SCOTTISH BORDERS COUNCIL
PENSION FUND

RESPONSIBLE INVESTMENT POLICY

Approved 16 Sept 2021

Scottish Borders Council Pension Fund
Statement of Responsible Investment

1. Introduction

This Statement of Responsible Investment ("the Policy") has been prepared by the Pension Committee ("the Committee") of the Scottish Borders Council Pension Fund ("the Fund"). The purpose of the Policy is to sit alongside the Statement of Investment Principles ("SIP"), formalising the Committee's Environmental, Social and Governance ("ESG") beliefs and its approach on how ESG factors should be integrated in investment decision-making. The Policy will be published on the Pension Funds website and be made available to Fund members upon request.

The Committee's overriding obligation is to act in the best interests of the Fund beneficiaries. In this fiduciary role the Committee 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.

The Committee defines Responsible Investment ("RI") in line with the UN-backed Principle for Responsible Investing ("PRI"), which states that RI is an approach to investing that aims to incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long term returns.

2. Rationale for the Policy

The Fund is a large institutional investor, investing on behalf of its members. As part of the Committee's fiduciary duty, which includes a comprehensive approach to risk management, it has been recognised that ESG factors, including, but not limited to, climate change, can be financially material. The Committee recognises that there is a need for the Fund to be a long-term, responsible investor in order to achieve sustainable returns.

The Committee believes that they should be responsible stewards of the Fund's assets held on behalf of LGPS members and should consider the wider impacts of their investment decisions on the environment and society. Where possible, and in line with the beliefs set out in this Policy, positive ESG outcomes will be targeted within the Fund's investment portfolios.

3. Impact of the Policy on investment decision making

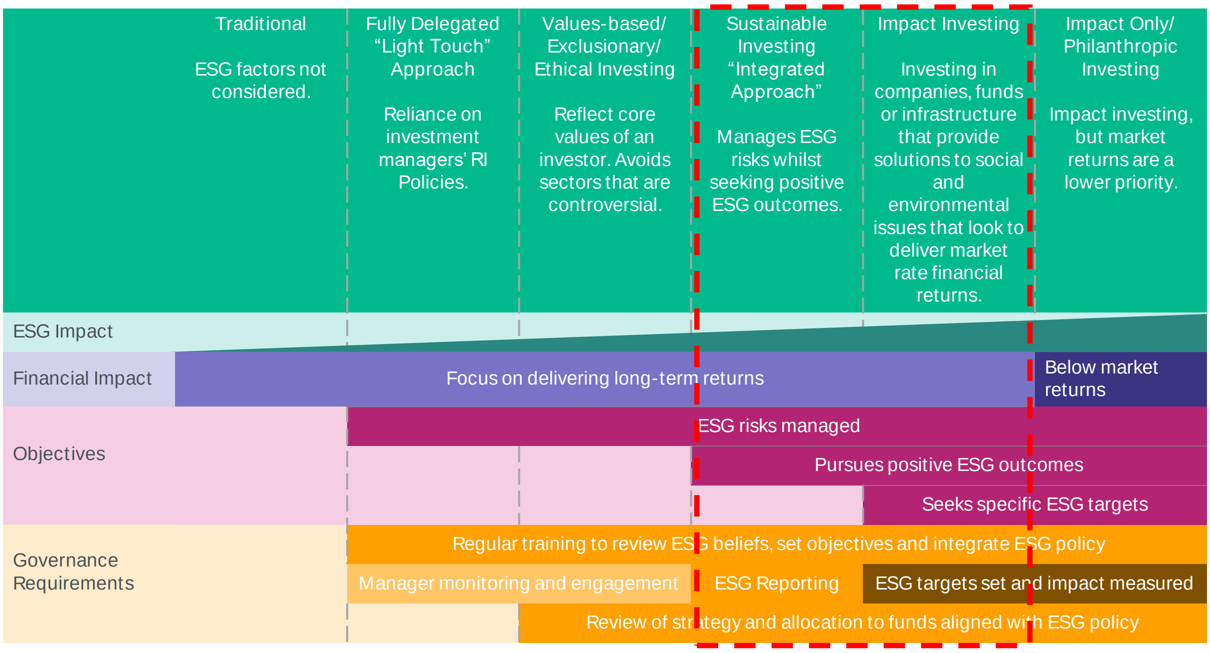
The Committee decides the Fund's investment strategy and asset allocation. This includes which asset classes the Fund should be invested in e.g. equity, credit, property and infrastructure. In making any portfolio construction decisions, the Committee will have regard for this Policy.

Within each asset class, the Committee delegates the day-to-day investment decision making to the investment managers – e.g. holding a bond issued by a particular company or exposure to a particular sector. In appointing and reviewing the Fund's investment managers, the Committee, with the assistance of the Fund's appointed advisors Isio, considers the manager's expertise, track record and stated policies and frameworks with respect to ESG related issues. Going forward, as part of the initial and ongoing due diligence of the Fund's investment managers, the Committee will assess and monitor their considerations of ESG factors and how these are incorporated into their investment decision making.

In addition, the Committee will consider opportunities that may arise from regulation on ESG factors or market dislocations and will receive training and updates periodically to update them on these trends and opportunities.

4. ESG approach

As per the spectrum of ESG approaches chart presented below, the Committee wishes to pursue a “sustainable” investment approach that integrates ESG risk analysis into investment decision-making, whilst pursuing certain “impact” opportunities that generate competitive financial returns, and whilst also providing positive and measurable environmental or societal benefits. The Committee’s position is indicated on the spectrum chart below.



The Committee wishes to see the Fund’s environmental foot-print minimised, its social responsibilities maximised, and the highest standards of employee relations and corporate governance maintained.

The Committee requires the Fund’s 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.

