

**SCOTTISH BORDERS COUNCIL  
PENSION FUND**

**STATEMENT OF RESPONSIBLE  
INVESTMENT**

**APPROVED 30/11/2018**

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

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

## **2 OVERARCHING PRINCIPLES**

### **2.1 Environmental**

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

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

## 2.2 Social responsibility

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

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

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

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

## 2.3 Corporate Governance

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

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

## 3 INVESTMENT DECISIONS

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

- 3.2 SBCPF has however instructed its active and passive fund managers to take account of ESG considerations in their investment decisions, provided the primary financial obligation is not compromised.
- 3.3 SBCPF will ensure that the fund managers it appoints are capable of appropriately considering ESG issues when making investment choices, it will monitor the managers' action in this area and will work with fund managers and the investment sector to ensure sufficient data is available to aid effective decision making.
- 3.4 SBCPF believes that, as a responsible investor, it has a legitimate interest in the management and corporate governance of the companies in which it invests and supports the use of voting as a means of expressing concern over ESG issues. The Fund seeks to improve corporate behaviour by maintaining effective shareholder oversight of the directors and company voting policies is undertaken on SBCPF's behalf by its fund managers. That is, SBCPF has delegated stewardship responsibilities and voting policies to the Fund managers who are expected to fully exercise the right to vote at company meetings in the best interest of shareholders as they see fit.
- 3.5 All fund managers are encouraged to engage, on SBCPF's behalf, with those companies where ESG policies fall short of acceptable standards and where this is likely to have a detrimental effect on the long-term value of the company.

#### **4 ESG MONITORING**

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

**Definitions**

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

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

1. We will incorporate ESG issues into investment analysis and decision making processes
2. We will be active owners and incorporate ESG issues into our ownership policies and practices
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest
4. We will promote acceptance and implementation of the Principles within the investment industry
5. We will work together to enhance our effectiveness in implementing the Principles
6. We will each report on our activities and progress towards implementing the Principles