STEWARDSHIP REPORT 2022/23

SCOTTISH BORDERS COUNCIL PENSION FUND

(The Fund)

CONTENTS

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 primary purpose of the Scottish Borders Council Pension 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.*"

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), the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 and Local Government Pension Scheme (Scotland) Regulations 2018. 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 LGPS, Scottish Borders Council is designated as an "Administering Authority" and is required to operate and maintain a Pension Fund – the 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 LGPS, which is a public-sector pension arrangement and 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 Scottish Borders Pension Fund currently has 12,561 members and paid pensions totalling £28.3m during 2022/23 with contributions received from employers totalling £24.3m. The Fund had investments of £866.0m at 31 March 2023 across a diversified portfolio of asset classes.

STRATEGY

Funding Strategy

The funding objective is to ensure sufficient resources to pay all members' pensions both now and in the future. The Funding Strategy Statement and report on the 2020 Actuarial Valuation are available at Fund Strategy Statement 2022

The 2023 Actuarial Valuation is currently underway and the results are expected to be available later this year.

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 approach using appropriate asset liability modelling techniques. Following the 2020 Actuarial Valuation, a revised asset allocation was approved for the Fund and further refinements were made in March 2023. The revised asset allocation further spreads investments over a number of key asset markets, thus further spreading the risk and increasing the diversification of the Fund.

As a key part of its strategy, the Fund also recognises its responsibility to undertake investment in a socially responsible way, taking account of Environmental, Social and Governance (ESG) factors. The investment strategy, which contains the Statement of Investment Principles, is reviewed and updated annually. 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-making to external professional investment managers. In addition, the strategic asset allocation is reviewed on a regular basis, with the last review report to Committee in June 2021. Following the 2020 Actuarial 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 Fund has an overriding obligation to act in the best interests of the scheme beneficiaries; responsible asset ownership is seen as an integral part of this. The Fund believes that it is in the best interests of beneficiaries to integrate Environmental, Social and Governance (ESG) considerations into investment thinking, to increase returns on the Fund's investment performance and to reduce risk.

This over-arching view is set-out in the Statement of Investment Principles (SIP), articulating the Fund's approach and beliefs to investment, also in line with the United Nations backed Principles of Responsible Investing (UN-PRI).

In August 2021 work to identify and develop the Fund's investment beliefs was undertaken, with training and workshop sessions for Joint Committee/Board members and relevant officials. Led by investment consultant Isio, this involved a members ESG beliefs survey, covering a range of ESG related questions across 5 criteria (Risk Management; Investment Approach; Voting & Engagement; Reporting; and Collaboration).

Through subsequent exploration and debate of survey responses, a set of bespoke ESG beliefs were developed to drive the Fund's approach. These were subsequently signed off by the Committee, and incorporated into the Fund's Responsible Investment Policy.

Whilst these events took place prior to the period covered by this report, both the beliefs and policy are regularly reviewed, ensuring both remain relevant to achieving the Fund's ESG and wider objectives. This work also provided the foundation for subsequent activity, throughout 2022/23, on developing ESG objectives, metrics and reporting requirements for the Task Force ob Climate-Related Financial Disclosures (TCFD). This process will be be further described later in this report.

This approach increasingly provides criteria for the Fund to select and monitor investment managers and other service providers, ensuring their beliefs and approach are in alignment with those of the Fund.

Key principles underlying the investment approach are:

- Long-term perspective – due to the long term nature of its liabilities and employer covenants, the Fund is able to take a long term view and position its investment strategy accordingly.
- Diversification – to reduce risk and volatility the Fund seeks to diversify its investments.
- Stewardship – the Fund recognises it has a responsibility to invest in a socially responsible way and is fully aware of its ESG responsibilities. An updated Stratement of Investment Principles, was approved in March 2023 to strengthen commitment 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 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.

2. GOVERNANCE, RESOURCES AND INCENTIVES

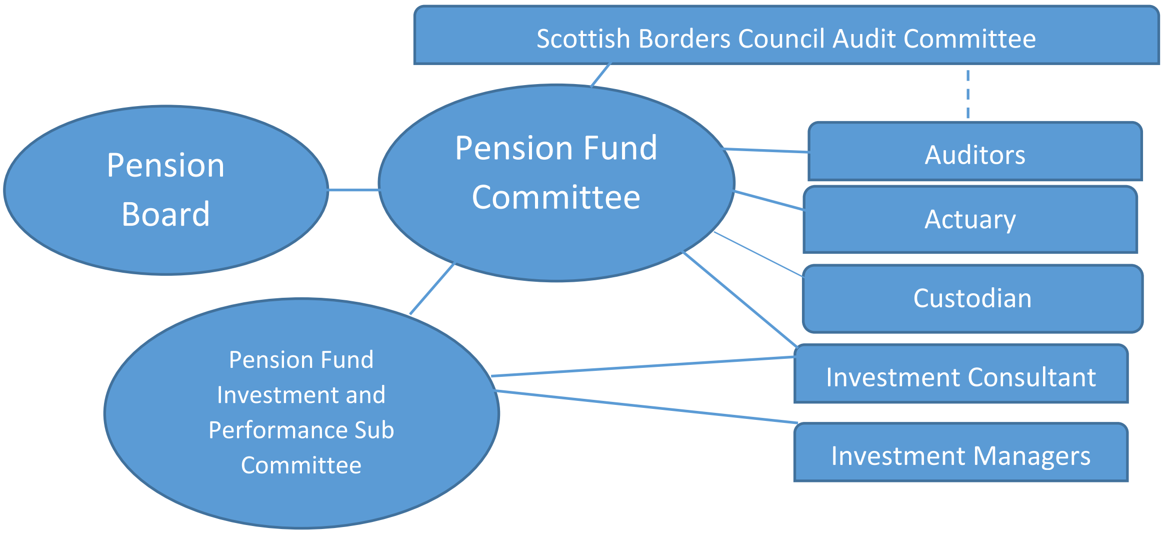
Signatories' governance, resources and incentives support stewardship

SCHEME GOVERNANCE
The Fund believes that effective internal governance arrangements are fundamental to ensuring the Fund is managed effectively, transparently and in compliance with regulations, as well as effective stewardship. The Fund is required to report on its Governance in the Fund's Annual Report and Accounts, which includes an Annual Governance Statement and a Governance Compliance Statement.

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 (Scotland) Regulations 2018 and Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 2016 and Local Government Pension Scheme (Governance) (Scotland) Regulations 2015. 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. Ultimate oversight and accountability for stewardship matters, rests with the Pension Fund Committee

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.

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

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

Custodian – Record keeping/custody of the Fund's assets, settlement of subscriptions/capital draws/redemptions/distributions, investment accounting quarterly and annually to LGPS/IFRS regulations and ONS reporting. This role is currently undertaken by Northern Trust.

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. The external audit function is currently provided by Audit Scotland.

Scottish Borders Council Audit 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 issues with the companies in which they invest.

- The Pension Fund Investment and Performance Sub-Committee meets every manager on an annual basis to scrutinise both investment performance and adherence to the Fund's ESG policy and beliefs. Detailed quarterly reports on performance are also submitted to the Sub-Committee by the Investment Consultant.

Pension Fund Committee
The membership of the Pensions Committee comprises of seven 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 (Scotland) Regulations 2015 and has no remit as a decision-making body. Where the Board is of the opinion that due consideration has not been given to matters of non-compliance the Board may refer the matter back to the Committee for 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 been no such incidents of this nature during the period covered by this report.

Pension Fund Investment & Performance Sub-Committee.

The membership of the Sub-Committee comprises of 9 members. The 7 members of the Pension Fund Committee and 2 non-voting 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 key areas each manager is required to provide updates on.

Internal Staffing resource

The Section 95 Officer, the Director of Finance and Procurement, is responsible for the financial Administration of the Council, including the Scottish Borders Council Pension Fund.

The provision of strategic and day-to-day Pension activities and management is provided by two separate teams of LGPS Officers, providing pension and investment, and pension administration services respectively.

Senior Managers of each team, the Pension & Investment Manager and the HR Shared Services Manager, report to different Directors, but work closely together. This ensures a comprehensive and cohesive service for pension members, employers and members of the Fund's Committee and Board structure. This joint-working includes producing the annual business plan and budget, close collaboration on producing the Fund's Annual Report and Accounts, the Fund's Risk Register, Pension Fund Committee and Board member training events, input to the triennial valuations, annual employer presentations and some member communications.

The experience, qualifications and structure of the teams of officers supporting the Council in carrying out its functions as Administering Authority for the Fund is as follows:

