Scottish Borders Council Pension Fund

Stewardship Report 2024

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SECTION 1 -PURPOSE AND GOVERNANCE

PURPOSE, STRATEGY AND CULTURE

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 dependents' 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.

At 31 March 2024, Scottish Borders Pension Fund had 12,879 members and paid pensions totaling £33.9m during 2023/24 with contributions received from employers totaling £30.2m. The Fund had investments of £936.8m across a diversified portfolio of asset classes. The Fund's investments delivered a return of 9.1% against a benchmark of 12.3% for the year to 31 March 2024. Overall, the Fund's assets increased by £72m from 31 March 2023.
The positive absolute performance over the past 12 months was driven by the Fund's global equity mandate, which have benefitted from increased investor optimism around a "no landing" scenario (where an economy continues to grow despite contractionary monetary policies) and the performance of the "Magnificent 7" technology stocks (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla) which dominate the market. The Fund's relative underperformance was driven by the Property and Infrastructure mandates as

they continue to be impacted by the uncertainty over the future path of interest rates. Our investment consultants reported that the Fund's funding position improved, as the value of the Fund's assets increased, whilst the value placed on the Fund's liabilities decreased due to the rise in gilt yields.

Local Authority Pension Fund Awards 2024
The Fund is delighted to report that we have been shortlisted for the Local Authority Pension Fund of the Year (Assets under £2.5 billion) Annual Award 2024. Over the years this award has come to be recognised as a mark of excellence in the field of pensions provision in the LGPS.

Local Government Chronicle Investment Awards 2024
The Fund is delighted to report that we have been shortlisted for the LGC Investment Award 2024 - LGPS Pension Fund of the Year (Assets under £5 billion).

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 2023 Actuarial Valuation are available at Funding Strategy Statement - 2023 (scottishborderscouncilpensionfund.org)

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. A full review of the Investment Strategy was carried out following the results of the 31 March 2023 Actuarial Valuation. Subsequent updates were reflected in the revised Investment Strategy which was approved by the joint Pension Fund Committee and Board on 2 September 2024.

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: Statement of Investment Principles 2024 (scottishborderscouncilpensionfund.org)

The approved strategic asset allocation maintained the allocation for equities but approved the movement of the passive equities into an ESG focused passive fund. The review also introduced an allocation to Residential Housing, increased the allocation to Long Lease Property and increased the allocation to Infrastructure. These changes were made to increase the alignment of investments with liabilities and to increase the income-generating investments to ensure funds are available to pay liabilities as they become due. The Fund has made good progress on the implementation of these changes with the full funding of the new ESG passive equity fund and has fully implemented the increased allocation to Long Lease Property. The infrastructure allocation has also been fully funded.

In addition to the implementation progress noted above, two further mandate additions were made to the Fund over the reporting year. The Fund implemented an investment in Renewable Infrastructure and introduced an allocation to Natural Capital in November 2023. In May 2024, the Fund's commitment to the Residential Housing allocation was drawn down in a UK Affordable Housing Fund.

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 latest Investment Strategy review being approved by Pension Fund Committee in September 2024. Following the 2023 Actuarial Valuation the required investment return (based on a probability level of 80%) was agreed by the Actuary at 5.2% for the next 20-year period. This means, for past service liabilities, the Actuary requires the Fund's assets to deliver at least 5.2% p.a. to continue to support the current strong funding position. Given the methodology used to set contributions the investment return needs to be higher than this. The gap between the investment return target and the discount rate is driven by the extent the Council wish to continue to target funding improvements and risk appetite.

The Fund's investment returns have averaged 4.7% over the last 5 years, underperforming the composite objective by 3.1%. The best estimate expected return for the Fund's current investment strategy was 7.7% p.a. as at 31 March 2023. The difference between the expected return of 7.7% p.a. and the required return of 5.2% p.a. reflects an element of prudence in the Actuarial funding assumptions, which is to be expected. Given the Fund's improved funding position (which is expected to have improved further post the valuation date) there is some scope to reduce overall risk and return.

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).

The Committee acknowledges the ever-present risks linked to climate change are increasingly affecting the global economy and financial markets. Consequently, we acknowledge that the future will bring significant changes for the Fund and its beneficiaries. As a result, climate change must be a central focus in our investment strategies and governing decisions.

The impact of global decarbonisation, which is necessary to combat climate change, presents both risks and opportunities for the Fund. Transition costs associated with decarbonisation are expected to be substantial and continued global temperature rises could lead to physical damages. Therefore, we must appropriately manage climate-related risks across the Fund. The Committee recognises that it is our fiduciary responsibility to manage these risks and seize the opportunities. To fulfil this duty, we have implemented measures to ensure that climate considerations are thoroughly incorporated and embedded into our processes, procedures, and decision-making.

The Fund actively investigates opportunities to increase investment in sustainable funds. Two clear examples of this were the recent allocations to a Timberland Fund and a Renewable Energy Infrastructure Fund focused in the UK.

The Fund, as a signatory, continued to support the work undertaken by Climate Action 100+ which is working with Investors and Fund Managers to reduce carbon emission and ensure the Paris Agreement targets are met.

The three main aims are:

- Holding the increase in the global average temperature to well below 2°C above preindustrial levels and to pursue efforts to limit the temperature increase to 1.5°C above preindustrial levels, recognising that this would significantly reduce the risks and impacts of climate change.

- Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development in a manner that does not threaten food production; and

- Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

The Task Force on Climate-related Financial Disclosures (“TCFD”) is an international institution that has developed a framework to improve and increase reporting of climate related financial information. We are managing our response and key actions across the four TCFD pillars: Governance, Strategy, Risk Management, and Metrics and Targets. The Committee have an ambition to report in line with TCFD as far as possible ahead of confirmed regulatory guidance given its importance to the Fund and develop this reporting going forward once guidance is confirmed.

In the past, we established policies and procedures to create a framework for handling this risk and capitalising on opportunities as the Fund progresses towards its long-term objectives. The primary focus regarding climate-related matters was to gain a comprehensive understanding of the Fund’s current position and determine what can be accomplished in the future. As part of this effort, we conducted an analysis of all the relevant asset classes invested in by the Fund.

The Committee has prioritised reviewing the investment strategy of the Fund. This included implementing several mandates with greater focus on ESG considerations. Given the public sector and transparent nature of the Fund's employers, climate change and its associated effects are key considerations for the Fund. The potential impact of climate change on Fund's demographics, particularly life expectancy, and the resulting financial effects have also been considered by the Fund's Actuary. The Committee has continued to work hard on understanding and mitigating climate risks and considering opportunities and continues to progress the Fund's position in this respect.

In summary, the Committee is committed to ensuring the best outcomes for Fund members by addressing both the risks and opportunities associated with climate change, and by further developing the Fund's strategy for taking action on climate-related matters

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

Key principles underlying the investment approach are:

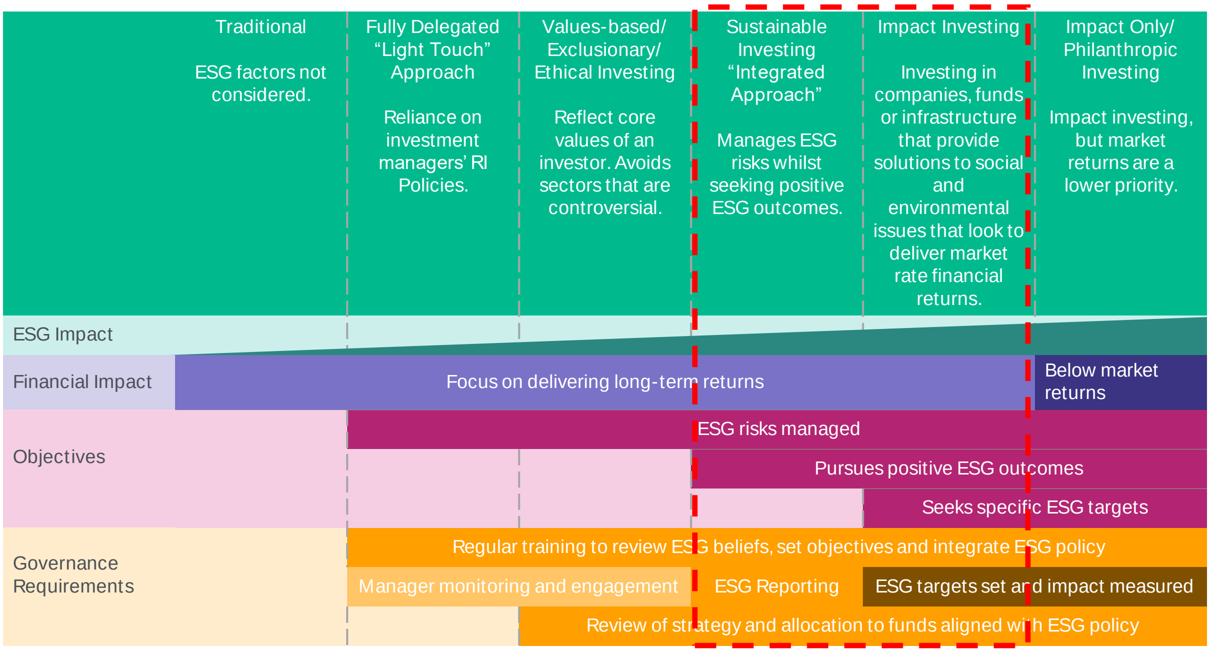
- Long-term perspective – by the nature of the Fund's liabilities and employers, the Fund is able to take a long-term view and position its Investment Strategy on this basis.
- Diversification – – the Fund seeks to diversify its investments in order to benefit from a variety of return patterns and to manage risk.
- Maturing nature - the contributions received are less than the benefits currently paid to pensioners, meaning the Fund is a maturing Fund. Income generation is therefore required.
- Stewardship – the Fund is a responsible investor and adopts policies and practices which acknowledge the importance of Environmental, Social and Governance (ESG) issues.

An updated Statement of Investment Principles was approved in March 2024 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. Statement of Investment Principles 2024 (scottishborderscouncilpensionfund.org)

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 continue to be monitored on an annual basis to ensure they remain signatories.

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.

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.

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- 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.
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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.
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- 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.

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 are 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.

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

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 Annual Report and Accounts, which includes an Annual Governance Statement and a Governance Compliance Statement.

