 4. Investment Policy

### Investment Strategy

- 4.1 The Committee sets an Investment Strategy for the Fund, taking into account the funding status and liabilities. The strategy is subject to regular review and, as appropriate, asset liability modelling techniques are used to assist in these reviews.
- 4.2 The Investment Strategy's primary aim is to deliver the funding objective in Section 3.2 ii) above which is to build up the required assets in a way that produces stable employer contributions to the Fund.
- 4.3 The Committee in pursuing this primary aim will, as far as is practicable and as an aid to long-term stability, seek to maintain a positive ratio of assets to liabilities at each actuarial valuation.
- 4.4 The Funding Strategy Statement (FSS) states that the discount rate that is adopted in the actuarial valuation of the Fund's liabilities is derived by considering the expected return from the underlying investment strategy but makes no allowance for additional returns from active management. The strategic benchmark that is established for the Fund's investment strategy is therefore expected to produce a return over the long term in excess of the investment return assumed in the triennial Actuarial Valuations.
- 4.5 The Fund presently has a marginal negative cash flow and currently has less actively contributing members compared to members receiving pensions. It however also has 2,909 deferred members which are currently neither contributing nor receiving. The fund is a maturing fund and has reflected this in the investment strategy with a move towards a greater focus on income producing assets. The main focus of the fund however is to continue to seek capital growth to meet future liabilities.
- 4.6 The Investment Strategy for the Fund has been developed with the support of external investment consultants who support the Committee in their decision making process. The approved investment strategy is presented as a strategic asset allocation which sets benchmark percentage allocations across the various asset classes.
- 4.7 In establishing strategic asset allocations the Committee recognises that it is not possible at reasonable cost to consistently hold investments of a type that maintains an exact match with the Fund's liabilities to pensioners and other members.
- 4.8 The Committee undertook a full review exercise in 2016, taking into account the funding status and liabilities and using asset liability modelling. A further review was again undertaken in August 2018 following the 2017 triennial valuation resulting in the revised strategy contained in this SIP. The Committee will review the strategy, if appropriate, at least once per three year period.
- 4.9 **Appendix 3** contains a summary of the strategic asset allocation benchmark for the Fund.

### Investment Management Arrangements

- 4.10 The Investment Strategy is implemented by employing external investment managers currently UBS Global Asset Management (UBS), LGT Partners (LGT), Morgan Stanley Investment Management (Morgan Stanley), M&G Investments (M&G), Macquarie Investment Management, Partners Group, Blackrock, Permira and Baillie Gifford, as appropriate. The Fund also works in collaboration with Lothian Pension Fund for Infrastructure opportunities, investing with a number of specialist infrastructure Managers.

- 4.11 The objective is to employ a combination of managers and investment mandates that will deliver, in aggregate, the target performance for the Fund.
- 4.12 The Committee sets the target for the Fund and this overall target is expressed as an out performance against the Fund's strategic benchmark which is a composite of the various benchmarks for the different managers and asset allocations.
- 4.13 The pursuit of a target implies active management of a substantial part of the Fund and the acceptance of a degree of risk in managing investments.
- 4.14 The Fund's overall return target is to generate, at a minimum, the real discount rate assumed in the actuarial valuation. As at 31 March 2017 this was 5%. The Fund's current target return is CPI+3.7% p.a.
- 4.15 The investment managers are responsible for the selection of individual holdings within each type of investment category within the parameters set out in their agreement which includes the need to achieve targets which are measured.
- 4.16 The Fund holds some temporary cash on short term deposit or in money market funds, which are managed by Finance staff.
- 4.17 The Committee determines the distribution of the Fund for investment purposes from time to time.
- 4.18 **Appendix 4** contains details of the investment arrangements that are in place at the 31 March 2019.

## **Risk Measurement and Management**

### **4.19 *Asset Allocation***

- The key investment risks are recognised as arising from asset allocation. The investment strategy of lowest funding risk would be 100% investment in duration matched index-linked government bonds, i.e. the most natural “matching” asset for pensions liabilities. However, this is not necessarily the most cost-effective approach.
- In the long-term, investment in assets of calculated risk is likely to produce higher returns and therefore reduce the overall cost of funding the pension liabilities.
- Due to its maturing position, and the 114% funding position, the Fund has reduced the “growth” assets towards income generating and indexed linked assets thereby reducing the volatility of asset returns and allowing a better match to the liabilities. Despite this evolving strategy the fund retains a significant element of its assets in equities, property and alternatives.
- The asset allocation risks are assessed triennially, typically using asset liability modelling techniques following the actuarial valuation of the Fund, after which the Committee take advice on the continued appropriateness of the existing investment strategy.
- As these risks were assessed as part of the asset and liability modelling exercise undertaken in 2018 by the Fund's investment consultant, it is envisaged that this will next be done during 2021/22 following the actuarial valuation as at 31 March 2020.