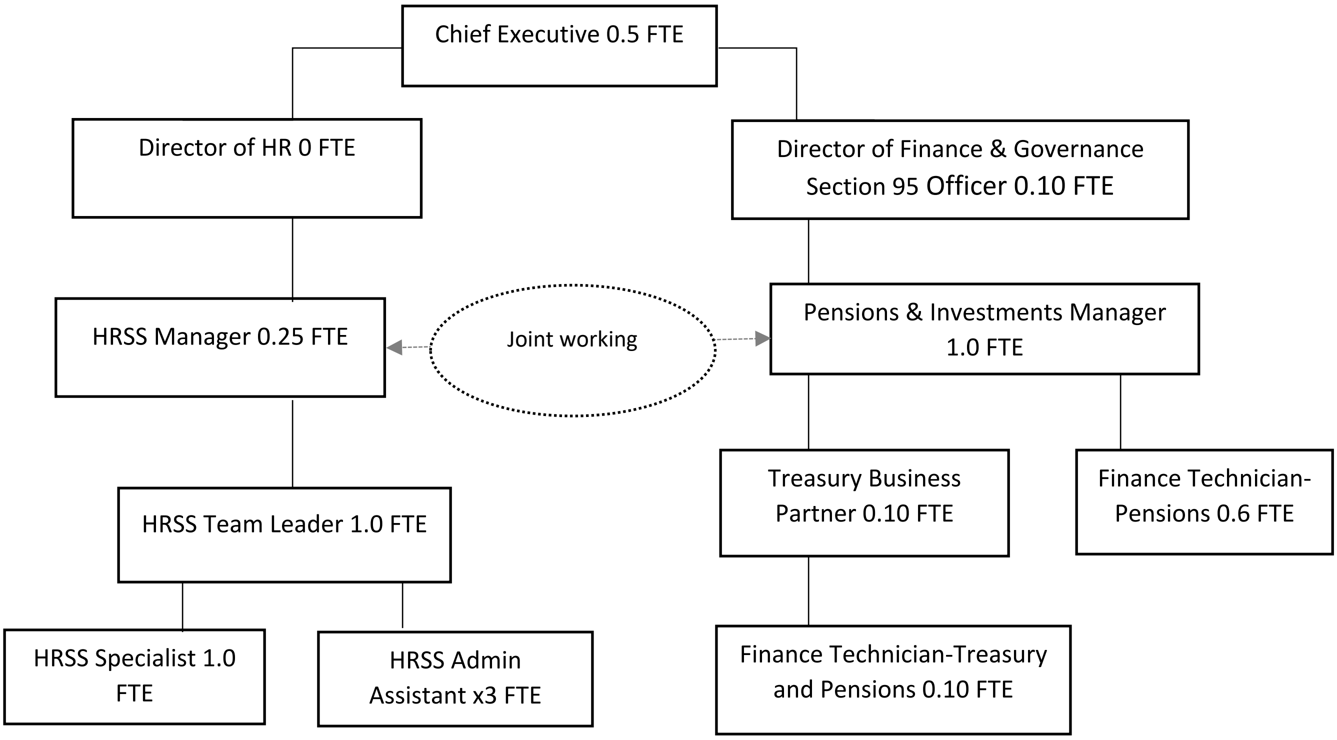
Experience

< 1 year experience	8%
1- 5 years experience	31%
6-10 years experience	0%
11-15 year experience	23%
> 15 years experience	38%

Relevant formal qualifications

Formal qualification	62%
No formal qualification	38%

Scottish Borders Council LGPS Pensions Officers team structure



During this reporting period, a number of significant personnel changes took place, with direct implications for the Pension Fund. The Director of Finance & Governance was seconded to the role of Acting CEO for much of 2022 and appointed as the permanent CEO in February 2023. The Financial Services Manager was seconded to Acting Chief Financial Officer and has since been appointed as the Director of Finance and Procurement. Additionally, late in 2022, the Pension & Investment Manager left the Council.

These changes impacted on the experience and knowledge-base available for the Pension Fund. The CEO has maintained an active involvement in pension matters, whilst part-time interim cover was arranged for the Pension & Investment Manager role.

However, some of the planned activities intended for 2022/23, including some related to stewardship activity and reporting, have been affected and have had to be rescheduled. This includes planned activity on member communications/surveys, more pro-active employer engagement and developing a means to assess/measure effectiveness on beneficiary communication and engagement. Activity on identifying relevant collaboration opportunities has also been delayed.

Fund Advisors

Specialism	Company	Key services provided during the year 2022/23
Actuary	Hymans Robertson	Input into the strategic asset allocation review and responsible investment policy
External 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. Led on update of 2022/23 review of responsible investment policy, agreement of key goals and improvements to the monitoring regime of the policy Continued to advise Fund on implementing asset re-allocation. Led on setting ESG objectives & metrics, as well as preparation and project planning for TCFD obligations and reporting.

<u>Skills & Knowledge</u>

To ensure the members of the Pension Fund Committee and Pension Fund Board have the required level of skills and knowledge 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.

The Scottish Local Elections in 2022 resulted in changes in membership, with a number of Pension Committee and Pension Board members being replaced by new members. In view of these changes, a 1 day training/induction event was provided for both Pension Committee and Board members in May 2023 (outside the period covered by this report). This provided input on Pension Fund structure, governance, investment processes and decision making, pension administration and legislative requirements and actuarial valuation. Whilst intended to integrate new members more quickly (and complement Trustee Toolkit learning), it also provided a useful refresher for other members.

INCENTIVES

As previously noted, the Fund does not directly invest the assets itself and delegates responsibility for this to its investment managers to act 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).

<u>Internal incentives:</u> 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 2023 are described below.

Activities	Details
Implementation of Investment strategy	Development of bespoke ESG objectives and metrics, as a fundamental aspect of the Investment strategy and mechanisms for monitoring performance
Responsible Investment Policy revised	Responsible Investment Policy reviewed and revised in March 2023. 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 Pension Fund 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 2022 were published in accordance with statutory timescales, with the draft accounts being open to public inspection. The final audited accounts can be found at Annual Accounts 2021-22 Audited | Scottish Borders Council (scottishborderscouncilpensionfund.org) The draft accounts for year ended 31 March 2023 have also been prepared and can be found at Unaudited Pensions Annual Report 2022-23 | Scottish Borders Council (scottishborderscouncilpensionfund.org) These are draft accounts subject to audit which will be finalised in October 2023.
Training on relevant matters	Training was provided in key areas identified to members of the Pension Fund Committee and Pension Fund Board. This included The Pension Regulator Toolkit, for new members, workshops on ESG objective setting and metrics, briefing sessions on TCFD reporting requirements and process for Committee/Board members, led by the Investment consultant. Other learning activities included attendance at Pension & Lifetime Savings Association (PLSA) conference, with sessions on geopolitical and macro-economic environment, TCFD reporting and proactive engagement with pension members.

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 the 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 fully with the CMA's requirements.

Once appointed, managers are incentivised to align the work they do 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. This process is described in more detail later in this report.

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 made by Parliament under the provisions of that 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 the Code and that their actions comply with its requirements. The code can be accessed via the link below

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 register any notes of interest with the local authority's Monitoring Officer within one month of becoming a Councillor. Councillor 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 includes 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.

The Register of Interest for each Councillor is a publically available document and is contained on the Council's website.

It is a mandatory requirement of that Code that Councillors identify any item of business in which they have a Conflict of Interest, and that they then declare that Interest and remove themselves from any discussion on that item.

If a Councillor is found to have breached the Code of Conduct by the Standards Commission a range of penalties could be imposed form censure all the way through to disqualification from holding office

Conflicts of interest policies – Employees

As the Administrating 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 Authority's online system any private interests which could influence their decisions. Employees are required to maintain their register as circumstances change. Employees must declare an interest with their line manager if there is a conflict and should be removed from involvement in work where required and not attend any relevant meetings.

Breaches of the Code of Conduct by Employees can be dealt with by the Council as a Disciplinary matter in accordance with the organisation's disciplinary policy. The ultimate sanction under that policy is dismissal.

Investment Managers and Service Providers

The Fund requires all its investment managers and services providers to maintain a Conflicts of Interest policy and 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 service providers have, 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.

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**
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.	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
The Code of Conduct requires that Members consider whether they have an interest connection in with any matter on the agenda for a meeting and if so whether there it amounts to an interest which they is a need to disclose. such an interest.	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
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	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.

interest they may have in any item on the agenda or during discussions throughout the meeting and the outcome is declared in the public minutes.	
Advisors to the Fund: upon appointment Independent Advisors are required to sign a declaration statement outlining any potential conflicts they may have. 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	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.
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.	Where a potential or actual conflict of interest is identified then the Officer is removed from the relevant work stream. 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.
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. 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.	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.
Political Interests and beliefs: The primary mechanism for the identification of potential and actual conflicts relating to	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

political matters is for Members of the Committee, Board and 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.	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 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

There have been no instances of conflict of interest in 2022/23

4 PROMOTING WELL FUNCTIONING MARKETS

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

Risk Management Policy

The Fund has a formal Risk Management Policy in place which governs decisions made by the Pension Fund Committee in relation to the Fund. This policy is maintained and updated on a regular basis. A key aspect of this is the Fund's Risk Register. This provides an overview of the key risks faced by the Fund, the likely hood of them occurring and the estimated impact if they did occur. This is updated and discussed at each quarterly Pension Committee and Pension Board meeting.

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 conducts a full risk assessment of its activities (active and planned), which is reviewed annually by the Joint Pension Committee and Pension Board and monitored quarterly. 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 Scottish 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 risk register includes risks to the Fund's investments from issues such as market fluctuations, interest rates, currency etc., and any failures by its investment managers or other service providers. The Fund also recognises the risks to investments due to ESG factors (such as climate change), that could materially affect long-term investment returns.

The risk register is formally reviewed on an annual basis (last done in June 2022), with quarterly monitoring of progress on agreed actions being reported to the 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 Fund's response to these risks (i.e. whether to tolerate, or treat risks through mitigation actions), are acceptable to those charged with Governance. A summary of key risks is also provided in the Fund's Annual Report.

Examples of areas of risk the Committee have reviewed and discussed during 2022/23 are shown below -

Risk	Response
Performance: Adverse market movements impact on the Fund's long-term performance: e.g. Continued Global COVID-19 Pandemic, inflation etc.	• Continued monitoring of performance work in line with Investment Strategy and review of asset allocation. Diversification of asset classes, geographical spread and investment managers mitigates the risk, along with continued scrutiny of strategic asset allocation by Investment & Performance Sub-Committee (see examples below). The risk controls were also updated at the June 2022 risk review to reflect implementation of revised Investment Strategy. • Potential new investments are closely scrutinised by officers and Fund Advisors to assess if the product meets the investment criteria of the Fund. • Review of Responsible Investment Policy undertaken in March 2023, including discussion on potential economic impacts of climate change risks, importance of investment with managers with strong ESG credentials and need for a plan for improved monitoring of the Responsible Investment Policy and climate data. • Quarterly investment advisor reports to the Pension Committee, highlight market wide risks including macroeconomics, geopolitical and systemic factors. Investment managers also include both macroeconomic and market level analysis of key factors that have (or could) impact on performance
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.	• Officers of the Fund respond to government consultations where relevant to help influence policy. There has been no relevant government consultation activity in this reporting period. • 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 the Pension Committee/Pension Board (and, where relevant, employers and scheme members) in a timely way as to any amendments and their impact to the Fund. Examples include briefing on potential impacts of The Pension Regulator's 'Single Code' on Fund governance, and the implications of the McLeod and Goodwin Judgements, on both the Fund and its beneficiaries.

The Fund's strongest mitigation against market-wide and systemic risk, is through a well-diversified investment portfolio and has actively worked with its Investment Consultant and managers over the last 2 years to achieve this. 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, the global economic impacts of the Russian/Ukraine conflict have been successfully mitigated, by this diversification, to an acceptable degree.

The Fund heavily relies on its investment managers and advisers in helping identify and respond to market-wide and systemic risks, and to keep the Investment & Performance Sub-Committee well informed.