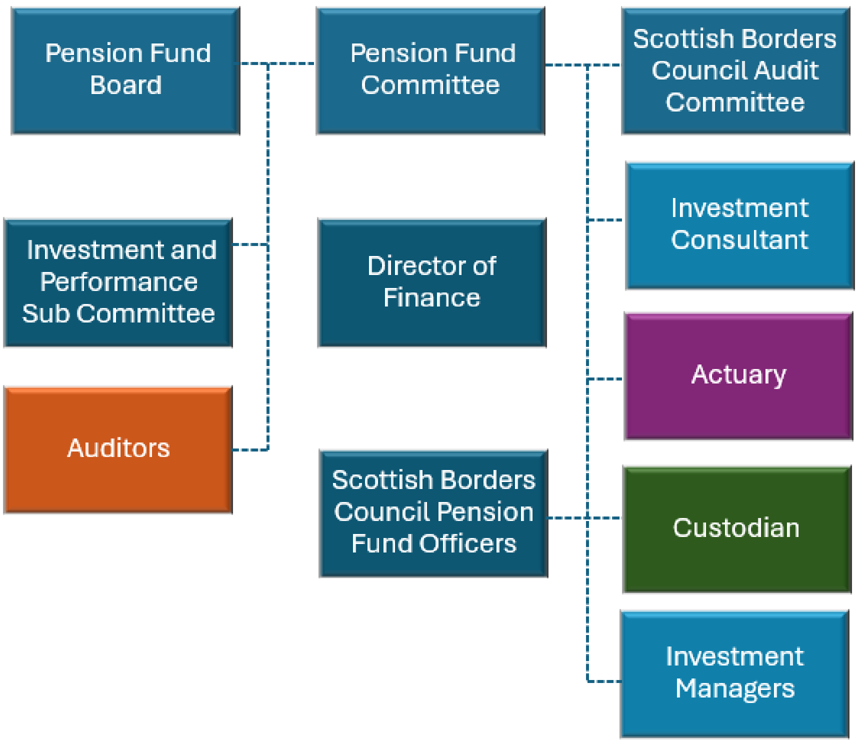
As a Local Authority, it must adhere to applicable regulations such as the LGPS General Code March 2024, Local Government Act 2000 and LGPS specific regulations such as the Public Service Pensions Act 2013, the Local Government Pension Scheme (Scotland) Regulations 2018 and Local Government Pension

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.

Following the introduction of the LGPS General Code March 2024, a full compliance review was completed. An action plan has been created to address any areas of non-compliance and to ensure compliance is maintained in all currently compliant areas.

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. It consists of the

Pension Fund Committee Members, 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.

Investment Managers	
Baillie Gifford	UK Equities
Baillie Gifford	Global Equities
Morgan Stanley	Pooled Fund-Global Equities
LGIM	Pooled Fund-Passive Global Equities
M&G Alpha Opps	Pooled Fund-Diversified Income
M&G Index Linked	Pooled Fund-Bonds
UBS	Pooled Fund-Property
Blackrock	Pooled Fund-Property
LGT	Pooled Fund-Alternatives
Partners Group	Pooled Fund-Private Credit
Permira	Pooled Fund-Private Credit
Macquarie	Pooled Fund-Infrastructure Debt
IFM	Pooled Fund-Infrastructure Debt
Nuveen	Pooled Fund-Infrastructure Debt
Quinbrook	Pooled Fund-Infrastructure Debt
Macquarie	Infrastructure Equity
KKR	Infrastructure Equity
Dalmore	Infrastructure Equity
Gresham House	Infrastructure Equity
Equitix	Infrastructure Equity
Gaia	Infrastructure Equity
Waterloo Place	Infrastructure Equity
UK Gas Distribution Sidecar	Infrastructure Equity
Alinda	Infrastructure Equity
Brookfield	Infrastructure Equity
Internal	Internally Managed Cash & Investments

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 six 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: Committee details - Pension Fund Committee and Pension Board (moderngov.co.uk)

The Chairman of the Pension Fund Committee, Councillor David Parker has recently been appointed as Chair of the Scottish Local Government Pension Scheme Advisory Board (SAB). The SAB exists to provide the Scottish Ministers with advice, on request, about the desirability of changes to the Scottish LGPS, which must necessarily include policy issues and changes to scheme regulations. This appointment is a significant achievement for Councillor Parker and testament to his knowledge and experience which is a notable benefit to oversight of our Pension Fund.

Pension Fund Board

The membership of the Board comprises of 3 representatives from employer organisations (1 Scottish Borders Council, 1 Borders College, and 1 South of Scotland Enterprise) and 4 employee representatives from Unison, Unite and GMB unions. The Board's role is to assist the 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 incidents of this nature during the period covered by this report.

Pension Fund Investment & Performance Sub-Committee.
The membership of the Sub-Committee comprises 8 members. The 6 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 meets 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, 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 Fund Officers, providing pension and investment, and pension administration services respectively.

Senior Managers of each team, the Pension Investment and Accounts Manager and the HR Shared Services Manager 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	7%
1-5 years’ experience	21%
6-10 years’ experience	0%
11-15 years’ experience	0%
>15 years’ experience	71%

Relevant formal qualifications	
Formal qualification	57%
No formal qualification	43%