- The retrospective impact of investment risk on the Fund’s funding position is monitored on a quarterly basis via investment reports prepared by the Fund’s investment managers, the Fund’s performance monitoring company and the investment consultants.

#### 4.20 *Investment Managers*

- To reduce the risk that the Fund significantly underperforms, performance and risk targets and controls are set for each manager relative to their benchmark. These are set out in formal Investment Management Agreements or Subscription Agreements with each of the appointed managers.
- The managers are required to provide data monthly and report quarterly on portfolio management issues. This information is reported to the Committee on a quarterly basis. The monitoring includes assessing their achievement of performance that meets or outperforms their individual targets.
- The managers must also provide data to Northern Trust, the company chosen by the Committee to provide it with independent performance comparisons.
- The managers are also required to attend at the Pension Fund Investment and Performance Sub-Committee at least once a year to give an account of their activities and performance.
- The managers must comply with all lawful instructions given to them by the Committee (in accordance with the mandates agreed) and their contracts can be terminated at no more than one month’s notice.
- All manager mandates will always impose the investment restrictions contained in the Local Government Pension Scheme Regulations.

#### 4.21 *Proper Advice*

- The Committee is required to secure proper advice to ensure that their decision making processes are appropriately informed. The current advisers to the Fund are:

Investment Consultant	ISIO (formally KPMG)
Actuaries	Hyman Robertson

#### 4.22 *Concentration Risk and Diversification*

- Concentration risk arises from the failure of any investments which constituted a significant proportion of the Fund’s assets. In order to reduce this risk a spread of assets is held. The diversification is both within, and across, the major asset classes and will be enhanced through investment in alternative asset classes.
- Diversification is used to manage the risk involved in pursuing an active management approach to a substantial part of the fund.
- This is achieved through diversification of investment over various types of asset, by the use of at least two managers with different styles or specialism, and by requiring a wide range of individual stocks and shares to be held.

#### 4.23 Transition Management Arrangements

- A specialist transition manager will be employed to manage complex changes in investment strategy and/or manager(s).
- The use of these specialists is intended to reduce the cost of transition to the Fund and minimise the overall impact on the Fund value at the point of transition.

#### 4.24 Currency Risk

- During 2016 the Committee approved the full removal of the Passive Currency Hedging mandate. As long term investors, the overseas currency exposure will act as an offset against losses in severely stressed market environments.

#### 4.25 Safe Keeping of Assets

- The services of a global custodian, Northern Trust, are employed to ensure the safeguarding of the Fund's assets and ensure that all associated income is collected.
- The Fund is provided with statements of assets, cashflow and transactions, which Finance staff reconcile to data reported by the managers.
- The custodian also has a responsibility for keeping the Council informed of any concerns arising in its dealings with the investment managers.
- Investment in pooled funds managed by UBS, Morgan Stanley, M&G, Partners Group, Blackrock, Permira, Macquarie and LGT gives the Fund a right to the cash value of the units rather than to the underlying assets. The managers of the pooled funds, are responsible for the appointment and monitoring of the custodian of the pooled funds' assets.

#### 4.26 Cashflow Risk and Realisation of Investments/Liquidity

- The overall liquidity of the Fund is considered in the light of potential demands for cash. The Fund will hold sufficient cash to meet the likely benefit payments. Additionally, the Fund will hold sufficient assets in liquid or readily realisable form to meet any unexpected cashflow requirements so that the realisation of assets will not disrupt the Fund's overall policy.
- 55% of the Fund's investments are quoted on major stock markets and may be realised relatively quickly if required.
- 45% of the Fund's investments, in particular Property, debt, infrastructure and future investments in other alternative assets would take longer to be realised.

## 5. Types of Investment

- 5.1 The Fund has approval from the Committee to use the following different types of investment and income generating mechanisms to achieve the overall investment objectives:

- Equities (UK, Overseas and Global mandates including direct holdings, Managed Funds, Unit trusts, Investment Trusts, Open Ended Investment Companies)
- Bonds
- Property
- Currency
- Alternative assets such as commodities, hedge funds, infrastructure, infrastructure debt, emerging market debt, private equity, high yield debt, Private Credit and convertible bonds.
- Cash (including Treasury Bills and Money Market Funds)
- Derivatives and other Managed transactions
- Infrastructure

5.2 In September 2019 the Pension Fund Committee authorised “Stock Lending” of its segregated equities within strict programme parameters administered by Northern Trust. The also participated in stock lending within the pooled UBS Equities. UBS AG (the parent company) acts as the principal counterparty so irrespective of the end borrower UBS’ counterparty risk is only to UBS AG. Security is provided for the stock loaned by the borrower transferring ownership of other collateral assets to UBS for the period of the loan.