Investment Managers

The Fund ensures that its investment managers fully integrate ESG related risks into their decision making processes and that these are reflected in their responsible investment policies. Managers are encouraged, via an 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 to demonstrate they are actively working towards becoming signatories of the Stewardship Code from 2021, and has incorporated this as a mandatory requirement for any new appointments process to run one or more of the Fund's mandates.

The Fund as a defined benefit scheme is a long term investor and consequently is less impacted by short term market events or volatility. For example, throughout the COVID-19 pandemic and, economic impacts of the Russian invasion of Ukraine, the Fund continued to maintain its focus on what it believes is a sustainable investment strategy that protects 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 relatively small size of the Fund in LGPS terms and the limited resources the Fund is not able to actively participate in many 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, in line with the expectations outlined in its Investment Strategy and now detailed in the contracts.

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 the requirements and the objectives of the asset allocation strategy. Where they do not, mandates are terminated and re-tendered.

Case Study 1: Engagement in relation to the Russia/Ukraine Conflict

Following the outbreak of the conflict between Russia and Ukraine the Committee's attention was drawn to the Fund's holdings in Russia when it became likely financial sanctions would be imposed on Russia. To assess the extent of the Fund's exposure the Committee instructed their investment advisor, Isio, to reach out to all relevant investment managers to confirm their Russian exposure and what action was being taken for these holdings. At the time the conflict started the Fund's exposure to Russia was less than 0.1% of total Fund assets.

The Fund's exposure to Russia was focused in two mandates – LGT Crown Multi-Alternatives Segregated Portfolio (a pooled alternatives fund) and Baillie Gifford Global Alpha Paris-Aligned Portfolio (a segregated public equities portfolio). LGT advised that they were managing the positions within the pooled fund (private equity and emerging market debt) accordingly, however, due to the illiquidity of the private equity holdings limited immediate action would be possible. Baillie Gifford advised that they had sold a portion of the two direct Russian holdings they held on behalf of the Fund ahead of the closing of markets and, in a prudent step, had subsequently marked the holdings to zero in the portfolio. The Director of Finance and Corporate Governance gave a formal update on the position of the Fund's investments to the Committee at the March 2022 Pension Fund

Committee and Pension Board meeting to make them aware of the evolving situation. The Committee responded positively to this update, noting that, should they receive any questions regarding the Fund's Russian allocations, they could confidently say that any holdings were not held directly by the Council, and that allocations held indirectly were minimal with moves were being made to reduce them to zero.

The Committee also requested the investment managers make no new investments into Russian entities or financial instruments. The Fund's investment managers agreed to manage the funds accordingly, facilitate an orderly exit of positions where needed, and to avoid any new investments in this area going forward.

Case Study 2: 2023 Banking Crisis

In March 2023 following the collapse of several US banking entities including Silicon Valley Bank ("SVB"), Signature Bank and Credit Suisse, the Committee requested information from the Fund's investment consultant, Isio, and investment managers to understand the position and access the wider ramifications for the Fund. It was identified that exposures to Credit Suisse, and the other impacted US banks, were minimal at the overall Fund level, and that it was expected to have little impact on the Fund's overall performance.

As part of the discussions with the Fund's investment managers, it was identified that one of the equity managers had made a small but recent investment in Signature Bank in the month prior to its failure. This investment was subsequently written to zero value following the firm being taken into receivership. The Committee asked Isio to liaise with the manager, and investigate the due diligence carried out, both in terms of process and risk management, prior to investing in Signature Bank.

Isio provided a detailed summary of their findings to the Committee and hosted an in-person meeting between the Committee and the manager, to allow the Committee the opportunity to directly engage with and raise questions to the manager, outlining their concerns relating to the investment. The manager acknowledged the concerns raised, and provided detailed rationale of their investment thesis, and outlined their due diligence process.

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 the Funding Strategy Statement and the Statement of Investment Principle's. Other policies are reviewed at a minimum every 3 years. 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 independent audit of the control environment in line with agreed public sector standards for Internal Audit, to provide an annual opinion of the effectiveness of systems of governance, risk management and internal controls in operation within the Fund.

External Audit
The annual Fund Report (including Accounts) is subject to external statutory 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 2022 review found the Fund has appropriate arrangements in place to support governance and accountability.

ESG stewardship has not specifically been included in internal or external audits, prior to or during this reporting period. However, from 2023/24 onwards, the remit for Internal Audit is to be extended and will include ESG/stewardship related areas.

There are currently no specific plans for Audit Scotland to include ESG considerations in its external audit, although its audit remit is under regular review,

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 2022 Governance Policy and Compliance statement was fully compliant with published best practice guidance. Governance Policy and Compliance Statement 2022

An external review of the Fund's governance structure was undertaken in December 2022, by an independent adviser. This reviewed current arrangements against existing TPR Codes of Practice, as well as potential changes anticipated in the (yet to be published) TPR 'Single Code'. This review covered: governance structure & decision making, pension fund objectives & planning, outcomes & oversight, and risk management The report highlighted existing strengths/good practce and recommendations for improvement.

At its March 2023 meetings, the Joint Pension Committee & Pension Board agreed that a plan should be produced to fully assess the implications of this report and take this work forward. Reccomendations on risk management and internal audit have already been initiated.

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 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 approach to stewardship is efficient and effective.

Reporting
The Fund 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.

The Fund applied to the Financial Reporting Council to become a signatory to the Stewardship Code. Whilst its first submission was not accepted, additional work on the feedback areas provided enabled a further submission to be made in October 2022. This application was confirmed as successful in February 2023, providing further external assurance on developing and improving stewardship practices and reporting.

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 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 2023.

	Active members	Deferred members	Pensioners	Total Beneficiaries
People	4,842	3,187	4,532	12,561
Percentage	38.5%	25.4%	36.1%	100%
Average age	47.1	49.9	70.7	

As stated earlier, the Fund's primary aim is:*"To provide for members' pension and lump sum benefits on their retirement or for their dependents' benefits on death before or after retirement, on a defined benefit basis".*

In order to meet this overriding objective, the Fund will act in the best financial interests of its members. Instead of solely pursuing the highest possible return, the Fund will take into account all financial risks within its investment strategy, including ESG risks and considerations. The Fund believes that a positive approach to 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 this fiduciary duty, the Committee believe it is imperative to act "prudently, responsibly and honestly" and therefore consider both short term and long-term risks when making investment decisions.

In addition, in terms of communication, Pension Committee and Board meetings are open to Fund members to attend and the dates and agendas of these meetings are publicised ahead of time. Members are able to communicate with the Fund and any enquiries are considered and responded to in a timely manner. Information relating to the Fund's activities are published in the Pension Fund annual report and in communications to members. Responsible investment topics and manager stewardship activity are also presented to the Committee on a regular basis. Any instance where further information, engagement or scrutiny is required is directed to the investment managers.

The Fund has a fiduciary duty to ensure the needs of members are met, which includes ensuring that funds are available to pay benefits and having the required funding level to maintain fund stability and solvency.

Activities to achieve both the ultimate investment time horizon and maintain the funding level are described in the Fund's 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 accessed via the link below:

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

Investment Time Horizon
The Fund is an LGPS, located in the Scottish Borders, with over £800m of assets under management.

As is customary for many LGPS schemes, the Fund remains open to new members and the future accrual of benefits and therefore has a very long-term investment horizon for operating as a going concern pension scheme, 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.

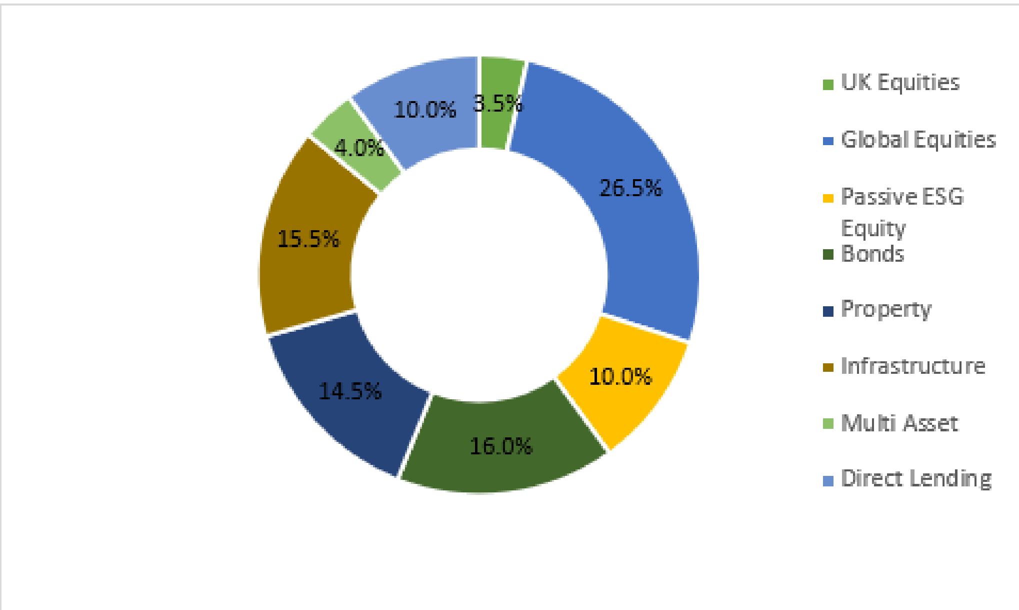
For the purposes of investment modelling and strategy, and based on the liability profile of the Fund provided by the Fund Actuary, the estimated duration of the ongoing liabilities is c.17 years (as at the 2020 Actuarial Valuation). This long term position is considered as part of the investment strategy decisions and in setting objectives of the Fund. (the overriding objective of the Fund is to achieve and maintain a 100% solvency level; the last assessment, carried out in the 2020 triennial valuation is 110%).