Formal Qualifications

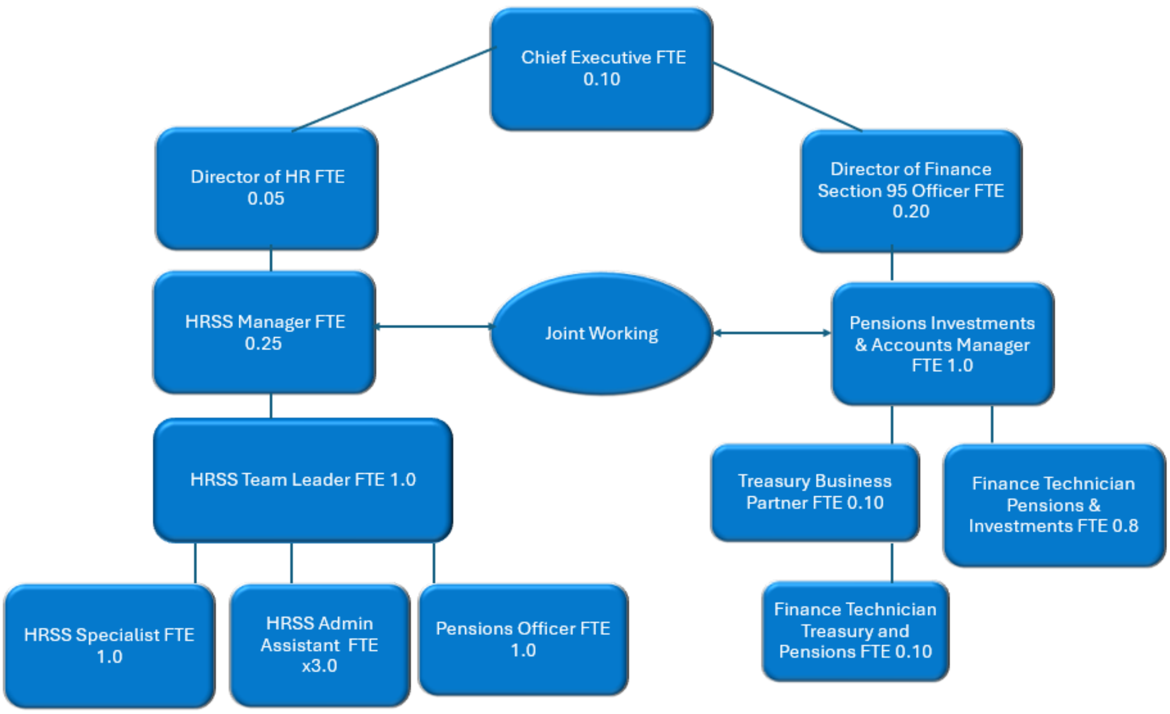
Extensive service experience and a wide range of formal qualifications are held by all senior Pension Officers. Formal qualifications include PhD, ICAS, CIPFA, Masters Degree in HR management, Diploma in Payroll and Administration, MIPPDip Pensions and Administration Management and Business Management degree. The Pensions, Investments and Accounts Manager holds a PhD and is an ICAS qualified charted accountant. The Director of Finance and Chief Executive are both CIPFA qualified chartered accountants.

Diversity and Inclusion

The Council has a formal Diversity and Inclusion Policy which is followed by the Pension Fund Officers. [Equality, Diversity and Human Rights Policy](#) The below table shows the diversity of the Pension Fund Committee and is representative of our demographic within Scottish Borders Council.

Female	Male
46%	54%

Scottish Borders Council LGPS Pensions Officers team structure (Full-Time Equivalents)



During this reporting period, a new Pensions Investment and Accounts Manager was appointed in February 2024 and a Pensions Officer was appointed to support the HRSS team in April 2024

These changes have improved the experience and knowledge-base available for the Pension Fund. The Pensions, Investment and Accounts Manager ensured successful completion of the Pension Fund Annual report and Accounts to 31 March 2024. Audit Scotland noted a significant improvement in reporting records. In addition, increased oversight of governance and risk management has been evidenced by the reduced risk rating for the Risk associated with "Changes in Legislation/Regulatory Frameworks". The risk score for this risk was reduced from an Amber 12 (Possible-Major) to an Amber 8 (Unlikely-Major).

Fund Advisors

Specialism	Company	Key services provided during the year 2023/24
Actuary	Hymans Robertson	Actuarial Evaluation 2023. 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 2023/24 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.

Skills & Knowledge

The Pension Fund training policy requires all members to undertake an annual skills assessment, attend a minimum of 2 training events a year and complete The Pension Regulator Trustee Toolkit within 6 months of joining the Committee or Board. This is monitored on a quarterly basis 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 outcome of the annual assessment and training attendance is reported on an annual basis to the Joint Pension Fund Committee and Pension Fund Board. The outcome of the assessment is used to formulate the training plan for the year. Training and meeting attendance is reviewed on a quarterly basis to ensure all members are on track for annual compliance. Any members in danger of non-compliance will be notified and requested to take immediate action. If members fail to fulfil their training or attendance requirements a formal letter is sent, and the member could potentially be removed from the Committee or Board. No training nor attendance breaches were noted in the year.

2024/25 Skills assessment for members was completed in March 2024, Fund Officers used the results of the assessment to formalise the agenda of a Pension Committee and Board training day in November 2024. Our Pension Administration Team, ISIO and Hymans-Robertsons will present at the training day. ISIO will provide updates on Financial Markets & Investment Products, Benchmarks & performance and Responsible Investments. Hymans-Robertsons will give an update on the General Code March 2024 and the impacts to LGPS. In addition, we will cover pension administration and provide an update on pension risk.

In addition to the training day Fund Officers actively encourage Pension Fund Committee and Board members to attend conferences and Fund Manager site visits throughout the year to further understand our investments.

This year members had the opportunity to attend a site visit at the James Hutton Institute where they were given an overview of Climate Positive Faming and Green Hydrogen. In addition, the members visited a synchronised condenser site and were given an overview of renewable energy sources and power hubs for renewable energy sources.

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).

Internal incentives

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 2024 are described in the following table.