## 6. Environmental, Social and Corporate Governance Issues

- 6.1 The Committee has an overriding fiduciary duty to maximise investment returns for the benefit of the Fund members. It is aware that in doing so the financial contributions required of Fund employers will be minimised.
- 6.2 The Committee has a responsibility to ensure the fund is undertaking its investment activities in a socially responsible way. This means the fund must be aware of its Environmental, Social and Governance (ESG) responsibilities.
- 6.3 The Committee considers engagement with companies in which the Fund invests to be the most effective means of understanding and influencing the social, environmental and business policies of those companies. The investment managers for the Fund are therefore encouraged to constructively engage with companies on issues which are consistent with the Fund’s fiduciary responsibilities.
- 6.4 The Committee has approved a Statement of Responsible Investment which sets out:
- overarching principles the Fund requires its investment managers to adhere to
  - delegates to the fund managers the selection and voting rights on behalf the fund
  - monitoring of the compliance of fund managers against the statement.
- 6.5 The approved Statement of Responsible Investment is set out in Appendix 5

## 7. Audit responsibilities

- 7.1 The Pension Fund is subject to review by both the Council’s external auditors and the Internal Audit team, and comes within the remit of the Council’s Audit and Scrutiny Committee.
- 7.2 The external auditors are responsible for reporting on whether the Council’s Statement of Accounts gives a true and fair view of the financial position of the Council’s Pension Fund,

for the year then ended. Their audit report is formally presented to the Council each year. A detailed Annual Report of the Pension Fund is produced in addition and circulated to employers and other interested parties. This derives information from both audited accounts and unaudited sources of background information.

- 7.3 The Internal Audit team carries out a programme of work designed to re-assure the Chief Executive and Chief Financial Officer that Pension Fund investment systems and records are properly controlled and that Pension Fund assets are safeguarded.

## 8. Compliance with the Myners principles

- 8.1 In October 2008 the Treasury report *Updating the Myners Principles: A Response to Consultation* (October 2008) created the requirement for Local Government Pension Scheme (LGPS) administering authorities to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation.
- 8.2 In December 2009, CIPFA issued *Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles*.
- 8.3 The LGPS regulations require the SIP to contain a statement of compliance with the six principles.
- 8.4 The six principles are:
- Effective Decision Making
  - Clear Objectives
  - Risk and Liabilities
  - Performance Assessment
  - Responsible Ownership
  - Transparency and Reporting
- 8.5 **Appendix 6** contains this statement of compliance.

## Appendix 1

### Pension Fund Investment and Performance Sub-Committee

The Scheme of Administration for the Council specifies that the following functions shall be referred to the Investment and Performance Sub-Committee:

1. Reviewing the Pension Fund's Statement of Investment Principles.
2. Where appropriate, recommending changes to the Pension Fund Committee in relation to the Statement of Investment Principles.
3. Ensuring appropriate investment management arrangements are in place for monies of the Pension Fund and to review investment manager performance.
4. Overseeing the contractual review of the fund managers and investment adviser(s) and custodian.
5. Where appropriate, making recommendations to the Pension Fund Committee in relation to the appointment or removal of a fund manager, investment adviser or custodian.
6. Overseeing the overall approach to investment risk management and where appropriate recommending changes to the Pension Fund's Risk Register.

## Appendix 2

### Pension Board

The Council approved the Constitution for the Pension Board (the Board) on 2 April 2015.

1. The Objectives of the Board are as follows:

The Board is the body responsible for assisting the Scheme Manager in relation to:

- i Securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
- ii securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator; and
- iii such other matters as the regulations may specify .

2. The Board also has the remit to determine the areas they wish to consider including, amongst others:

- a) Reports produced for the Pension Fund Committee;
- b) Seek reports from the Scheme Manager on any aspect of the Fund;
- c) Monitor investments and the investment principles/strategy/guidance;
- d) The Annual Report and Accounts for the Fund;
- e) External voting and engagement provisions in relation to investments;
- f) Pension Fund Administrative Strategy and associated performance;
- g) Actuarial reports and valuations;
- h) Funding Strategy Statement and associated policy; and
- i) Any other matters that the Board deems appropriate within the responsibilities set out in 1 above.

## Appendix 3

## Strategic Asset Allocation

Asset Class	Manager	Strategic Benchmark %	Permitted Range/ Tolerance %
<b>UK Equity</b>	UBS <sup>1</sup>	6.0%	
	Baillie Gifford	4.0%	
	<b>Sub Total</b>	<b>10.0%</b>	<b>8% - 12%</b>
<b>Global Equity</b>	Baillie Gifford	18.0%	
	Morgan Stanley	12.0%	
	<b>Sub Total</b>	<b>30.0%</b>	<b>24% - 36%</b>
<b>Total Equity</b>		<b>40.0%</b>	<b>32% - 48%</b>
<b>Bonds</b>			
Alpha Opportunities	M&G	10.0%	
Index Linked Gilts	M&G	5.0%	
	<b>Total</b>	<b>15.0%</b>	<b>12% - 17%</b>
<b>Alternatives <sup>2</sup></b>			
Multi-Asset Alternatives Fund	LGT Partners	7.5%	
Direct Lending	Permira	5.0%	
	Partners Group	5.0%	
Infrastructure Equity		5.0%	
Infrastructure debt (junior)t	Macquarie	2.5%	
Infrastructure debt (senior)	Macquarie	5.0%	
	<b>Total</b>	<b>30.0%</b>	<b>24% - 36%</b>
<b>Property</b>			
Balanced Property	UBS	5.0%	
Long Lease Property	Blackrock	10.0%	
	<b>Total</b>	<b>15.0%</b>	<b>12% - 17%</b>
<b>Cash</b>		0.0%	