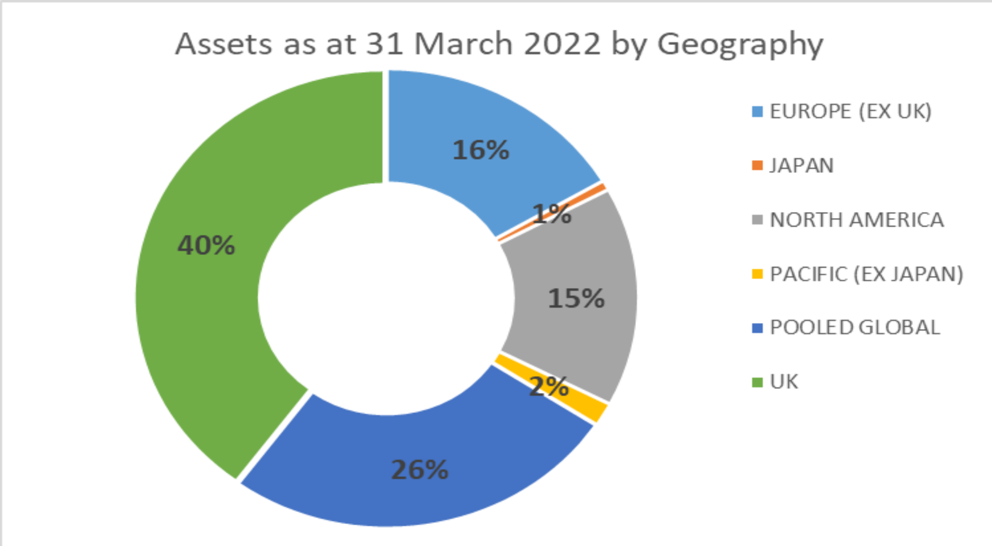
Similarly, when performing climate scenario analysis on the Fund's investment strategy, as part of the work completed for TCFD requirements, the Fund considers the impacts over a long-term horizon of c.20 years (broadly in line with the duration of the liabilities).

Breakdown of Assets
The Fund, as at 31 March 2023, held assets valued at £866m. The Strategic Asset Allocation contain the Statement of Investment Principles sets the investment classes. The Fund has a diversified portfolio which spreads the risk and allows the Fund to meet its objectives, at the same time ensuring cash is in place to meet all cashflow commitments. A full listing of assets are available on the Fund's website and can be accessed via the link below

https://www.scottishborderscouncilpensionfund.org/resources/investments-as-at-31-march-2022/

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





Both graphs are still current as at March 2023 and feature in the 2023/24 Pension Fund's Annual Report.

Communications with Beneficiaries

The Joint Pensions Committee & Pension Board reviewed and approved the current Communications Policy in September 2022. 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

Information is also provided, sent with regular mail-outs (e.g. with Annual Benefit Statements), to keep members informed of any relevant legislative changes, or keep them appraised of facilities available via the 'self-service' portal. In addition, members receive bulletins via the internal staff communication channel 'Viva Engage'. Using this facility, eye-catching 'poster-style' bulletins can be sent to all members to alert them to changes, or sign-post them to useful information or events, A recent example included informing members of Pension Awareness Week and an invitation to a pensions webinar. Other bulletins have included an introduction to member 'self-service' and a reminder on the release of Annual Benefit Statements.

Pension Committee and Board meetings are open to members to attend and responsible investment topics and manager stewardship activity are presented to the Committee on a regular basis. The dates and agendas of these meetings are publicised ahead of time. Members are able to communicate with the Fund on any points of interest/enquiries and these are considered and responded to in a timely manner.

The Fund also communicates with its members through a variety of publically available documents on its strategy and performance. Information relating to the Fund's activities are published in the Pension Fund Annual Report and Accounts, which details the activities of the Fund and disclosure requirements as set out in the CIPFA Code of Practice. The Annual report also describes the Fund's governance activities for the year.

The ultimate beneficiaries of the Fund are the scheme members. However, as 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 also key beneficiaries. This is because from an investment stewardship perspective, employers bear the majority of the financial risk and reward.

As such, the Fund also maintains regular contact with employers, who also receive pension updates (e.g. legislative changes, rate changes etc) as necessary, whilst the annual Employer Liaison Meeting keeps employers updated and informed. These meetings provide updates and presentations on a range of matters, such as annual accounting or reporting requirements, policy or procedural changes and an overview of the investment strategy, fund performance and any changes to the investment portfolio. The Employer meeting for 2022, for example, included a session outlining the impact of ESG and climate change factors on investment and the Fund's responsibilities for responsible investing and ESG considerations.

Formal and informal consultations with employers also include

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

Communication on ESG and Stewardship

Information on the Fund's ESG journey and progress is provided to members and employers through the variety of means outlined above and through attendance at Pension Committee and Board meetiings (or accessing the publically available agendas and minutes), which include ESG related agenda items. The Fund welcomes this transparency - not only for members and employers, but the wider general public are also free to attend these meetings.

Examples of Engagement Activity with Beneficiaries

The Pension Fund website allows members to access information and documents. The graph below details the number of visits to the site during the reporting period. The scheme website ca also be accessed at www.scottishborderscouncilpensionfund.org

Communication Performance

Examples of communications that took place during 2022/23

- The annual Employer Liaison meeting was held in March 2022 as a virtual meeting due to the continued hybrid working practices. 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
- With Member Self Service having been deployed there was continued engagement with active members to encourage those who had not already done so to sign up and provide access to the Annual Benefit Statement
- 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

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 Committee and/or Board consider members views when it comes to managing the assets and this is primarily achieved through the employer and member (via trade unions) representation on the Pensions Board.

What action has been taken as a result

Investment Performance (at Fund and manager level)
Quarterly
Detailed written reports provided to the Joint Pension Fund Committee and Board and to Performance & Investment Sub-Committee. Reports provided by the Fund investment advisors, Isio. Reports are presented at meetings, followed by detailed questions from members.
Key actions and outcomes in 2022/23 included: • Concern was raised about the performance of the Fund's growth manager given the significant shift in the interest rate environment, as central banks globally hiked rates in response to a material spike in inflation. The manager's growth style materially underperformed, as rising interest rates provide a headwind to growth stocks, as future growth is discounted at a higher rate. This can result in meaningful declines in the value of the underlying companies. Questions were directed to the manager, who reconfirmed their investment thesis, and that they were confident that they would be able to continue to deliver growth for the Fund going forward. Whilst there was comfort in the manager's approach, additional monitoring was agreed. No additional action was required at this point. • In response to the resignation of the portfolio manager of the Fund's preferred Residential Property strategy, Isio downgraded their view of the strategy from "Meets Criteria" to "Partially Meets Criteria". This decision prompted the Committee to revisit their decision and review the alternative providers within the space. After careful consideration, the Committee agreed to appoint their second shortlisted manager to manage the mandate.
Responsible Investment Training
August 2022
Detailed written report provided to the Joint Pension Fund Committee and Board by the Fund's investment advisors, Isio. Report provided detailed training on Responsible Investment, the current regulatory landscape and proposed 4 key metrics for the Fund to adopt, based on the current feasibility and coverage of the Fund's managers, in order for the Fund to align itself with the expected TCFD requirements.
The Committee agreed to adopt the following metrics for the Fund: • Absolute emissions metric: Total (Absolute) Greenhouse Gas Emissions • Emissions intensity metric: Carbon Footprint • Portfolio alignment metric: Implied Temperature Rise • Additional climate change metric: Climate Engagements In addition, the Committee agreed a target of "relative improvement" as opposed to an absolute or fixed target i.e., "reduce or increase over time" until TCFD regulations stipulate anything stronger. This can be reviewed over time.
Responsible Investment Metrics and Targets Report
September 2022
Detailed written report provided to the Joint Pension Fund Committee and Board by the Fund's investment advisors, Isio. The report documented each managers' ability to report on the Committee's agreed metrics and the portfolio's current position.
The Fund's metrics were identified:

• Total Greenhouse Gas Emissions for the portfolio: 16,269.1 metric tonnes (normalised total GHG emissions across managers that were able to report was 2,324.2 metric tonnes) • Carbon Footprint for the portfolio: 17 metric tonnes per $1million investment • Implied Temperature Rise provided by managers ranged from 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 was 2.5°C. • Climate Engagements: 290 individual engagements with companies within the portfolio where managers were able to report (normalised engagements across the managers that were able to report was 48 engagements) This report acted as the Fund's first annual assessment and will form the benchmark for future measurement and assessment of progress against the Committee's "relative improvement" target. Given gaps in the data from the Fund's managers, it was agreed that the Fund would engagement with the individual managers to drive improvements in the data availability and reporting quality.
Impact Assessment
December 2022
Detailed written report provided to the Joint Pension Fund Committee and Board by the Fund's investment advisors, Isio. The report outlined the ESG and Climate score for each manager and identified actions to engage with the investment managers on.

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.

7 STEWARDSHIP, INVESMENT & 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 and requires its Investment Managers to adhere to these standards in all their investments activities and monitors how these standards are upheld against the Policy's overarching principles .

Issues prioritised within investments

The Fund, with support from their investment consultant, assesses new and exiting investments (or asset classes) and respective managers against a wide range of evaluation criteria including business and operations, investment approach or philosophy, risk management, investment team, as well as ESG issues and considerations (including climate change).

Prior to investing in any asset class, the Fund seeks a thorough understanding of the asset class, and to assess the suitability of the investment, from an investment process/philosophy and risk management perspective, both on a standalone basis and in the context of the Fund's wider portfolio.

The Statement of Investment Principles and Responsible Investment Policy sets out what the Committee expects from all investment managers and covers all elements and risks, including ESG factors, which need to be considered in the investment decision making process. The highest standards are expected across all managers and these are not diluted for particular geographies or asset classes. Compliance with a variety of ESG factors are included and assessed in every mandate awarded. There are no specific time limits set in relation to these but ongoing and continual improvements, over the investment period, are required and this is regularly monitored.

ESG issues as a priority within investments

The Fund is committed to being a long-term steward of the assets it invests in, and takes into account all financial risks, including ESG considerations. The Joint Pension Committee and Board believe this approach will protect and enhance the value of the Fund over the long-term, in the best financial interests of its members. The Committee has a fiduciary responsibility for the Fund and its members for the determination and oversight of investment policies and the implementation of those policies. The Fund regularly appraises, with the assistance of its investment consultant, the ESG credentials and performance of its investment managers to ensure that its ESG policies are properly reflected within the investment portfolio and the managers are continuing to improve and enhance their ESG capabilities. The Fund expects its investment managers to integrate material ESG factors within its investment analysis and decision making.

