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Mr David Robertson
Scottish Borders Council Pension Fund
Council Headquarters
Newtown St Boswells, Melrose
TD6 0SA

Friday, 10 February 2023

Application Outcome: Successful

Dear Mr Robertson

Thank you for submitting your Stewardship Code application.

We are pleased that Scottish Borders Council Pension Fund has met the expected standard of reporting and will be listed as a signatory to the UK Stewardship Code ('the Code').

We will update the list of signatories and reports on our website on **15 February 2023**. You will then be able to refer to yourself as a signatory to the UK Stewardship Code and use the Code logo which is included in the folder with this letter. Please note that your use of the logo is subject to the terms and conditions, and *UK Stewardship Code logo user guide*.

Please treat this letter as confidential and refrain from referring to your organisation as a signatory to the Code until the FRC has updated the list. Once the FRC has updated the list of signatories, please also publish your report on your website.

Your report

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

Below we provide feedback and a table indicating where your reporting met our expectations and where improvement is needed when you submit your next report.

Next steps

In November 2022, the FRC published its *Review of Stewardship Reporting 2022*. This gives more detail about our expectations, including examples of effective reporting, and identifying where the FRC expects reporting to improve in 2023. From 2023, our assessment will place greater emphasis on reporting the activities and outcomes of stewardship undertaken directly or by others on your behalf, during the reporting period. Please refer to the Review as you prepare your next Stewardship Report.

This letter sets out our final decision for this assessment period and we do not discuss individual assessments. To remain a signatory, you will need to submit a report by **31 October 2023**. 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

We have reviewed your re-application and are pleased that there have been noticeable improvements in reporting. However, there remain areas that require attention which we have detailed below. Please address the areas identified in this feedback and the following table to remain a signatory in future.

Your report is clear, engaging and effectively demonstrates application of most of the Principles and reporting expectations of the Code in the reporting period. Your weakest reporting was on Principles 4, 6 and 10.

In general, your report describes well how most of your stewardship activities, including ESG integration and engagement, are delegated to your external asset managers. However, in order to better comply with the requirements of the Stewardship Code, you should better explain the expectations you have set for your asset managers to act on your behalf. This would include explaining the issues you expect your managers to evaluate, engage and escalate on during their investment process (P.7, 9 and 11) and provide relevant examples that demonstrate how they have followed your guidance. You should also explain the expectations you set for your asset managers to participate in collaborative engagement, and examples of where they have done so on your behalf (Principle 10).

For Principle 1, you should better articulate your culture and values at Scottish Borders Council Pension Fund. Your report should also disclose an assessment of how effective you have been in serving the best interests of beneficiaries during the reporting period.

For Principle 2, on pp.6-7, your report explains stewardship and responsible investment are a key area each asset manager is required to provide updates on at the Investment & Performance Sub Committee. However, your report could be clearer on which governance committees have ultimate oversight and accountability for stewardship.

You explain internal resources dedicated to stewardship although better reporting could explain how the skills, experience, qualifications and diversity of your team contribute to the appropriate resourcing of stewardship at Scottish Borders Council Pension Fund.

On pp.9-10, your report explains future improvements planned for 2022. However, your report could explain further how the areas you have identified for improvement will support effective governance structures and processes for stewardship.

Your report should identify the market-wide and systemic risks you consider for Principle 4. When reporting to this Principle, the focus should be on risks to the market or system, not only portfolio risk. Linked to this, you should better explain how you have aligned your investments you hold with market-wide and systemic risks. Your report should explain better the expectations you are setting those undertaking stewardship on your behalf (e.g. external asset managers) to work with other stakeholders to promote continued improvement

of the functioning of financial markets.

For Principle 5, your report explains the use of internal and external audit. However, you report could explain further the assurance Scottish Borders Council Pension Fund has received in relation to stewardship, and the rationale for your chosen approach.

For Principle 6, your report should better describe the length of the investment time horizon, including the number of years, you have considered appropriate to deliver to the needs of beneficiaries.

Your report should explain in further detail how you have sought scheme members views in addition to explaining how you have sought views from employers whom you also consider to be key beneficiaries. You should also explain how you have evaluated the effectiveness of you chosen methods to understand the needs of beneficiaries, and how you have taken account of the views of scheme members you have received, including actions you have taken as a result.

In addressing Principle 7, You should explain how integration of stewardship and investment has differed across the ways in which you are invested, such as funds, asset classes and geographies.

Your report could explain further how mandates award to external asset managers have included requirements to integrate stewardship and investment to align with the investment time horizons of beneficiaries. Better reporting could explain how the mandate covers the material ESG issues you expect to be prioritised in integration, engagement, collaborative engagement, escalation and the exercising of rights and responsibilities by asset managers on your behalf.

For Principle 8, your report explains how service providers have met your needs during the reporting period. However, you could explain further the actions you would take if your expectations of asset managers and/or service providers have not been met.

The engagement case studies provided on p.34 for Principle 9 are more relevant to Principles 11 and 12. When using examples to demonstrate engagement on your behalf by asset managers, case studies should include the reason for engagement, the objectives, what occurred during the reporting period and the outcomes of engagement including any next steps.

For Principle 10, your report explains the collaborative initiatives you are involved in. However, better reporting could explain your role and contribution to these initiatives during the reporting period.

While your report explains that you encourage managers to be signatories to Climate Action 100+ and that you encourage them to engage in industry initiatives, better reporting could explain how you monitor and hold to account your managers for their involvement in industry initiatives, linked to your reporting on Principle 8. Your report should describe the outcomes of collaborative engagement on your behalf by asset managers during the

reporting period.

For Principle 11, your report should seek to provide further examples and case studies of escalation on your behalf which demonstrate a variety of outcomes during the reporting period. The UK Stewardship Code encourages organisations to acknowledge setbacks experienced and lessons learned, as well as successes and we consider better reporting to include a wider variety of outcomes (i.e. examples of successful, unsuccessful or ongoing engagements).

To address Principle 12 you should explain how you exercise your rights and responsibilities across all the asset classes in which you are invested in, not only listed equity.

Where listed equity voting case studies are used in your report, they should:

- provide information on whether the resolution passed or failed (including percentages)
- explain what the response was to the resolution from the issuer and other shareholders
- include a reflection on the impact that the vote had on the company
- explain if the organisation reached its goals
- describe steps to be taken in the future if not satisfied with the result.

Feedback Key

✓	Meets expectations
✓ ✘	Partially met, aspects need improvement
✘	Not met

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.

Reporting Expectation

✓ ✘	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.

Reporting Expectation

✓	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
✓ x	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.

Reporting Expectation

✓	Signatories should disclose their conflicts policy and how this has been applied to stewardship
✓	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.

Reporting Expectation

✓ x	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.

Reporting Expectation

✓	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.

Reporting Expectation

✓	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.

Reporting Expectation

✔	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.

Reporting Expectation

✔	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 OR 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.

Reporting Expectation

✔	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.

Reporting Expectation

✓ ✗	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.

Reporting Expectation

✓	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.

Reporting Expectation

✗	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 fixed income assets, signatories should explain their approach to seeking amendments to terms and conditions in indentures or contracts
✓	For listed equity assets, signatories should provide examples of the outcomes of resolutions they have voted on over the past 12 months