Activities	Details
Review of Investment strategy	Reviewed the Fund's existing investment strategy, quantified the inherent risks and considered the options for the evolution of the strategy including review of ESG objectives and metrics. Revised Investment Strategy approved by the Board September 2024
Responsible Investment Metrics and Targets Report	Responsible Investment Metrics and Targets Report produced November 2023. Scottish Borders Council Pension Fund - Metrics Monitoring Report
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 quarterly throughout the year.
Production of the Pension Funds Annual Report and Accounts	The Annual Report and Accounts for the year ended 31 March 2024 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 2023-2024 Audited | Scottish Borders Council (scottishborderscouncilpensionfund.org)
Risk Monitoring	Formal governance process enhanced by Risk Management approach. Risk management will be applied to every activity relating to the SBC Pension Fund. It will be part of the decision-making process when developing and reviewing policies, strategies and plans. This will be supported by the Risk Management Strategy to ensure the consistent application of the risk management framework. Scottish Borders Council Pension Fund Risk Management Strategy The Pension Fund Risk Register has been significantly modified and consolidated during the year 2023/24 resulting in a clearer focus on the most significant risks. The outcome of the refresh was the reduction in the number of risks on the Pension Fund Risk Register from 51 risks to 17 risks through mostly amalgamation, and some removal, of risks within the following Categories: Funding; Investment; Administration; Governance; and National Policy / Regulations. The reduction of the number of risks on the Pension Fund Risk Register to a more manageable number will ensure the more efficient management of its risks. Risk register updates are a standing item on Pension Fund Committee and Board meeting agenda. Pension Fund

	Governance National Policy-Regulations Risks
Training on relevant matter	Training was provided in key areas identified by members of the Pension Fund Committee and Pension Fund Board. This included The Pension Regulator Toolkit for new members. A formal Training Day was held in May 2023 which covered Pension Fund Structure, Actuarial Assumptions and Valuation Year (covered by Hymans-Robertson) Investment related training and Pension Governance was led by the Investment consultant (ISIO). Pension Administration is covered by our Pension Officers. Other learning activities included attendance at Pension & Lifetime Savings Association (PLSA) conference, with sessions on UK's macroeconomic landscape, election forecasts, biodiversity, megatrends and shaping our future. In addition, many members have attended site visits supported by our Investment Managers in order to understand more our existing Investment mandates.

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. The Fund's Actuarial service contract with Hymans-Robertson is due for renewal in December 2024. The contract has been extended for a further 6 months to facilitate a full tender process following the guidance provided by the National LGPS Framework.

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.

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. Councillors are also required to notify the Monitoring Officer of any changes to their register of interest within 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 Councilor is a publicly 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. Failure to report a conflict of interest may potentially result in a referral to the Standards Commission.

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.

Scottish Borders Council 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.

Identification	Management
Members of the Pensions Committee and Pension Board ('Members'): The Code of Conduct requires that all Members must declare ant 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: Councillors – Scottish Borders Council

	(scotborders.gov.uk)
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 it amounts to an interest which there 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 Commision Code of Conduct for Councillors Codes of Conduct | The Standards Commission for Scotland (standardscommissionscotland.org.uk)
All formal meetings of the Committee and Board have ‘disclorures of interest’ as a standing item on the agenda. At that point each Member formally considers conflicts of 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.	Unless a dispensation has been granted, they must then leave the meeting and may not participate in any discussion, vote on, or discharge any function related to the matter.
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 nonfinancial 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	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.

manager policies are informally considered as part of the annual review process.	
Political Interests and beliefs: The primary mechanism for the identification of potential and actual conflicts relating to political matters is for Members of the Committee, Board and Officers to the Fund consider all matters from a neutral position focused on what serves the best interests of clients and beneficiaries of the Fund.	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 before any personal or political objective. The Committee makes decisions on a politically neutral basis 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

As a testament to existing policies and processes imbedded and governance of these processes, there have been no instances of conflicts of interest in 2023/24.

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 Pension Fund is committed to the application of appropriate and effective risk management. practices. These support the primary aim of the Pension Fund, which 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 benefits basis.

The Pension Fund champions a culture where those supporting the function of the Pension Fund (SBC Senior Officers and external advisers) are encouraged to develop new initiatives, improve. performance and achieve objectives safely, effectively and efficiently by appropriate application of good risk management practices.

The Pension Fund purposefully seeks to promote an environment that is risk ‘aware’. This means that the Pension Fund can take an effective approach to managing risk in a way that both addresses significant challenges and enables positive outcomes. It will increase success in the achievement of objectives and targets set out in the associated SBC Pension Fund Business Plan and Strategies.

Effective Risk Management is one of the foundations of effective governance of the Pension Fund. It requires a coherent approach to the management of risks that it faces every day through the identification, analysis, evaluation, control, and monitoring of risks linked to the business plans and activities of the

Pension Fund. The Pension Fund Risk Register has been significantly modified and consolidated during the year 2023/24 resulting in a clearer focus on the most significant risks. The outcome of the refresh was the reduction in the number of risks on the Pension Fund Risk Register from 51 risks to 17 risks through mostly amalgamation, and some removal, of risks within the following Categories: Funding; Investment; Administration; Governance; and National Policy / Regulations. The reduction of the number of risks on the Pension Fund Risk Register to a more manageable number will ensure the more efficient management of its risks.

A new Risk Management Policy and Risk Management Strategy were approved by the Pension Fund Committee in March 2024. The Risk Management Policy Statement defines risk and risk management, outlines the vision, and states the roles and responsibilities in managing the risks of the SBC Pension Fund. The Senior Officers (SBC) supporting the Pension Fund have the primary responsibility to systematically identify, analyse, evaluate, control, record and monitor risks of the SBC Pension Fund. The Committee and Board, while the statutory roles and functions are separate, need to be assured that risks to the achievement the SBC Pension Fund's primary aim and underpinning objectives are being adequately managed, and be content that risk-based information is sufficient to support sound decision-making.