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<b>Total</b>	<b>100.0%</b>
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**Note:**

<sup>1</sup> This is a passive investment mandate which requires the FTSE All Share index to be tracked.

<sup>2</sup> Alternative assets such as commodities, hedge funds, infrastructure, emerging market debt, private equity, high yield debt and convertible bonds.

## Appendix 4

### Investment Management Arrangements

Asset Class	Manager		Performance Objective (net of fees)	Benchmark Indices Used	
<b>UK Equity</b>	UBS	Benchmark Return	+0.0%	FTSE All-Share Index	
	Baillie Gifford	Benchmark Return	+1.0%	FTSE All-Share Index	
<b>Global Equity</b>					
	Baillie Gifford	Benchmark Return	+2.5%	MSCI AC World Index	
	Morgan Stanley	Benchmark Return	Not Defined	MSCI World Net Index	
<b>Bonds</b>					
	Alpha Opportunities	M&G *	Benchmark Return	+3.5% - 5%	1 Month LIBOR
	Index Linked Gilts	M&G	Benchmark Return	+0.75%	UK Index Linked Gilts
<b>Multi-Asset Alternatives Fund</b>					
		LGT Partners	Benchmark Return	+4.0%	3 month LIBOR
		Permira	Benchmark Return	+4.0%	1 month LIBOR (Cash)
		Partners Group	Benchmark Return	+4.0%	1 month LIBOR (cash)
		Infrastructure		+3.5%	RPI
		Macquarie - Infrastructure debt (junior)	Benchmark Return	+4.5%	Euribor
		Macquarie Infrastructure debt (senior)	Benchmark Return	+2%-3%	LIBOR
<b>Property</b>					
		UBS	Benchmark Return	+0.75%	IPD UK PFI All Balanced Funds Index
		Blackrock	Benchmark Return	+2.5%	RPI

**Appendix 5**

**SCOTTISH BORDERS COUNCIL PENSION  
FUND**

**STATEMENT OF RESPONSIBLE  
INVESTMENT**

**APPROVED 30/11/2018**

## **1. STATEMENT OF RESPONSIBLE INVESTMENT**

- 1.1 Scottish Borders Council Pension Fund's (SBCPF) overriding obligation is to act in the best interests of the scheme beneficiaries. In this fiduciary role SBCPF believes that a positive approach to Environmental, Social and Corporate Governance (ESG) issues can positively affect the financial performance of investments whereas a failure to address these considerations can have a detrimental effect. In accordance with Trustee fiduciary duty, it is imperative that we act 'prudently, responsibly and honestly' and therefore consider both short term and long term risks when making investment decisions.
- 1.2 The Trustees recognise for example that Fiduciary duty goes beyond simply enhancing long-term returns, and in order to act prudently in the best interest of the scheme members, trustees should consider the impact of their investment decisions on risks such as climate change and other ESG related issues that can have an impact on sustainability and the value of the assets of the Fund over the long term.
- 1.3 SBCPF has therefore developed this Statement of Responsible Investment to outline how such issues are incorporated into its investment practices.
- 1.4 As a means of demonstrating its commitment to responsible investment practices, SBCPF has introduced an initial screening process to ensure 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 gather information to improve decision making, thereby managing risks.
- 1.5 SBCPF believes its obligations to scheme beneficiaries can be met by taking a balanced approach to ESG issues which uphold the highest standards, and which seek to ensure that 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.
- 1.6 The Fund wishes to see its environmental foot-print minimised, its social responsibilities maximised and the highest standards of employee relations and corporate governance maintained.
- 1.7 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.

## **2 OVERARCHING PRINCIPLES**

### **2.1 Environmental**

- 2.1.1 SBCPF will seek via its investment activities to minimise its impact on the environment. It will seek to ensure our investments minimise any impact on pollution or climate change at a global and local level.

2.1.2 Where investment activities do have a material impact on the environment, SBCPF will encourage managers to work with Companies to ensure they are acting in a responsible and sustainable way and are fully committed to ESG principles.

## 2.2 Social responsibility

2.2.1 SBCPF wishes to ensure that managers invest in companies who adhere to all applicable laws and standards. SBCPF wish to invest in companies who have good relations with the communities they are based and ensure that these companies uphold principles of non-discrimination, fairness and avoidance of human rights violations.

