

The information in this letter is only for the person or entity to which it is addressed.
The contents may not be made public by the recipient before the FRC updates the
UK Stewardship Code 2020 signatory list on Thursday, 10 March 2022.

Mrs Kirsty Robb
Scottish Borders Council Pension Fund
Council Headquarters
Newtown St Boswells
Melrose
TD6 0SA

Tuesday, 8 March 2022

Application Outcome: Unsuccessful

Dear Mrs Robb

Thank you for submitting your Stewardship Code application.

We regret that Scottish Borders Council Pension Fund has not met the expected standard of reporting in 2021 and will not be listed as a signatory to the UK Stewardship Code ('the Code') at this time.

We will publish the list of signatories and reports on our website on **10 March 2022**, but we will not publish the names of organisations that applied and were unsuccessful. Please treat this letter as confidential until the FRC has published the list.

Your report

We read your report in full and assessed it against the Principles and reporting expectations of the Code in a way that is proportionate to your organisation's size and type. This assessment was then reviewed and discussed with the team to ensure it was fair and appropriate. A sample of reports reflecting a range of applicants was reviewed by our panel of independent advisors to ensure consistency.

Below is written feedback, and a summary of where your reporting met our expectations and where improvement is needed. You should also read the FRC's [Effective Stewardship Reporting: Examples from 2021 and expectations for 2022](#) which provides guidance and examples to support applicants.

Next steps

This letter sets out our final decision for this assessment period and we do not discuss individual assessments. We understand that this letter may be disappointing, but we encourage you to address our feedback and apply again in future. Details about reporting periods and application deadlines are on the FRC's [website](#).

Yours sincerely



David Styles
Director, Corporate Governance and Stewardship

Stewardship Report Feedback

While your Stewardship Report overall has not met the standard to become a signatory on this occasion, it demonstrated promising reporting in some areas. It is written in an open and transparent way and references that the Fund is on a journey. We encourage you to invest in your practices, for example taking a more active role in directing your managers in line with your own values and expectations. Addressing the areas identified in this feedback and the following table will make a future application more likely to be successful.

Your strongest reporting was on Principles 1, 5 and 7.

In Principle 3, you should provide the key features of the conflicts of interest you follow, for example the types of things covered, and an outline of the process followed when a conflict is identified, for example if a member were to declare one. Better reporting would provide a link to the conflicts of interest policy you mentioned.

In Principle 4, promoting well-functioning markets, you mention that you follow CIPFA's risk management process, but you could better explain how you assess the market and fund risks. For example, is this a regular agenda item at committee meetings, do you systematically require input from the parties you mention? You should also include some of the risks you identify. Your reporting does explain that you document the risks and revisit them regularly.

In Principle 6, you should report on how you seek members' views, and any action you have taken because of taking these views into account. Your report should explain what you have done on seeking views and taking them into account in the reporting year, or if explain if this is done periodically, for example through a survey, and identify what has been done in the reporting year and where in the cycle you are.

Your report should also explain how the needs of beneficiaries have been reflected in stewardship and investments aligned with an appropriate investment time horizon. This reporting could, for example, give an indication of the time horizons you consider appropriate for investment, and how this may vary across your asset allocation.

Also in Principle 6, your report should include an approximate breakdown of the Fund's assets under management across asset classes and geographies. This would put the reporting on other Principles (including investment approach, engagement and exercising rights) in context and allow the reader to better understand the scope and coverage of the Fund's stewardship activities, and the stewardship activities undertaken on your behalf.

In Principles 9 - 12, you are clear in your reporting that this has been identified as an area for improvement by the Fund and you identified steps you will take. You explain the relationship you have with asset managers and that selection is an important part of your process. We recognise this disclosure, and your report should include examples of the activity undertaken by your managers on your behalf (and the outcomes of this), to demonstrate their stewardship in action. Your report should include examples and case studies across engagement, collaborative engagement, escalation and exercising rights and

responsibilities.

We hope you can address our feedback and apply to become a signatory in 2022.

Principle 1 – Signatories’ purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

✓	Signatories should explain the purpose of the organisation and an outline of its culture, values, business model and strategy
✓	Signatories should explain their investment beliefs, i.e. what factors they consider important for desired investment outcomes and why
✓	Signatories should explain what actions they have taken to ensure their investment beliefs, strategy, and culture enable effective stewardship
✓	Signatories should disclose how their purpose and investment beliefs have guided their stewardship, investment strategy and decision-making
✗	Signatories should disclose an assessment of how effective they have been in serving the best interests of clients and beneficiaries.

Principle 2 – Signatories’ governance, resources and incentives support stewardship.