In cases where the Fund believe a manager is not meeting the requirements of the Fund, the ongoing suitability of the investment would be reviewed and a more appropriate investment manager sought.

Responsible investment considerations, including climate risks and opportunities, are addressed in investment manager and other service provider appointments and included in the Investment Manager Agreements (where relevant). These are legal contracts in place between the Fund and its respective investment managers governing the mandate specific and approach taken.

The Fund believes that the companies that manage assets on its behalf should at least be signatories to common codes such as UNPRI, GRESB, TCFD and the UK Stewardship Code. Existing investment managers who operate outside of these frameworks, need a valid reason for doing so (for example they are signed up to other relevant bodies for their industry or specific asset class or region). Where this occurs, the Committee will continue to encourage the managers to sign up to the common codes, in line with their requirements for new mandates. New investments will not be made into managers who are not signatories to UNPRI, GRESB, TCFD, the UK Stewardship Code, or equivalent regional or asset class body, without valid reason. The Fund requires all managers to demonstrate their continued active commitment by providing an annual UNPRI report, these are reviewed as part of the annual good governance review of all managers.

The annual review of the managers for 2022 reported that 16 out of 17 Managers were signatories of UNPRI representing 98.8% of the Fund. The Fund continues to engage with the remaining managers to encourage them to become UNPRI signatories.

The Committee and Pension Board members have received and will continue to receive training and education on ESG matters including climate change, governance and other risks, in order to keep up to date on the latest sustainable investment regulations and opportunities. Training will be recorded in a training log and reviewed under regular training needs and analysis assessments. Key ESG issues will be considered and included in the Fund's Risk Register, where they are material.

<u>Responsible investment approach: Investment Managers</u>

Responsible investment activity is undertaken through various methods within the Fund's investment strategy.

1) The Fund's investment managers who are required to exercise the Fund's voting rights, in line with the Fund's RI Policy, are also required to incorporate analysis of ESG issues into their investment analysis and are expected to engage on an ongoing basis on these issues with the companies in which they invest. The Committee ask the manager presents an overview of these issues when they meet each of the managers for a governance update (at least once a year).
2) The assessment of each investment manager in relation to their capabilities and consideration of their overall ESG approach and management of ESG related risks, including climate change, has been completed with the support from the Fund's investment advisor. Each fund is rated on its ESG integration credentials across five criteria; investment approach, risk management, voting and engagement, reporting and collaboration, as well as an overall ESG and climate specific rating. This assessment process also provides proposed actions, communicated to each investment manager, to drive improvements within the Fund and the broader industry.
3) For new manager selection exercises, a thorough due diligence process is followed, against an agreed evaluation criteria, across investment and stewardship, including the integration of material ESG issues.
4) The Fund has recently signed up as a supporter of the TCFD framework and is committed to reporting in line with the recommendations in the near term, irrespective of the timeline of regulatory requirements.

Manager selection, retention and engagement
The Committee continues to undertake both direct engagement with its investment managers (through regular reports and, at least, annual meetings with each manager), and indirect engagement, through their investment consultant (providing quarterly reports). This stewardship activity covers the whole spectrum of ESG issues and risks.

The Fund has also developed bespoke ESG beliefs, included in the latest Responsible Investment Policy.

ESG metrics and targets
During 2021 and 2022, the Fund identified the key ESG priorities for the Fund, through a series of workshops and using a framework based on the UN Sustainable Development Goals (UN SDGs) framework. This framework was used to set specific priority objectives for the Fund and to identify metrics, in line with the ESG beliefs. Six key responsible investment objectives were identified:

- SDG 13 – Climate Change
- SDG 7 – Affordable & Clean Energy
- SDG 1 – No Poverty
- SDG 2 – Zero Hunger
- SDG 3 – Good Health & Well-being
- SDG 10 – Reduce Inequalities

It was agreed that SDGs #7 (Affordable and Clean Energy) and #13 (Climate Action) would be prioritised, alongside a number of socially focused objectives.

Given the anticipated TCFD reporting requirements, and the Fund's wish to comply voluntarily with its requirements, an initial focus on climate action was agreed for developing metrics. It is intended to use these to engage with the Fund's investment managers.

The metrics selected by the Committee for initial monitoring and engagement with investment managers are as follows:

SDG 13 (Climate Action)	Scope 1 & 2 carbon emissions (tonnes of CO_2e
	Scope 1 & 2 carbon footprint (tonnes of CO_2e / £m investment revenue
	Implied temperature rise (^oC)
	No. of climate-related engagements

The Fund reported its initial metrics in September 2022. As no additional measurements have been taken it's not been possible to identify what (if any) improvements have been made. The intention is to continue collating and reassessing these metrics on an annual basis. It is expected that the recent strategic allocations will have improved the Fund's position for future assessments.

Because this is a developing area, with data continuing to evolve, the Fund will reassess and refresh the framework as data improves over time. Whilst some metrics data remains inconsistent across the Fund's investment managers, we expect to see improvements, with frameworks such as TCFD, improving this position.

The Fund believes that this framework, once fully implemented, will help identify if investment managers are improving over time, in line with the Fund's objectives. This may also help to identify any specific actions required, whether that's improving disclosure, driving year on year metric improvements, increasing stewardship effectiveness, or managing exposures (for example, to reduce the carbon footprint/emissions of the Fund). The Fund will look to review and implement more specific, relevant, and quantifiable targets for these metrics once data becomes more readily available.

Outcomes

As previously mentioned, the Fund agreed a set of specific ESG beliefs and objectives which underpin the Fund's Responsible Investment Policy. In addition, the Fund maintains separate governance, risk management (including a regularly updated Risk Register) and conflict of interest policies.

Given the ESG beliefs and objectives (aligned with the prioritised SDGs), the Committee has started proactively integrating ESG considerations and opportunities into the Fund's investment strategy and over the last couple of years have made a number of strategic changes to drive improvement in the above metrics. The various actions taken to date include:

- Replacing the existing passive UK equity mandate in favour of a global sustainable strategy. This was achieved by allocating to the LGIM Global Future World Index Fund.
- Switching the Fund's existing allocation to Morgan Stanley (Global Brands Fund) to their Global Sustain Fund.
- Switching the Fund's existing Global Alpha mandate with Baillie Gifford to their Paris-Aligned strategy.
- Introducing an allocation to Social Housing via CBRE's UK Affordable Housing Fund.
- Introducing a standalone allocation to Natural Capital within the strategy via Nuveen's Global Timberland Fund.
- Introducing a specific renewable infrastructure mandate via Quinbrook's Renewables Impact Fund.

The Fund is due to undertake a review of its investment strategy in Q4 2023 following the Actuarial Valuation, and ESG considerations and opportunities will be a key focus of this review. There is also an intention to build out an "Impact" mandate within the strategy, with the allocations to Natural Capital and Renewables acting as the seed investments.

8 MONITORING MANAGERS AND SERVICE PROVIDERS

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

The Fund employs a range of service providers and advisors who assist with its stewardship activities (listed earlier in the report) and its investment managers. The Fund conducts public procurements re-tenders as necessary, for all services, to ensure consistently high quality advice and a fair selection process.

The Responsible Investment Policy requires the Fund to review and report, on an annual basis, the performance of Managers and the Pension Fund Investment & Performance Sub-Committee meets every manager at least once a year to discuss performance against agreed benchmarks.

Investment managers are assessed on their investment capabilities relevant to the specific mandate and asset class they have been selected for. This includes an assessment of how ESG considerations and risk, including climate change, are accounted for within the portfolio. This is done through the Fund's investment consultant, Isio, via an annual ESG Impact Assessment report of all its investment managers. This includes a progress update which outlines the progress every manager has made against the previously proposed ESG actions.

In December 2022, the Investment & Performance Sub-Committee, with Isio's support, undertook its first ESG Impact Assessment. This was an assessment of the ESG capabilities of each investment manager the Fund invests in. Each manager was rated, by Isio, as follows: 0-1 (significantly fails to meet criteria), 1-2 (practically meets criteria), 2-3 (meets traditional criteria), 3-4 (meets additional sustainability criteria) and 4-5 (meets additional impact criteria). Ratings were given against a number of questions, across five ESG criteria, (namely Investment Approach; Risk Management; Voting & Engagement; Reporting; Collaboration), using a quantitative scorecard.

The assessment also provides an overall ESG score and a climate score for each investment manager.

As part of this assessment, proposed actions are outlined for each manager, with the intention that managers' progress against these actions, which are monitored to ensure improvements are achieved, in each manager's ESG approach. These actions focus on the priority areas, thought to make the most significant improvements from an ESG perspective.

Examples of actions for one investment manager in 2022 include: tracking social metrics as a part of regular reporting, implementing a firm-level net zero target and consideration of alignment with a temperature pathway.

In addition to the annual assessment, every investment manager is required to complete a due diligence questionnaire and to provide key documents. A summary of the responses are reported to the Joint Pension Committee & Pension Board meetings and also reviewed by Audit Scotland, to demonstrate governance review of each manager.

Following the initial ESG Impact Assessment in December 2022, the Committee undertook a 6-month progress update in June 2023. The Committee noted the progress made and indicated their intention to liaise with the investment managers regarding progress on ESG matters on at least an annual basis.

The Fund complies with the requirements set under the Competition and Market Authorities' (CMA) Investment Consultancy and Fiduciary Management Market Investigation Order 2019. With effect from December 2019, the Fund has set strategic objectives for Isio as their investment consultant/advisor. The strategic objectives were prepared with reference to TPR's guidance, combining a mixture of quantitative and qualitative measures.

In line with the regulatory requirements, the Committee has confirmed the Fund's compliance with the CMA Order and will continue to do so on an annual basis. The Committee assess their investment consultant and their other advisors on a regular basis and in relation to the services received and consider a re-tender process on a rolling basis. For a number of service providers, services are provided on a contract basis and KPIs are reported and monitored.

Whilst climate considerations feed into the assessment process of both advisers and investment managers, these are likely to be formalised further as part of anticipated incoming TCFD regulations for LGPS schemes. The Pension Committee and Pension Board have actively considered the upcoming TCFD regulations and agreed to proceed with preparations to ensure compliance once the regulations are formally agreed. The Committee has indicated it may seek to comply with requirements ahead of the regulations being formalised.