2.2.2 Employee Relations – SBCPF through its fund managers we wish to ensure that none of its investments use forced or direct child labour, that the highest safety standards are upheld for employees, and where applicable employees are able to join trade unions and engage in collective bargaining.

2.2.3 SBCPF will make every effort to comply with relevant regulations governing the protection of human rights, health and safety, the environment, and the labour and business practices of the jurisdictions in which we conduct business and consider these issues in the context of our Fiduciary duty to protect members' retirement benefits'. SBCPF will seek annual assurance from its managers that the funds invested have met these standards.

2.2.4 When companies are involved in certain controversial activities, we may refrain from investment in those companies. For example, we may decide to exclude companies which are involved in the production of controversial weapons.

## 2.3 Corporate Governance

2.3.1 SBCPF want to ensure that all our investments adhere to the highest standards of ethical conduct and the opportunities for bribery or corruptions or money laundering are minimised.

2.3.2 SBCPF wishes to ensure Executive Managers are remunerated and incentivised appropriately. SBCPF will work through its fund managers to ensure that companies pay an appropriate share of their tax burden, in compliance with applicable law.

## 3 INVESTMENT DECISIONS

3.1 SBCPF delegates the selection of investments held to its fund managers and does not impose any investment restrictions in regard of social, ethical and environmental issues. SBCPF does not make any investment decisions specifically for social, ethical and environmental reasons.

3.2 SBCPF has however instructed its active and passive fund managers to take account of ESG considerations in their investment decisions, provided the primary financial obligation is not compromised.

3.3 SBCPF will ensure that the fund managers it appoints are capable of appropriately considering ESG issues when making investment choices, it will monitor the managers' action in this area

and will work with fund managers and the investment sector to ensure sufficient data is available to aid effective decision making.

- 3.4 SBCPF believes that, as a responsible investor, it has a legitimate interest in the management and corporate governance of the companies in which it invests and supports the use of voting as a means of expressing concern over ESG issues. The Fund seeks to improve corporate behaviour by maintaining effective shareholder oversight of the directors and company voting policies is undertaken on SBCPF's behalf by its fund managers. That is, SBCPF has delegated stewardship responsibilities and voting policies to the Fund managers who are expected to fully exercise the right to vote at company meetings in the best interest of shareholders as they see fit.
- 3.5 All fund managers are encouraged to engage, on SBCPF's behalf, with those companies where ESG policies fall short of acceptable standards and where this is likely to have a detrimental effect on the long-term value of the company.

#### **4 ESG MONITORING**

- 4.1 The Fund believes that signature and adherence to the UNPRI codes provides an appropriate starting point for demonstrating that they comply and believe in these principles. The Fund will encourage its fund managers to monitor the performance of companies which they are investing on the Funds behalf to comply with these principles. The fund will require an annual statement from its fund manager demonstrating how its investments meet these principles. The Fund will ask its managers to provide a statement to show how managers have considered ESG issues in their investment decisions and provide evidence to how they have engaged with Companies to promote ESG issues and flagging areas for improvement where required.
- 4.2 In order to do this the policy will develop a scoring criterion to ensure each asset manager has fulfilled the ESG criteria set by SBPF. It will not be the purpose of the policy to influence individual management investment decisions; however, it will encourage the correct behaviours to ESG issues and allow managers to demonstrate their compliance.
- 4.3 The fund expects its managers to vote at all times in the best interest of the Fund and in compliance with its ESG principles. The Fund supports the principles set out in the UK Stewardship code and will publish a statement of adherence to this code annually. The Fund will require its fund managers to provide copies of their statements to the stewardship code and will monitor their compliance with its principles.

#### **Definitions**

The aim of the UNPRI is to ensure that ESG issues are considered during the investment process and subsequent management of investments. The UNPRI was launched in 2006 and has become a standard for global best practice in responsible investing.

In accordance with the UNPRI, the Trustees will adopt the following principles where reasonable:

1. We will incorporate ESG issues into investment analysis and decision making processes
2. We will be active owners and incorporate ESG issues into our ownership policies and practices

3. We will seek appropriate disclosure on ESG issues by the entities in which we invest
4. We will promote acceptance and implementation of the Principles within the investment industry
5. We will work together to enhance our effectiveness in implementing the Principles
6. We will each report on our activities and progress towards implementing the Principles

## Appendix 6

### Statement of Compliance with Myners Principles

This table summarises the principles, best practice guidance as provided by CIPFA and the Fund’s current status in relation to compliance .