✓	Signatories should explain how their governance structures and processes have enabled oversight and accountability for effective stewardship within their organisation and the rationale for their chosen approach.
✗	Signatories should explain how they have appropriately resourced stewardship activities, including their chosen organisational and workforce structures
✗	Signatories should explain how they have appropriately resourced stewardship activities, including their seniority, experience, qualifications, training and diversity
✓	Signatories should explain how they have appropriately resourced stewardship activities, including their investment in systems, processes, research and analysis
✓	Signatories should explain how they have appropriately resourced stewardship activities, including the extent to which service providers were used and the services they provided
✗	Signatories should explain how any performance management or reward programmes have incentivised the workforce to integrate stewardship and investment decision-making
✓	Signatories should disclose how effective their chosen governance structures and processes have been in supporting stewardship; and Signatories should disclose how they may be improved

Principle 3 – Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

✗	Signatories should disclose their conflicts policy and how this has been applied to stewardship
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✘	Signatories should explain how they have identified and managed any instances of actual or potential conflicts related to stewardship.
✓	Signatories should disclose examples of how they have addressed actual or potential conflicts
Principle 4 – Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	
✘	Signatories should explain how they have identified and responded to market-wide and systemic risk(s), as appropriate.
✓	Signatories should explain how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets.
✘	Signatories should explain the role they played in any relevant industry initiatives in which they have participated, the extent of their contribution and an assessment of their effectiveness, with examples.
✘	Signatories should explain how they have aligned their investments accordingly.
✘	Signatories should disclose an assessment of their effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets.
Principle 5 – Signatories review their policies, assure their processes and assess the effectiveness of their activities.	
✓	Signatories should explain how they have reviewed their policies to ensure they enable effective stewardship
✓	Signatories should explain what internal or external assurance they have received in relation to stewardship (undertaken directly or on their behalf) and the rationale for their chosen approach
✓	Signatories should explain how they have ensured their stewardship reporting is fair, balanced and understandable
✓	Signatories should explain how their review and assurance has led to the continuous improvement of stewardship policies and processes
Principle 6 – Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	
✓	Signatories should disclose the approximate breakdown of the scheme(s) structure i.e. whether the scheme is a master trust, occupational pension fund, defined benefit or defined contribution etc.
✓	Signatories should disclose the approximate breakdown of the size and profile of their membership, including number of members in the scheme and the average age of members
✘	Signatories should disclose the approximate breakdown of assets under management across asset classes and geographies
✘	Signatories should disclose the length of the investment time horizon they have considered appropriate to deliver to the needs of clients and/or beneficiaries and why
✘	Signatories should explain how they have sought beneficiaries' views (where they have done so) and the reason for their chosen approach

✘	Signatories should explain how the needs of beneficiaries have been reflected in stewardship and investment aligned with an appropriate investment time horizon
✓	Signatories should explain what they have communicated to beneficiaries about their stewardship and investment activities and outcomes to meet beneficiary needs, including the type of information provided, methods and frequency of communication
✓	Signatories should explain how they have evaluated the effectiveness of their chosen methods to understand the needs of clients and/or beneficiaries
✘	Signatories should explain how they have taken account of the views of beneficiaries where sought, and what actions they have taken as a result
✘	Signatories should explain where their managers have not followed their stewardship and investment policies, and the reason for this

Principle 7 – Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

✓	Signatories should disclose the issues they have prioritised for assessing investments, prior to holding, monitoring through holding and exiting. This should include ESG issues of importance to them.
✘	Signatories should explain how integration of stewardship and investment has differed for funds, asset classes and geographies
✓	Signatories should explain how they have ensured tenders have included a requirement to integrate stewardship and investment, including material ESG issues
✓	Signatories should explain how they have ensured the design and award of mandates included requirements to integrate stewardship and investment to align with the investment time horizons of beneficiaries
✘	Signatories should explain how information gathered through stewardship has informed acquisition, monitoring and exit decisions, either directly or on their behalf, and with reference to how they have best served clients and/or beneficiaries

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

✓	Signatories should explain how they have monitored service providers to ensure services have been delivered to meet their needs.
✓	Signatories should explain how the services have been delivered to meet their needs
✓	Signatories should explain the action they have taken where signatories' expectations of their managers and/or service providers have not been met

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

✓	Signatories should explain the expectations they have set for others that engage on their behalf
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✘	Signatories should explain how they have developed well-informed and precise objectives for engagement with examples
✘	Signatories should describe the outcomes of engagement that is ongoing or has concluded in the preceding 12 months, undertaken directly or by others on their behalf.
Principle 10 – Signatories, where necessary, participate in collaborative engagement to influence issuers.	
✓	Signatories should disclose what collaborative engagements they have participated in and why, including those undertaken directly or by others on their behalf.
✘	Signatories should describe the outcomes of collaborative engagement.
Principle 11 – Signatories, where necessary, escalate stewardship activities to influence issuers.	
✓	Signatories should explain the expectations they have set for asset managers that escalate stewardship activities on their behalf
✘	Signatories should explain when they have chosen to escalate their engagement, including the issue(s) and the reasons for their chosen approach, using examples
✘	Signatories should describe the outcomes of escalation either undertaken directly or by others on their behalf
Principle 12 – Signatories actively exercise their rights and responsibilities.	
✘	Signatories should state the expectations they have set for asset managers that exercise rights and responsibilities on their behalf
✘	For listed equity assets signatories should disclose their voting policy, including any house policies and the extent to which funds set their own policies
✘	For listed equity assets, signatories should explain their rationale for some or all voting decisions
✘	For listed equity assets, signatories should explain the extent to which voting decision were executed by another entity, and how they have monitored any voting decisions on their behalf
✘	For listed equity assets, signatories should explain how they have monitored what shares and voting rights they have
✘	For listed equity assets, signatories should provide examples of the outcomes of resolutions they have voted on over the past 12 months