To facilitate this, a formal TCFD project plan was developed in June 2022, setting out the requirements of TCFD, and proposed timings for covering each element (initial training, agreeing appropriate metrics and targets, strategy and risk management (including climate scenario analysis)). The drafting the Fund's initial TCFD report, is the next step, although timescales for publishing the report are still to be confirmed (likely determined by the impending regulations). However, the Fund is considering whether to publish the initial TCFD report on a voluntary basis.

Examples of Investment Manager Annual Assessments, including an executive summary, specific manager ESG assessments, including proposed actions for engagement, is shown below. The Fund assesses this information for every manager they invest in.

Executive Summary and Manager Overview

Overview

Meets Additional Impact Criteria Score = 4-5 | Meets Additional Sustainable Criteria Score = 3-4 | Meets Traditional Criteria Score= 2-3 | Partially Meets Criteria Score = 1-2 | Significantly Fails to Meet Criteria Score = 0-1

ESG Score	2.1
Investment Approach	2.4
Risk Management	2.2
Voting & Engagement	1.8
Reporting	1.7
Collaboration	2.8
Climate Score	2.2

The Fund **satisfies requirements on ESG and Climate grounds,** meaning that it has scored strongly on most of the ESG/climate assessed criteria and is in line with best practice in terms of ESG and climate integration.

The Fund achieved **above satisfactory scores in Investment Approach, Risk Management and Collaboration**, meaning good practice approaches in all of these areas. The reason for this is set out below:

- **Investment Approach** – a number of the Fund's have ESG policies in place and have shown examples of buy/sell decisions based on ESG factors.
- **Risk management** – a number of the Fund's managers have established dedicated ESG teams
- **Collaboration** – the majority of managers are party to several ESG and climate-related collaborative initiatives.

No individual manager achieved less than "partially meets criteria" at an overall level.

Note: Weights of the individual assessment criteria will vary across asset class.

Scores – Equity, and Alternatives

Meets Additional Impact Criteria Score = 4-5 | Meets Additional Sustainable Criteria Score = 3-4 | Meets Traditional Criteria Score= 2-3 | Partially Meets Criteria Score = 1-2 | Significantly Fails to Meet Criteria Score = 0-1

	ESG Score 2022	Investment Approach	Risk Management	Voting & Engagement	Reporting	Collaboration	Climate Score 2022
Fund A	2.1	2.3	2.3	1.8	2.0	2.0	2.5
Fund B	2.3	2.9	2.3	1.8	2.0	2.5	3.3
Fund C	2.5	2.1	2.8	2.0	3.0	3.0	2.7
Fund D	2.8	3.3	2.8	2.8	2.1	3.0	2.9
Fund E	1.7	2.3	2.2	1.0	0.8	2.3	1.7
Fund F	2.0	2.8	1.8	1.5	1.3	2.8	1.3

Manager ESG Assessment and Views

Meets Additional Impact Criteria Score = 4-5 | Meets Additional Sustainable Criteria Score = 3-4 | Meets Traditional Criteria Score= 2-3 | Partially Meets Criteria Score = 1-2 | Significantly Fails to Meet Criteria Score = 0-1

Manager X – ESG Assessment Summary

Overview

ESG Score: 2.1   Climate Score: 2.5

The manager uses proprietary research to highlight material ESG issues, which are integrated into the investment process in a largely qualitative manner.

The manager has a firmwide net zero commitment, and a track record of collaborating with various external parties on ESG initiatives.

Proposed Actions

Investment Approach – Consider the use of fund-specific ESG objectives and an ESG scorecard

Risk Management – Consider the use of ESG scoring of assets and climate scenario analysis.

Voting & Engagement – Consider running engagement through a centralised team.

Reporting – Consider the inclusion of wider ESG metrics in client quarterly reporting.

Assessment Criteria	Score	Overview
Investment Approach	2.3	– The manager aims to have 100% of portfolio companies to be net zero aligned by 2040. – The team have given examples of making buy/sell decisions based on ESG factors (noting these are incorporated into holistic investment evaluation).
Risk Management	2.3	– The manager's funds utilise a firmwide ESG policy focusing on five core principles, encompassing social and climate change risks. – The manager has a dedicated ESG team of over 40 individuals which are responsible for ESG research and engagement, and coordinating the proxy voting process.
Voting & Engagement	1.8	– The manager has a list of stewardship principles which frame the way it interacts with portfolio firms. Interactions are carried out by the investment and ESG teams.
Reporting	2.0	– The manager provides clients with quarterly reports which include company engagement, voting and carbon data. However, the manager does not report on key ESG metrics in quarterly reports on a fund level basis. – The manager has strong TCFD reporting capabilities.
Collaboration	2.0	– The manager is a member of several ESG related initiatives, including UNPRI, TCFD, IIGCC and the Net Zero Asset Managers Initiative
Climate	2.5	– The manager has committed to having portfolio greenhouse gas intensity lower than that of the MSCI ACWI EU Paris Aligned Requirements. Index. – The manager can demonstrate examples of climate change engagement.

Note: Views expressed by Isio are based solely on information provided by the investment managers.

Manager Proposed Actions and Progress Update

Proposed Actions (1)

✓ Action completed
Action in progress
✗ Action not yet started

Mandate	Proposed Action Category	Progress	Manager Progress Against Action
Manager X	Investment Approach		Consider the use of fund-specific ESG objectives and an ESG scorecard
	Risk Management		Consider the use of ESG scoring of assets held within the portfolio Consider the introduction of climate scenario analysis
	Voting & Engagement		Consider running engagement through a centralised team
	Reporting		Consider the inclusion of wider ESG metrics in client quarterly reporting

9 ENGAGEMENT

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

Scottish Borders Council Pension Fund is a relatively small fund and doesn't have the dedicated resources to actively engage with companies directly. The Fund therefore delegates all voting and engagement activity to its investment managers on the basis that:

- ESG factors are relevant to all asset classes, whether liquid or illiquid investments, and investment managers have a responsibility to engage with companies on ESG factors.
- The Committee believes that engaging with companies 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 engagement with the investment manager has not produced appropriate change.
- Investment managers should be able to demonstrate the impact and effectiveness of their voting and engagement activities.

The Fund's ESG approach is set out in its Responsible Investment Policy. The Fund expects managers to vote in its best interests, whilst also maintaining their fiduciary duty. Day-to-day responsibility for managing investments and stewardship activities (including engagements) are therefore fully delegated to the Fund's appointed investment managers, and they are expected to monitor companies, intervene where necessary, and report regularly on activities undertaken. Reports from the investment managers on voting and engagement activities are provided to the Investment & Performance Sub-Committee on a regular basis.

The effectiveness of the Fund's managers' engagement activities is assessed through responses gleaned from their quarterly reports and engagement volumes are monitored to determine their commitment to the stewardship of investments under their management. Voting patterns and volume of attended meetings are also used as indications of commitment and effectiveness.

When contentious issues of national interests, relating to any of the Fund's investments is prominent in the press, or widely debated, the Fund will generally contact the relevant manager(s) to ensure they are aware of the Committee's interest and opinions on the issue and, in turn, to provide the Fund and Committee with their views and the steps being taken, with the invested company, to ensure the Fund's position is understood and the investment manager's views are taken on board. On occasions, the Fund may participate in escalation of particular, or sensitive issues, principally through investment managers' engagements with parties of concern.

Setting Engagement Expectations, Monitoring & Reviews

As part of the annual ESG impact assessment, the Fund, with the help of its investment consultant, identify proposed action points where progress is sought over the next 12 months. These action points form the starting position for continual engagement with and monitoring of its investment managers. A rolling report on progress, is made to the Pension Committee on a regular and ongoing basis. The latest progress report was completed in June 2023.

The Fund has also produced an Implementation Statement (see Appendix – being compiled & will be added prior to report submission to FRC) to provide additional evidence that the Fund continues to follow and act on its agreed principles. This report details:

- actions the Pension Committee and Pension Board has taken to manage financially material risks and ESG risks, including climate change, and implementing the Fund's key policies;
- the current policies and approach with regards to ESG and the actions taken with managers on managing ESG risks;
- the extent to which the Fund has followed policies on engagement, covering engagement actions with its investment managers and in turn the engagement activity of the investment managers with the companies they invest; and
- the voting behaviour of the Fund's investment managers covering the reporting year up to 31 March 2023 (noting the Committee's delegation of Fund voting rights to the investment managers through its investment in pooled fund arrangements).

To ensure effective and consistent use of the voting rights, investment managers are tasked with exercising the voting rights accruing to the Fund. If important issues impacting local residents do emanate from actions of invested companies, the Pensions Committee will contact investment managers in charge of these assets to make their opinion known and ask for such to be presented at meetings with the company or reflected in their voting decisions.

The Fund's approach to engagement also recognises the importance of working in partnership to magnify the voice and maximise the influence of investors as owners. An example of how the Fund seeks to achieve this is via its membership of LAPFF, who engage on behalf of LGPS schemes on particular/contentious issues while using the weight of their collective capital.

The Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders more broadly. This is again assessed independently by the Fund's investment advisor, Isio, providing a collaboration score for each manager, in order for the Committee to understand if more could be done. The Fund appreciates that to gain the attention of companies in addressing governance concerns; it needs to join with other investors sharing similar concerns.

We have provided a summary of the output from this year's implementation statement below along with tow notable case studies.

- Add summary of voting table from IS
- Add 2 notable examples from IS
- Add full IS to appendix.

Case Study – Social Housing Allocation Commitment

Due to the change in market and regulatory environment post the Fund's commitment to CBRE's UK Affordable Housing Fund, the Committee engaged with CBRE, both directly and via their investment advisor, to understand their outlook, and expectations on how the strategy was expected to perform in the new environment.

The concerns of the Committee were centred around the high inflationary and interest rate environment, which was impacting construction costs, project timelines and property values within the UK property market, and the regulatory intervention from both the UK and Scottish Governments, in the form of market rental caps and in relation to cladding, to protect existing tenants. The Committee wished to understand whether the relative attractiveness of the investment opportunity remained, given their fiduciary duty to members, and that the ESG characteristics of the opportunity remained.