Principle	Best Practice Guidance	Fund’s Current Status
<p><b>1. Effective Decision-Making</b></p> <p>Administering authorities should ensure that:</p> <ul style="list-style-type: none"> <li>• decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and</li> <li>• those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</li> </ul>	<ul style="list-style-type: none"> <li>• The administering authority should have a designated committee of members responsible for the management of the pension fund and wherever possible appointments to the committee should take account of relevant skills, experience and continuity.</li> <li>• The committee should have terms of reference, and where investment decisions are delegated the process should be recorded, with the roles of members, officers, advisers and managers specified.</li> <li>• The committee should have appropriate skills for, and is run in a way that facilitates, effective decision-making.</li> <li>• There are sufficient internal resources and access to external resources for the administering authorities and Members to make effective decisions.</li> </ul>	<p><b>Full Compliance</b></p> <ul style="list-style-type: none"> <li>• The Fund has a designated committee – the Committee - with the experience and skills to take decisions.</li> <li>• The Committee’s terms of reference is contained within the Scheme of Administration for the Council.</li> <li>• The Committee receives training either during meetings or at specific training sessions, including on investment issues.</li> <li>• Induction training is provided for new Members and Officers.</li> <li>• All new members required to complete The Pension Regulator trustee toolkit within 6 months of joining</li> <li>• The Committee has an appointed investment consultant to provide specific investment advice.</li> <li>• The Chief Financial Officer and other senior officers provide advice and support to the Sub-Committee</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
<p><b>1. Effective Decision-Making (contd.)</b></p>	<ul style="list-style-type: none"> <li>• It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making.</li>   <li>• The committee should obtain proper advice at reasonable intervals from suitably qualified persons.</li>   <li>• The Chief Financial Officer should be given responsibility for developing a training plan for committee members.</li>   <li>• A business plan should be in place which should include milestones and should review level of resources needed.</li> <li>• Members allowances should be published and reviewed regularly.</li> <li>• Meeting papers should be clear and circulated sufficiently in advance of the meetings.</li> </ul>	<ul style="list-style-type: none"> <li>• The Investment and Performance Sub-Committee with terms of reference contained within the Scheme of Administration for the Council to enhance the focus on performance monitoring and investment decision making.</li> <li>• The Committee carry out regular reviews of the Fund and compliance with regulations.</li> <li>• The Investment Consultant, Custodian, Actuary, Investment Managers and legal advisers all input into the provision of proper advice. The Investment Adviser attends all meetings of the Committee and Sub-Committee.</li> <li>• The Committee's legal advisers and any other relevant parties review any new investment contracts put in place.</li> <li>• There is an approved Training Policy for the Fund and an annual Training Needs Analysis undertaken for all Committee and Board members.</li> <li>• Members' training is the responsibility of the Clerk to the Council with input from the Chief Financial Officer</li> <li>• A 3 year business plan was agreed by the Committee annually and is monitored regularly.</li> <li>• Members' Allowances are regularly published as required by the Local Government (Allowances and Expenses) (Scotland) Regulations 2007.</li> <li>• Meeting papers are circulated 7 days in advance of meeting and public papers are published on the Council's internet site.</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
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Principle	Best Practice Guidance	Fund's Current Status
<p><b>2. Clear Objectives</b></p> <ul style="list-style-type: none"> <li>An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.</li> </ul> <p><b>2. Clear Objectives (contd)</b></p>	<ul style="list-style-type: none"> <li>The committee should set an overall investment objective considering the fund's liabilities in the context of net cashflow, the funding position and maturity of liabilities.</li> <li>The desirability of asset liability modelling should be considered.</li> <li>Proper advice should be taken where appropriate.</li> <li>Specialist advice should be sought as to how the objective might be expressed as an expected, or required, rate of return.</li> <li>Peer group benchmarks should be avoided.</li> <li>Appetite for risk should be considered. Asset allocation decisions should consider all asset classes currently available.</li> </ul>	<p><b>Full compliance</b></p> <ul style="list-style-type: none"> <li>The Committee makes decisions on the strategy, structure and managers following advice from their investment consultant, and in doing so periodically considers the results of asset liability modelling and appetite for risk of the administering authority and scheme employers to inform the Investment Strategy.</li> <li>The Fund has a scheme specific benchmark. Investment objectives are stated in the Statement of Investment Principles (SIP). The assets are generally managed under individual mandates where the Committee set the investment managers individual mandate objectives and risk parameters.</li> <li>An explicit mandate is in place with the fund managers which include clear time horizons for performance measurement and evaluation.</li> <li>Both short and long-term performance is measured quarterly against scheme specific benchmarks and the fund managers are required to attend twice per year to discuss performance against those indices.</li> <li>The Committee regularly reviews the investment structure of the Fund, including different asset classes, styles of management and follows the appropriate procurement regulations for the</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
	<ul style="list-style-type: none"> <li>• Strategic asset allocation decisions, in particular the equity: bond split, diversification of the assets and why some asset classes may be excluded should be given most attention.</li>   <li>• The general and strategic impact of funding levels on tax should be considered and whether sub-funds should be established.</li>   <li>• Transaction and transition costs should be fully understood.</li> </ul>	<p>appointment of managers which includes a review of cost, objectives and mandates (including risk).</p> <ul style="list-style-type: none"> <li>• The Fund considers the full range of asset classes and has decided to add investments in alternative assets such as private equity, infrastructure, commodities and currencies to its portfolio.</li>   <li>• At the time of undertaking the Triennial Actuarial Valuation the Committee considers the impact of funding levels on the contribution levels and therefore on the impact on local taxpayers.</li>   <li>• When evaluating new investment managers, the Total Expenses Ratio as well as fees are scored.</li>   <li>• As part of any transition the costs are reported to Committee and compared with the target level set prior to transition.</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