The 3-year Risk Management Strategy 2024-2026 outlines the approach that will be adopted to systematically identify, analyse, evaluate, control, record and monitor risks of the SBC Pension Fund, in support of the Risk Management Policy Statement. Applying this new risk review approach from 2024/25 will involve the review by Officers of the above noted Risk categories on a cycle with reports to quarterly meetings of the Pension Fund Committee. It will enable the SBC Pension Fund to continue to refine its approach to managing risks, with a focus on aligning Risk Management to the business planning and performance management process.

The Risk Management Strategy is based upon the professional standards in the Management of Risk (MoR) Guide and CIPFA guidance "Managing Risk in the Local Government Pension Scheme". The strategy is underpinned by:

- A clear and widely understood structure to secure implementation.
- A commitment to achievement
- Appropriate training arrangements
- Regular monitoring and reporting arrangements

The new Risk Management Policy and Strategy will ensure there is a relevant risk management framework in place for the SBC Pension Fund aligned to its objectives, governance and administration.

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 Pension Fund Committee and Pension Fund Board and monitored quarterly at their joint meetings. 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 refreshed Pension Fund Risk Register was formally reviewed in March 2024, with quarterly reviews scheduled for the joint meetings of the Pension Fund Committee and Pension Board. Committee and Board members will therefore be afforded an enhanced 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 (i.e. in line with the Fund’s Risk Management Policy and Strategy). A summary of key risks is also provided in the Fund's Annual Report.

The following table summarises the refreshed Pension Fund Risk Register as presented to the joint meeting of the Pension Fund Committee and Pension Board on 4 March 2024.

Category	**Risk Title**	**Risk Score & Rating**
Funding	Strategy alignment	6 Moderate - Unlikely
	Scheme Employer contributions	6 Moderate - Unlikely
	Strategic Assessment Information	6 Moderate - Unlikely
Investment	Investment performance	8 Major - Unlikely
	Market / Economic Conditions	8 Major - Unlikely
	Liquidity for cash flows	3 Moderate - Remote
Administration	Over-Reliance on Key Officers	9 Moderate - Possible
	Failure to process Payments on time	6 Moderate - Unlikely
	Failure to Collect & Account for Contributions	4 Minor - Unlikely
	Failure to Manage Data and Information	9 Moderate - Possible
	Cyber Security	10 Critical - Unlikely
Governance	Scheme Employer Relationships	6 Moderate - Unlikely
	Committee Member knowledge & expertise	8 Major - Unlikely
	Failure of Governance arrangements	8 Major - Unlikely
National Policy / Regulations	Legislative / regulatory compliance	8 Major - Unlikely
	Changes in legislation / regulations	12 Major - Possible
	ESG responsibilities	8 Major - Unlikely
Total	**17**	
Red (score 15-25)	Amber (Score 6-12)	Green (Score 1-5)

Further details Item No. 9 - Appendix 1 - Pension Fund Risk Register - PFCB 4 March 2024.pdf

The Fund's strongest mitigation against market-wide and systemic risk is through a well-diversified investment portfolio and Fund Officers actively work with its Investment Consultants and managers to achieve and maintain 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 were successfully mitigated, by this diversification, to an acceptable degree.

ESG as a Financially Material Risk

The Fund's Responsible Investment Policy and SIP describe ESG as a financially material risk. This page details how the Fund's Responsible Investment Policy is implemented, while the following page outlines the Committee's ESG beliefs used in evaluating the Fund's investment managers' ESG policies and procedures, and any alignment or lack thereof. The remainder of this statement details a summary of the Committee's views of the managers, actions for engagement and an evaluation of the stewardship activity.

The below table outlines the areas which the Fund's investment managers are assessed on when evaluating their ESG policies and engagements. The Committee intends to review the Fund's ESG policies and engagements periodically to ensure they remain fit for purpose.

Areas for engagement
Environmental, Social Responsibility, Corporate Governance factors and the exercising of rights and engagement activity
Method for monitoring and engagement
• The Committee will continue to develop their understanding of ESG factors through regular training on ESG and keeping up to date on the latest sustainable investment opportunities.
• The Committee's ESG beliefs will be formally reviewed biennially or more frequently if required by the Committee
• 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 UK Stewardship Code.
• The Committee will undertake annual reviews of the investment managers' approach to integrating ESG factors and identify where investment managers are misaligned with the Committee's ESG beliefs. ISIO will engage with each manager on the Committee's behalf to remedy these issues where possible.
• 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 Committee has also agreed to specifically monitor the following responsible investment and metrics: ○ Carbon emissions (Scope 1 & 2)

○ Carbon footprint (Scope 1 & 2) ○ Implied Temperature Rise (ITR) ○ Number of climate-related Engagements
Circumstances for additional monitoring and engagement
• The investment manager has not acted in accordance with their policies and frameworks.
• The investment managers' ability to abide by the Committee's Responsible Investment Policy ceases due to a change in the manager's own ESG policies.

The Fund delegates certain roles and responsibilities but maintains overall ownership and management of the Fund. The Fund has a strong relationship with its investment managers and advisers to help identify and respond to market-wide and systemic risks, and to keep the Investment & Performance Sub-Committee well informed. There were no such events within this financial year, but previous examples noted as case studies below:

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.

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 and has incorporated this as a mandatory requirement for any new appointments process to run one or more of the Fund's mandates.

The Department for Work and Pensions ('DWP') has been increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance ("ESG") factors as financially material and Funds need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that funds detail their policies in relation to these factors and demonstrate adherence to these policies in an implementation report, which includes a summary of the Fund's Responsible Investment Policy and its engagement with investment managers, including underlying voting and engagement activities.