As part of the Fund's engagement, CBRE looked to address each of the concerns raised in turn. Whilst higher interest rates were likely to put downward pressure on capital values across the residential property market, it was expected that any impact would be limited given the wider structural imbalance within the UK residential property market. To this point, the investment thesis and ESG rationale remained strong. It was also noted that as the Fund was still to be drawn down, any declines in property values would be beneficial to the Fund (i.e., investing at a lower entry point). The current regulatory environment does reduce the degree of inflation linkage within the strategy, particularly during periods where inflation is in excess of the cap. CBRE expect the rent cap to remain in place when inflation is high and are supportive of the 7% cap in England and Wales (their expectation had been that the cap would be 5%). CBRE believe rental increases of 7% are unsustainable in the long-run given their underwriting models and, as such, they extended the cap to their shared-ownership assets, despite no regulation requiring them to do so. CBRE's rationale was that it would alleviate the risk of tenant default and turnover and provide greater certainty to their tenants during the cost-of-living crisis. Again, this action supported the ESG credentials of the strategy.

Following the engagement with the manager to understand their views, the Committee agreed that the opportunity remained appropriate for the Fund, despite the market conditions and regulatory landscape, and requested that Isio continue to monitor the fundraising and deployment activities of the strategy to ensure the manager was continuing to find strong opportunities and were able to draw down/commit investors capital at a reasonable pace.

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 engage collaboratively with the broader market, including other investors and recognised bodies, on key issues and in relation to the Fund's ESG priorities and key objectives. However, as a small fund, there are limitations on how proactive it can realistically be and the extent to which it has the resources to be directly involved.

The Fund's approach to engagement does recognises the importance of working in partnership to maximise the influence of investors as owners. The Fund also expects its investment managers to work collaboratively with others, if this will lead to greater influence and deliver improved outcomes for shareholders/beneficiaries more broadly. The Fund appreciates that to gain the attention of companies in addressing governance concerns and other ESG issues, it needs to add its voice with other investors sharing similar concerns.

Industry initiatives

The Fund seeks to work collaboratively with other institutional shareholders and asset owners in order to maximise the influence that it can have on individual companies. These are listed and described in the table below:

Initiative / Body	Description
Task Force on Climate Related Financial Disclosures ("TCFD")	The TCFD recommendations advocate for better disclosure in relation to climate risks and metrics. The Fund considers climate issues of paramount importance and a primary risk of investments it holds. As a result, the Fund signed up to being a supporter of TCFD in 2023, and has committed to reporting in line with TCFD requirements over the coming years and as part of this looks to collaborate with other TCFD supporters. The Fund has started preparation for reporting in line with the TCFD requirements, expecting similar guidance to the private sector, despite LGPS regulations not yet being confirmed. The Committee, with the assistance of their advisors, are monitoring the latest updates in relation to the regulations and will adjust their governance and reporting accordingly if needed. The Fund is considering whether to report ahead of the regulatory requirement
Local Authority Pension Fund Forum ("LAPFF")	The Fund joined the LAPFF to have a direct voice in influencing engagement themes. LAPFF is a voluntary association of public sector pension funds based in the UK and a leading voice for local authority pension funds and looks to promote the highest standards of corporate governance and

	corporate responsibility to protect the long-term value of local authority pension funds. As an output of this collaboration, voting recommendations are received from the LAPFF research team and are now passed on investment managers for consideration.
Climate Action 100+	The Fund as part of its responsible investment policy has become a signatory to Climate Action 100+ which has 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. During 2022 Climate Action 100+ produced 4 global sector strategy reports, identifying transition levers and supporting investor actions for aviation, food & beverages, electric utilities and steel sectors. Investor led work groups are focusing on actions required for these sectors to transition to net-zero. They also undertook alignment assessments, measuring implementation of Paris-aligned corporate actions, to give investors better data on company disclosures and 'real world' actions companies are taking.
Scottish IGG/RI Group & Scottish LGPS Pension Network	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. In addition, the Fund also collaborates with other Scottish LGPS Funds, through the Scottish LGPS Pension Network.

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. LPFI has strong ESG credentials and is also a signatory to the UK Stewardship Code.

Expectations of investment managers

The Fund believes that the companies that manage assets on its behalf should at least be signatories to the UNPRI, GRESB, TCFD and UK Stewardship Code. Investment managers are actively encouraged to collaboratively engage with a wide set of other relevant bodies, organisations and initiatives (including in relation to climate change which is considered a current priority).

As outlined earlier, existing managers outside of these frameworks are actively encouraged to sign up, where appropriate, by the Fund. New investments will not be made into managers who are not signatories to the UNPRI, GRESB, TCFD and UK Stewardship Code (where appropriate). In addition, there is an expectation for managers to sign up and actively engage on other initiatives (for example Net Zero Asset Manager Initiative, TNFD, Climate 100+, etc). The Fund make this clear to the Fund's investment managers from the outset, as part of the procurement process.

As part of the ESG impact assessment, one of the five criteria in which investment managers are assessed is collaboration and as a result, the Fund, through its investment consultant, engage with its investment managers on their collaboration activity with the wider industry, to drive improvements across the board.

Outcomes

Engagement and collaboration has to date been focused directly on investment managers of the underlying portfolio to drive improvement in the assets the Fund holds (further detail is given Impact Assessments and Implementation Statement in the Appendix). The majority of the Fund's managers are now signatories to the above, as well as a number of other relevant ESG bodies, depending on asset class.

An outcome of joining LAPFF is that voting recommendations are received directly from the LAPFF research team which are now passed onto fund managers for consideration, resulting in more directed and focussed engagement activity at the underlying holdings level.

Examples of collaborative engagement by the investment managers are provided in the Impact Assessment in the Appendix).

11 ESCALATION

Signatories, where necessary, escalate stewardship activities to influence issuers

The Fund recognises that its size and scale means that it has limited ability to materially and 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.

Investment managers guidelines for such activities are expected to be disclosed in their own statement of adherence to the UK Stewardship Code and the Fund expects this to be in line with the its own objectives and beliefs, stated within the Responsible Investment Policy. On occasions, the Fund may participate in the escalation of specific issues, done principally through investment managers engagements, with the parties of concern and/or in relation to investments in certain sectors (for example, tobacco and fossil fuels).

Examples of escalation undertaken by Baillie Gifford, Global Alpha Paris Aligned Fund on behalf of the Funds are shown below. These are highlighted and discussed at the Performance and Investment Sub-Committee.

CRH - Objective: Encourage more detailed disclosure on consideration of climate related issues by the board and auditors	
Discussion	We took part in collaborative engagement coordinated through Climate Action 100+, an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take action on climate change. We spoke with the board chair,and the chair of the audit committee. CRH has strengthened its decarbonisation targets, demonstrating leadership within the construction materials industry that we believe is potentially advantageous but has cost implications. The company commits to being net zero by 2050 and recently outlined new goals, which target an absolute reduction in scope 1 and 2 emissions* of 30 per cent by 2030 versus 2021 levels. These new targets have been validated by the Science Based Targets initiative to be in line with a 1.5-degree pathway. The focus of our discussion was to encourage more specificity in the financial accounts and to discuss the potential impacts on CRH's business of meeting these long-term objectives. We also asked how the board examines climate risks and how it determines materiality in terms of the company's accounts. We explained that given the carbon-intensive nature of CRH's business, alongside its potential exposure to physical change, it would be helpful for investors to have insight into how the company was thinking about the value of the business and assets under various climate change scenarios. We stressed that more comprehensive disclosure in its annual accounts and auditors' report are important for shareholders to make informed investment decisions.
Outcome	The CRH 2022 annual report, published at the start of March 2023, demonstrates a significant improvement in the disclosure of how, when and by whom climate-related issues are considered in strategy discussions and against existing financial assessments. CRH

	has also now quantified the incremental spend required to meet its 2030 decarbonisation goals. We consider CRH a leader in terms of its engagement with decarbonisation and the recycling of building materials. We look forward to further discussions on quantitative transparency in 2023 – particularly concerning scenarios for different plausible climate outcomes.
Sea Ltd - Objective: research identified the board as an area for improvement and encouraged adding directors with requisite skills and independence	
Discussion	We spoke directly with the company's founder, chief executive and chair, Forrest Li. We discussed how he sees the board's role and how it can support Sea Ltd's long-term strategy. In the past year, the board has shrunk from six to five directors, of which only two are non-executives. We outlined our belief that the board lacks independence and that the non-executive cohort does not have sufficient expertise in Sea Ltd's core business segments. We believe this is important, as it could limit the board's ability to oversee management and provide constructive input to strategic decisions. Mr Li acknowledged that the board is too small and explained that his ideal size would be nine directors, split between four from management and five non-executives. He confirmed that recruitment is ongoing, and the company hopes to add independent directors with domain expertise soon. Desired candidate criteria include research and technology expertise, understanding macro developments and value creation from operational excellence.
Outcome	As outlined in our stewardship principles, we believe a constructive and purposeful board is fundamental to long-term value creation. The board simultaneously supports management's implementation of the business strategy and protects the interests of the company's stakeholders. Accordingly, we were pleased to learn that steps are being taken to ensure Sea Ltd's board has the relevant skills, experience and independence to fulfil these responsibilities. We will monitor the appointment of new directors and look forward to further opportunities to engage with the company.
Cloudfare – Objective: explore how business culture and practices support the long-term investment case	
Discussion	Ahead of the 2022 AGM, we were consulted by the compensation committee, which planned to award stock options equivalent to 2 per cent of the business to co-founders Matthew Prince and Michelle Zatlyn. The options would vest over the next 10 years if Cloudflare's market cap increased 14 times. In return, Prince and Zatlyn would receive $3.3bn each. After listening to committee's proposals, we had several concerns. First, we were consulted only a matter of weeks before the AGM, so we had no real opportunity to influence the size or terms of the award. Second, the vesting conditions were focused solely on market cap targets. As a bottom-up investor, the lack of operational goals was a key issue for us, as we believe strong fundamentals drive long-term value creation. And finally, we didn't think the awards were necessary. At the time of the AGM, the co-founders owned 12 per cent of the business. Therefore, by hitting the committee's market cap targets, they would make over $30bn over the next ten years. An extra $4bn not only seemed unnecessary but greedy.

Outcome	We explained our intention to oppose the grant based on these concerns. The resolution to approve the award required support from a majority of shareholders. Our decision to oppose proved to be the decisive swing vote, and the committee withdrew the resolution ahead of the AGM and forfeited the awards. This is a good outcome, and we continue to engage with the company as long-term constructive shareholders.