<p><b>3. Risk and Liabilities</b></p> <ul style="list-style-type: none"> <li>• In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</li> <li>• These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</li> </ul>	<ul style="list-style-type: none"> <li>• The committee should have a clear policy on willingness to accept underperformance due to market conditions.</li> <li>• Acceptable tolerances from market index benchmarks returns should be stated.</li> <li>• Benchmarks which are absolute in nature or relative to cash returns or RPI might result in underperformance relative to market indices.</li> <li>• Overall fund objectives should be expressed in terms which relate to the liabilities.</li> <li>• The committee must receive an assessment of the risks associated with their liabilities, valuation and management.</li> <li>• The annual report should include an overall risk assessment.</li> </ul>	<p><b>Full compliance</b></p> <ul style="list-style-type: none"> <li>• The Committee does not necessarily make changes to the Fund's asset allocation or investment managers due to underperformance, as long as the reasons for this are explained and justified. Advice is taken from the investment consultant regarding any changes to investment policy.</li> <li>• Factors affecting long-term performance and advice on how these impact on the Fund are considered as part of the triennial valuation process and when making changes to investment strategy. Advice is received from the Fund's advisors.</li> <li>• The overall Fund investment objective is expressed in terms which relate to the liabilities.</li> <li>• The Committee carried out an investment strategy review using asset liability modelling in 2016. This involved taking account of the form and structure of the liabilities and aiming to reduce risk where appropriate through increased diversification in the strategies or managing specific risks such as currency risk. A further review was undertaken in 2018 following the 2017 Actuarial valuation..</li> <li>• The annual report includes a Risk Management Statement</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
<p><b>3. Risk and Liabilities (contd)</b></p>	<ul style="list-style-type: none"> <li>The committee should satisfy itself on levels of internal controls. Effective internal controls are a responsibility of the Chief Financial Officer.</li> <li>The committee should ensure the investment strategy is consistent with the scheme employers ability to pay.</li> </ul>	<ul style="list-style-type: none"> <li>The Committee regularly review and develop where necessary their internal controls. In addition investment managers provide annual statements on their controls.</li> <li>The Committee periodically reviews the appropriateness of the investment strategy to achieve the required objectives, taking account of employers ability to pay.</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
<p><b>4. Performance Assessment</b></p> <ul style="list-style-type: none"> <li>Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.</li> <li>Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.</li> </ul>	<p><b>Investments</b></p> <ul style="list-style-type: none"> <li>The committee should consider the appropriateness of index benchmarks and whether active or passive management is more appropriate, and where active management is felt more appropriate set targets and risk controls.</li> <li>The mandate provided to each investment manager should cover the investment objective, risk parameters, performance targets and measurement timescales.</li> <li>Constraints on active managers should not be overly narrow or overly wide.</li> </ul>	<p><b>Full compliance</b></p> <ul style="list-style-type: none"> <li>The Committee consider, with input from the investment consultant, the suitability of active or passive management for each mandate.</li> <li>Investment management agreements with each investment manager cover the investment objective, risk parameters, and performance target.</li> <li>The Strategic Asset Allocation and Investment Management Benchmarks set out the tolerances and performance is considered over 3 – 5 year periods.</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
	<ul style="list-style-type: none"> <li>• Investment activity should be monitored and returns measured quarterly in line with regulations, but also over longer time periods.</li>   <li>• Variations in returns from the benchmark should be attributed to asset allocation, stock selection, sector selection and currency.</li> </ul> <p><b>Advisers</b></p> <ul style="list-style-type: none"> <li>• Assessment should take account of the extent of decisions delegated.</li>   <li>• A framework should be established for assessing actuaries and consultants who should be assessed on a number of factors.</li> </ul> <p><b>Decision making bodies</b></p> <ul style="list-style-type: none"> <li>• The committee's self assessment against expectations should cover manager selection, asset allocation, consultant employment and set out in annual report.</li> </ul>	<ul style="list-style-type: none"> <li>• The performance of the investment managers is measured quarterly by an independent performance monitoring company.</li>   <li>• A comprehensive quarterly performance report is presented to the Committee.</li>   <li>• Variations in returns from the benchmark are attributed to asset allocation, stock selection, sector selection and currency within these reports.</li>   <li>• The Committee take all significant decisions relating to the management of the Fund. Delegations to officers are contained within the Council's Scheme of Administration or in specific report recommendations.</li>   <li>• Factors such as past performance and price are taken into account when re-tendering for external advisers.</li>   <li>• Members all participate in meetings, giving opinions and views where relevant. Each person's view is heard and asked for.</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
<p><b>5. Responsible Ownership</b></p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> <li>• adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents,</li> <li>• includes a statement of their policy on responsible ownership in the Statement of Investment Principles; and</li> <li>• report periodically to scheme members on the discharge of such responsibilities.</li> </ul>	<ul style="list-style-type: none"> <li>• Policies regarding responsible ownership should be disclosed in Statement of Investment Principles contained in the annual report.</li> <li>• The administering authority should consider its approach to environmental, social and governance issues and the potential for engagement in environmental, social and governance issues to add value when formulating investment strategy and selecting investment managers.</li> <li>• The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.</li> <li>• The committee should ensure its policies are not overridden by an investment manager's general policies.</li> <li>• The committee should ensure that investment consultants adopt the Institutional Shareholder Committee's (ISC) Statement of Practice relating to consultants.</li> </ul>	<p><b>Full compliance</b></p> <ul style="list-style-type: none"> <li>• The Committee are aware of the Institutional Shareholders' Committee Statement of Principles on the responsibilities of Institutional shareholders and have confirmed that their investment managers adopt the Statement of Principles on the responsibilities of shareholders and agents.</li> <li>• The Committee consider environmental, social and governance issues when formulating investment strategy and selecting investment managers but do not give precedent to this factor over other factors which have greater financial implications for the Fund.</li> <li>• The Statement of Responsible Investments states the Committee's policy on responsible ownership.</li> <li>• Voting on underlying shareholdings is delegated to the fund manager.</li> <li>• Details of the investment manager's house strategy are requested from the manager.</li> <li>• Feedback on interventions to be provided during meeting with manager (minimum of once per annum).</li> <li>• The investment consultant has confirmed that it does adopt the ISC Statement of Practice relating to consultants.</li> </ul>