The above is a regulatory requirement for corporate Defined Benefit Pension Schemes, and while it is not yet a regulatory requirement for Local Government Pension Schemes ("LGPS"), the Department of Levelling Up, Communities, and Housing ("DLUCH") are considering following a similar path in terms of guidance. DLUCH changed requirements for LGPS Statement of Investment Principles ("SIP") in 2016, requiring Schemes to document how ESG considerations are considered in investment strategy decisions. The LGPS Scheme Advisory Board ("SAB") have similarly advised Funds to take into account ESG considerations, with a similar emphasis to the regulatory requirements noted above.

The Fund as a defined benefit scheme is a long-term investor and consequently is less impacted by short-term market events or volatility.

Promotion of Well-Functioning Financial Systems

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, Institutional Investors Group on Climate Change 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.

No contracts were renewed in the period 2023/24. The Fund Actuary and Custodian contracts are due for renewal in the next reporting period. The LGPS Framework will be used to ensure each contract is renewed per the required guidelines.

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 according to The Pension Regulator's Single Code. The Fund officers have reviewed the General Code March 2024 and is currently preparing a compliance tracker to ensure adherence to all regulatory requirements and best practice arrangements.

Financial Regulations

The Pension Fund adopts the financial regulations of the Council in full. The regulations can be found via the link below:

Scottish Borders Council Financial Regulations

Pension Fund Board

The role of the Board is to assist the 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 that can be used by the Fund to inform its annual governance statement.

Part of the Pension Fund Committee's remit is to gain assurance on the adequacy and effectiveness of internal controls, corporate governance and risk management arrangements of the SBC Pension Fund and to consider annual assurance reports. This includes receiving Internal Audit reports and overseeing progress on actions taken on audit recommendations. The Internal Audit Annual Assurance Report 2023/24 for the SBC Pension Fund was presented on 20 June 2024.

Increased collaboration with the Internal Audit team has been facilitated by the new Pensions, Investments and Accounts Manager. Monthly reviews now in place to further strengthen Governance and Risk oversight.

External Audit

The Annual Fund Report and Accounts is subject to an 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 2024 review found the Fund has appropriate arrangements in place to support governance and accountability. In addition, the review noted improved reporting records in place following the appointment of the Pensions, Investments and Accounts Manager.

ESG stewardship has not specifically been included in internal or external audits, prior to or during this reporting period. ESG Stewardship is considered by Internal Audit during the Investment Assurance reviews. However, from 2025/26 onwards, the remit for Internal Audit is to be extended and will include ESG/stewardship related areas. ESG stewardship is also reviewed as part of our annual Due Dilligence of Investment Managers. These Due Diligence reviews are covered by Audit Scotlands review remit.

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. Fund Officers will discuss this process with Audit Scotland during the Audit Planning session for 2024/25.

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 2024 Governance Policy and Compliance statement was fully compliant with published best practice guidance. Governance Policy and Compliance Statement 2024 | Scottish Borders Council (scottishborderscouncilpensionfund.org)

The Pension Regulator launched the General Code in March 2024 to replace the TPR Single Code. The requirements for the Fund are under review and cover Board Structures and Activities, Knowledge and Understanding, Advisers and Service Providers, Risk Management, Scheme Governance, Investment Oversight and Scheme Administration.

Initial compliance review has highlighted existing strengths/good practice currently adopted. Fund officers are considering recommendations for areas of improvement. A plan is currently being produced to progress these recommendations.

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 General Code Compliance 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 are published via the Council's website one week prior to the meeting date.

The Fund has been a successful signatory to the Stewardship Code since February 2023. We recognise the reputational significance of Stewardship Signatory Status and have worked hard over the year to ensure governance of stewardship practices and reporting.

SECTION 2 INVESTMENT APPROACH

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 12 employer organisations with Scottish Borders Council representing 88% of members. The table below details the size and profile of membership as at 31 March 2024.

	Active Members	Deferred Members	Pensioners	Total Benficiaries
People	4,836	3,195	4,848	12,879
Percentage	37.6%	24.8%	37.6%	100%
Average age	46.72	50.88	70.67	

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 longterm 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:

Resources | Scottish Borders Council (scottishborderscouncilpensionfund.org)

Investment Time Horizon

The Fund is an LGPS, located in the Scottish Borders, with over £900m 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.20 years (as at the 2023 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 2023 triennial valuation is 134%).

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).

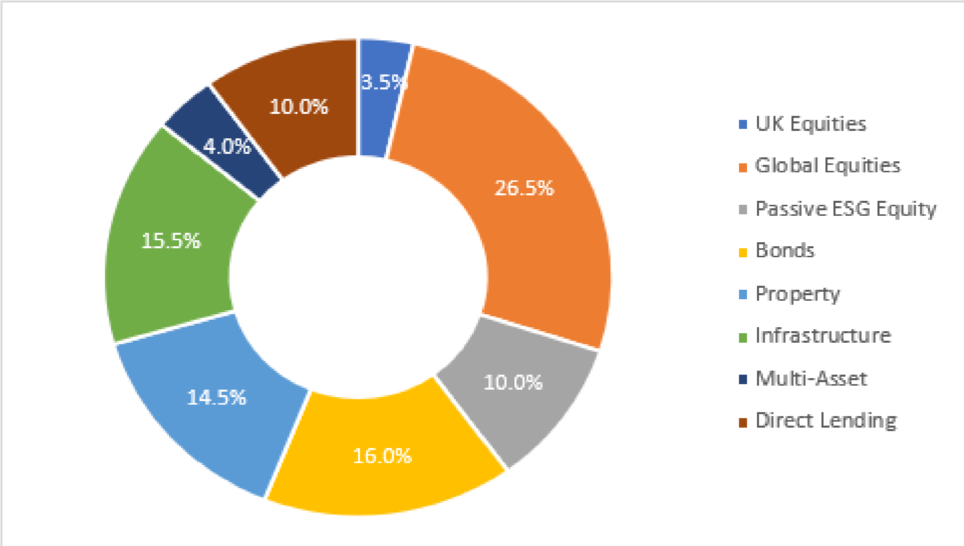
Breakdown of Assets

The Fund, as at 31 March 2024, held assets valued at £938m. The Strategic Asset Allocation contained in 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 Funds assets is shown in the table below.