The LAPFF also issues voting alerts to members, especially where serious ESG concerns have been identified, or if attempts to engage with the company have been unsuccessful. LAPFF outlines the rationale behind the vote via press release or in LAPFF's quarterly engagement report. LAPFF believes in engaging constructively with members' investee companies and explaining the escalation in activity is seen as additional engagement with the company, extending the opportunity for dialogue and debate on material responsible investment concerns.

LAPFF engagements and voting alerts are disclosed in their quarterly engagement reports and annual reports are publicly available.

The Fund has had only one example of a direct escalation with one of its investment managers, related to governance of the Fund's assets. Further detail of this is outlined in the case study below. Apart from this specific instance, there is constant engagement and collaboration with investment managers and other service providers, to drive broader improvements on an ongoing basis. The Fund has seen positive outcomes as a result, with limited need for further escalation (out-with the example provided), as investment managers and other service providers have been receptive to these engagements. The Pension Investment & Performance Sub-Committee will continue to review and monitor ESG scores annually, engage actively with managers and only recommend divestment pragmatically, should improvements not be forthcoming over a sustained period. The Committee will seek to formalise this process as future ESG scores can be monitored.

Case Study: Escalation & Outcomes - Signature Bank investment with equity manager

As part of the Committee's review of the Fund's exposure to the banks directly affected by the US banking crisis in March 2023, it was identified that one of the Fund's equity managers had made an investment into Signature Bank in the month prior to its failure. This investment had subsequently had its value written to zero following the firm being taken into receivership. The timing of the investment immediately proceeding the bank's subsequent failure raised significant concerns for the Committee on the robustness of the managers due diligence process and their ability to be a steward of the Fund's assets going forward.

The Committee asked Isio to liaise with the manager, and investigate the due diligence carried out, both in terms of process and risk management, prior to investing in Signature Bank. Isio provided a detailed summary of their findings to the Committee and hosted an in-person meeting between the Committee and the manager in June 2023, to allow the Committee the opportunity to directly raise questions to the manager and outline their concerns relating to the investment. The manager acknowledged the concerns raised, and provided detailed rationale of their investment thesis, and outlined their due diligence process.

As part of follow-up discussions between the Committee and Isio, the Committee accepted the rationale put forward by the manager and agreed to retain them within the strategy. The Committee gained sufficient comfort that an investment of this nature, although disappointing, did not fall materially outside of the manager's investment remit and the manager admitted that there were errors made throughout the process. However, they requested additional monitoring of the manager's performance in the short-to-medium term.

12. EXERCISING RIGHTS AND RESPONSIBLITIES

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.

The Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the UK Stewardship Code 2020 and expects appointed investment managers to be signatories to the Code and have publicly disclosed their policy on how they will implement their stewardship responsibilities. The Fund believes that stewardship is part of the responsibilities of share ownership, and therefore an integral part of the investment strategy.

In practice, the Fund's policy is to apply the Code through its arrangements with its investment managers. Investment managers play a key role in driving forward the global ESG agenda, and have the resources at their disposal to raise issues of concern with portfolio companies. Most investment managers combine these meetings with their investment due diligence as part of a holistic approach to management of funds entrusted into their care. Whilst all voting decisions are delegated, managers are expected to adhere to their ESG and climate policies, as well as any expectations set by the Fund in relation to ESG or climate. 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 reported. Both require to be held and made available to the Fund for a full voting audit trail.

The process described above ensures invested companies are aware of the opinion of their shareholders, such as the Fund, regarding their stewardship approach and consider these opinions in their decision-making processes. Failure to heed such opinion has often been followed by the fund manager raising the issues at company AGMs and subsequently employing their vote at such meetings to reinforce their position or sometimes in extreme cases, divest from such companies.

Details of the rights and responsibilities in relation to the Fund's voting and engagement activities is detailed in the Responsible Investment Policy and specific details of voting and engagement activity over the Fund's accounting year is detailed in the implementation statement (see Appendix).
Responsibility for the exercising of voting rights and day-to-day ESG integration of investments is delegated to the Fund's appointed investment managers who are expected to have closer knowledge of companies under investment and board activity. This includes consideration of company explanations of compliance with the Corporate Governance Code. Regular reports are received from the investment managers on how votes have been cast, and controversial issues can be discussed at panel meetings. The Fund also reports annually on stewardship activity through a specific section on "Responsible Investing" in its annual report. Via this annual stewardship reporting, the Committee expect managers to provide an indication on shares invested on the Fund's behalf and exercise any voting rights they have, wherever feasible.
Equity and Multi-Asset

Include details of high-level voting activity following finalisation of implementation statement

Further information in relation to voting on equity and multi-asset funds can be found in the Appendix, including a summary on how resolutions were voted over the period, significant examples and information on voting policies.

Fixed Income

For fixed income assets, the Committee, with the support of their advisors, review the fund prospectus and conduct appropriate due diligence before appointing an investment manager. The Committee delegates the stewardship responsibility to the investment managers and expects prudent measures to be taken in relation to terms and conditions within contracts, deeds, and impairment rights. Having said that, there is consideration of the terms and conditions in fund indentures and contracts as part of the investment criteria of fixed income manager selections.

The Committee recognise this is an evolving market, particularly in relation to fixed income, and expect managers to continue to progress and evolve within the space e.g. greater adoption of ESG ratchets. Further, the Committee expect managers to engage with credit issuers to drive improvements in relation to ESG risks. The Committee reviews information on engagements from the investment managers on a regular basis and uses this to engage with them on key ESG issues.

Real Assets

For real assets, the Committee, with the support of their advisors, review the fund prospectus and conduct appropriate due diligence before appointing an investment manager. The Committee delegates the stewardship responsibility to the investment managers and expects prudent measures to be taken in relation to terms and conditions within contracts.

Similar to credit, the Committee recognise this is an evolving market, and expect managers to continue to progress and evolve within this space. Further, the Committee expect managers to engage with the management team of portfolio assets to drive improvements in relation to ESG risks. The Committee reviews information on engagements from the investment managers on a regular basis and uses this to engage with them on key ESG issues.

Segregated Funds

The Fund receive quarterly voting information for all its segregated investments along with annual reports of the Stewardship activities and TCFD Climate report. The Fund's segregated investments are all held with Baillie Gifford who have fully integrated ESG and stewardship into its investment ethos. Baillie Gifford provide regular reports on the voting undertaken on behalf of the Fund and these are discussed at the Pension Fund Investment and Sub Committee.

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 – LGIM from January 2022.

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.

Voting Activity

Voting activity, including outcomes, from the Fund's equity managers (Baillie Gifford, LGIM, Morgan Stanley) and multi-asset manager (LGT), and which are aligned with the Fund's key priorities and objectives are shown below, with more detail shown in the Appendix.

Voting activity from implementation statement to be included here once finalised

13. Future Actions & Improvements

Stewardship Code	Activity for Further Improvement
Purpose & Governance **(Principles 1-5)**	1.1 Review and implement the requirements of TPR's 'Single Code', once published and implications assessed 1.2 Review and implement the requirements of FRC's Stewardship Code' feedback once implications have been assessed. 1.3 Continually review and update Responsible Investment Policy, through improved monitoring and reporting, to improve outcomes on ESG and climate change considerations. 1.4 Refresh and rationalise the Fund's Risk Register, to provide greater focus on priority risks and areas which the Fund can impact and control. This is a recommendation from an independent governance review of the Fund, undertaken in November 2022. Action on this has already commenced. 1.5 Extend remit of the Fund's Internal Audit process, to include ESG considerations, agreed by the Pension Committee in March 2023, to commence for the 2023/24 Internal Audit 1.6 Produce an action plan, for Pension Committee approval, outlining how other recommendations from the independent governance review, mentioned above, can be assessed, prioritised and progressed. 1.7 Review training and development provisions in the Training Policy to ensure these meet the induction and ongoing needs of Committee and Board members and Council LGPS Officials. Undertake a training needs analysis to identify specific and generic training needs and devise a practical approach for evaluation of its effectiveness and value for members, staff and the Fund
Investment Approach **(Principles 6-8)**	2.1 Monitor and assess the effectiveness of the Fund's Communication Policy and how it's implemented in terms of serving the best interests of Fund beneficiaries: • Improve communications with members and signposting to the Fund website and other sources of information (Committee & Board minutes, Annual Report, Stewardship Code report, Strategic Investment Policy/Responsible Investment Policy etc. to increase awareness of Fund's commitment to responsible investing and stewardship • Elicit member feedback on services provided, effectiveness of communications and areas of interest.

	Assess most effective channels of communication (level of reach, engagement and response, interest areas etc). 2.2 Engage more proactively with employers on the activities of the Fund and its investment strategy, performance and stewardship approach and elicit feedback on perceived value/interest areas. 2.3 Promote the Fund's ESG activities, raising awareness by giving greater prominence to the Fund's website and content 2.4 Continue to develop ESG objectives and metrics, in line with the TCFD project plan 2.5 Improve information consistency, sufficiency, and quality, from investment managers, to enable more robust monitoring of outcomes for the Fund's ESG objectives. The Fund is also working with investment consultant, Isio, to identify information gaps, enabling detailed discussions with every investment manager on how these gaps can be addressed. 2.6 Expand the data collected from every investment manager during the Fund's annual due diligence return process. This will help determine how effectively managers are incorporating ESG factors into their decision making, for new investments and ongoing monitoring for existing ones.
Engagement **(Principles 9-11)**	3.1The Fund will continue to review opportunities for more direct engagement and collaboration, working with LAPFF and similar organisations, to increase influence, whilst continuing to improve monitoring and review for engagement and collaboration activities undertaken by its investment managers (as described in Principle 8 (Monitoring Managers & Service Providers) and in data quality. 3.2 The Pension Investment & Performance Sub-Committee will continue to review and monitor ESG scores annually, engage actively with managers and only recommend divestment pragmatically, should improvements not be forthcoming over a sustained period. The Committee will seek to formalise this process in an Escalation Policy
Exercising Rights & Responsibilities **(Principles 12)**	4.1 The Fund are actively progressing a plan to prepare for early TCFD reporting. Implementation of the TCFD process will help to capture information on voting and voting outcomes and the quality and sufficiency of this data from investment managers will increasingly improve.

APPENDIX 1: Implementation Statement Evidence (to be added prior to submission to FRC)