	<ul style="list-style-type: none"> <li>• The ISC’s Statement of Principles on the responsibilities of Institutional shareholders should be noted.</li> </ul>	
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Principle	Best Practice Guidance	Fund’s Current Status
<p><b>6. Transparency and Reporting</b></p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> <li>• act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and</li> <li>• provide regular communication to scheme members in the form they consider most appropriate.</li> </ul>	<p>Reporting ensures that:</p> <ul style="list-style-type: none"> <li>• An integrated approach to governance should be built and governance compliance statements should be maintained regularly.</li> <li>• The Fund’s communication statement must set out the policy on the provision of information, the format and the promotion of the scheme.</li> <li>• Examples of good communication from other funds should be sought.</li> <li>• Annual report content should be compared to the regulations.</li> <li>• Funding strategy statement, statement of investment principles and governance compliance statement should be noted as core sources of information.</li> <li>• The governance compliance statement should include information on the extent the administering authority has delegated functions to a committee, and to the extent this complies with CLG guidance.</li> <li>• The committee should know its stakeholders and the interests they have.</li> </ul>	<p><b>Full compliance</b></p> <ul style="list-style-type: none"> <li>• The Annual Report including the Funding Strategy Statement, Statement of Investment Principles and Governance Statement are published each year.</li> <li>• Examples of good communication from other funds are sought.</li> <li>• Communications are sent to members whenever important changes to the Fund take place, or to provide updates.</li> <li>• The Fund operates transparently and enhances accountability to scheme members.</li> <li>• The Fund’s Governance Statement includes information on the extent the administering authority has delegated functions to a committee, and to the extent this complies with Scottish Ministers guidance.</li> <li>• The Fund post all communications, policy documents and consultations on website <a href="http://www.scottishborderscouncilpensionfund.org">www.scottishborderscouncilpensionfund.org</a></li> </ul>

## VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2010 1.0	Draft SIP – updated to reflect updated FSS and new Myners Principles	March 2010	L Mirley, in collaboration with Aon Consulting
2010 2.0	Final Draft of SIP to present to Pension Fund Sub-Committee	June 2010	L Mirley
2013 1.0	Final Draft of SIP to present to Pension Fund Committee	Dec 2013	K Robb
DRAFT 2015 1.0	Draft of SIP to present to Pension Fund Committee – updated to reflect new governance arrangements and introduction of Pension Board, and new fund managers	June 2015	L Mirley
DRAFT 2015 2.0	Final Draft of SIP to present to Pension Fund Committee post AON Hewitt Review	June 2015	L Mirley
Draft 2017 1.0	Final draft of SIP to present to Pension Fund Committee on 22 June 2017	June 2017	K Robb
Draft 2019 1.0	Final draft of SIP to present to Pension Fund Committee on 6 June 2019	June 2019	K Robb
Draft 2020	Final draft of SIP to present to Pension Fund Committee on 6 June 2020	June 2020	K Robb

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

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