5. Overarching Principles

Environmental

- The Fund will seek via its investment activities to minimise its impact on the environment. It will seek to ensure investments minimise any impact on pollution or climate change at a global and local level.
- Where investment activities do have a material impact on the environment, The Fund 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.

Social Responsibility

- The Fund wishes to ensure that managers invest in companies who adhere to all applicable laws and standards. The Fund 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.
- In relation to employee relations, the Fund through its fund managers wishes 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.
- The Fund 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 it conducts business and consider these issues in the context of the Committee's Fiduciary duty to protect members' retirement benefits. The Fund will seek annual assurance from its managers that the Fund's assets are invested in a way which has met these standards.
- When companies are involved in certain controversial activities, the Fund may refrain from investment in those companies. For example, deciding to exclude companies which are involved in the direct production of controversial weapons.

Corporate Governance

- The Fund wants to ensure that all the investments adhere to the highest standards of ethical conduct and the opportunities for bribery, corruption or money laundering are minimised.
- The Fund wishes to ensure Executive Managers are remunerated and incentivise appropriately. The Fund will work through its fund managers to ensure that companies pay an appropriate share of their tax burden, in compliance with applicable law.

6. The Committee's ESG beliefs

Based on the principles outlined about, the Committee has formulated a set of ESG beliefs to help underpin overall investment decision making. The Committee's ESG beliefs have been summarised below.

Risk Management

i. ESG factors (including Climate Change) are important for risk management (including reputational risk) and can be financially material. Managing these risks forms part of the fiduciary duty of the Committee.

ii. The Committee believes that ESG integration, and managing ESG factors such as climate change risks, is likely to lead to better risk-adjusted outcomes and that ESG factors should be considered in the investment strategy where it is believed they can add value.

iii. The Committee will consider Council and other employer policies and values in the Fund's ESG policy

Approach/Framework

i. The Committee seeks to understand how investment managers integrate ESG considerations into their investment process and in their stewardship activities.
ii. The Committee believes that certain sectors that provide a positive impact, such as funds that support the climate transition, will outperform as countries transition onto more sustainable development paths. The Committee also requires all investment managers to declare and explain any holdings in companies which violate the UN Global Compact.

Voting & Engagement

i. ESG factors are relevant to all asset classes, whether liquid or illiquid investments, and managers have a responsibility to engage with companies on ESG factors.
ii. The Committee wants to understand the impact and effectiveness of voting & engagement activity within their investment mandates.
iii. The Committee believes that engaging with managers 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 the engagement with the investment manager has not produced positive results.

Reporting & Monitoring

i. ESG factors are dynamic and continually evolving, therefore the Committee will receive training, building on the experience already gained, as required to further develop their knowledge.
ii. The Committee will seek to monitor key ESG metrics, such as greenhouse gas emissions, within the investment portfolio to understand the impact of their investments.
iii. The Committee will set ESG targets based on their views and how key ESG metrics evolve over time.

Collaboration

i. Investment managers should be actively engaging and collaborating with other market participants to raise ESG investment standards and facilitate best practices as well as sign up and comply with common codes such as UNPRI, GRESB, TCFD and Stewardship Code.
ii. The Fund should sign up to a recognised ESG framework/s to collaborate with other investors on key issues.

7. Implementing the Policy

The Committee will implement the policy through the following steps:

i. The Committee will continue to develop their understanding of ESG factors through regular training on ESG and keep themselves up to date on the latest sustainable investment opportunities.
ii. The Committee's ESG beliefs will be formally reviewed biennially or more frequently if required by the Committee.

iii. The Committee will incorporate ESG criteria as part of new manager selection exercises, with explicit consideration of ESG factors for any segregated mandates. This includes an initial screening process to ensure all new managers adhere to and report on the United Nations PRI Code, GRESB and the Stewardship Code.
iv. The Committee, with support from Advisors, will undertake annual reviews of the investment managers' approach to integrating ESG factors.
v. Following the initial review, actions will be identified where investment managers are misaligned with the Committee's ESG beliefs.
vi. The investment managers' stewardship and engagement activities will be monitored on an ongoing basis and the Committee will seek to understand the effectiveness of these activities.

The Fund believes that signature and adherence to the PRI 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 Fund's behalf to comply with these principles and require an annual statement from its managers demonstrating how its investments meet these principles.

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.

8. Monitoring and reviewing the Policy

The Committee will monitor the Fund's assets against this Policy on an ongoing basis, with the assistance of Isio. The Committee views the development of the Policy as an ongoing process as approaches to integrating ESG factors continue to evolve over time. When reviewing the Policy, the Committee will take account of any significant developments in the market to ensure they are taking a best practice approach.

Appendix – The UN-backed Principles for Responsible Investment ("PRI")? (Source: www.unpri.org)

The PRI is a proponent of responsible investment.

The PRI aims to understand the investment implications of ESG factors and helps support its international network of signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The PRI is truly independent. It encourages investors to use responsible investment to enhance returns and better manage risks, but does not operate for its own profit; it engages with global policymakers but is not associated with any government; it is supported by, but not part of, the United Nations. The PRI provide education, training and research on how ESG factors can be incorporated in investment decisions.

What are the six UN-backed Principles for Responsible Investment?

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

What are Environmental, Social and Governance ("ESG") factors?

Examples of ESG factors include:

- Environmental
  - Climate change
  - Resource depletion, including water
  - Waste and pollution
  - Deforestation
- Social
  - Working conditions, including slavery and child labour
  - Local communities, including indigenous communities
  - Conflict
  - Health and safety
  - Employee relations and diversity
- Governance
  - Executive pay
  - Bribery and corruption
  - Political lobbying and donations
  - Board diversity and structure
  - Tax strategy.