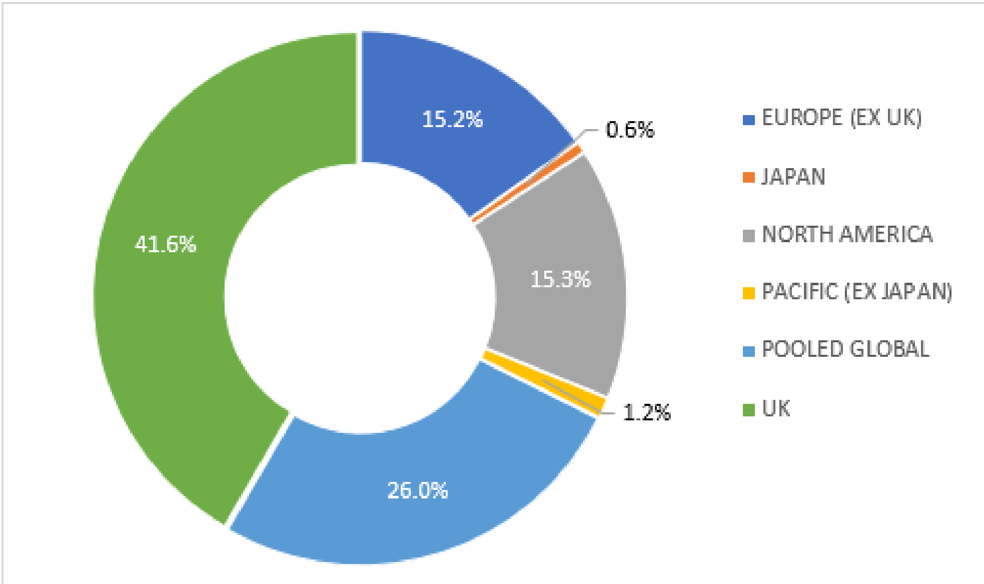
		31-March-2024 £'000
Baillie Gifford	UK Equities	34,188
Baillie Gifford	Global Equities	121,374
Morgan Stanley	Pooled Fund-Global Equities	112,728
LGIM	Pooled Fund-Passive Global Equities	111,091
M&G Alpha Opps	Pooled Fund-Diversified Income	87,125
M&G Index Linked	Pooled Fund-Bonds	55,741
UBS	Pooled Fund-Property	12,346
Blackrock	Pooled Fund-Property	92,490
LGT	Pooled Fund-Alternatives	52,532
Partners Group	Pooled Fund-Private Credit	51,583
Permira	Pooled Fund-Private Credit	30,234
Macquarie	Pooled Fund-Infrastructure Debt	45,484
IFM	Pooled Fund-Infrastructure Debt	32,354
Nuveen	Pooled Fund-Infrastructure Debt	9,727
Quinbrook	Pooled Fund-Infrastructure Debt	9,024
Macquarie	Infrastructure Equity	5,003
KKR	Infrastructure Equity	3,956
Dalmore	Infrastructure Equity	19,378
Gresham House	Infrastructure Equity	1,476
Equitix	Infrastructure Equity	7,913
Gaia	Infrastructure Equity	3,795
Waterloo Place	Infrastructure Equity	1,147
UK Gas Distribution Sidecar	Infrastructure Equity	3,318
Alinda	Infrastructure Equity	3,479
Brookfield	Infrastructure Equity	328
Internal	Internally Managed Cash & Investments	29,029
		936,842

The following graphs show the assets as at 31 March 2024 split over both asset class and geography.

Strategic Asset Allocation at 31 March 2024



Current Asset breakdown by geography at 31 March 2024



Source: Northern Trust

Both graphs are still current as at March 2024 and feature in the 2023/24 Pension Fund's Annual Report.

Communications with Beneficiaries

The Joint Pensions Fund Committee & Pension Fund Board reviewed and approved the current Communications Policy in September 2024. 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 utilised are:

- Fund website to provide information to as many stakeholders as possible at a time that suits them. 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 pension webinar. Other bulletins have included an introduction to member 'self-service', and reminders on the release of Annual Benefit Statements and review AVC arrangements etc.

In addition to the above noted communication methods, the Funds First annual newsletter was distributed to all members in March 2024. This was well received and will now be delivered on an annual basis.

Pension Committee and Board meetings are open for 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 can 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 publicly 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 most 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 2024, for example, included information on McCloud, Goodwin and the Pensions Dashboard, what this means for the Fund, Members and Employers.

Formal and informal consultations with employers are also included.

- 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 meetings (or accessing the publicly available agendas and minutes), which include ESG-related agenda items. The latest TCFD report was presented to the Pension Fund Committee and Board at the September 2024 meeting. 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 can also be accessed at www.scottishborderscouncilpensionfund.org

Communication Performance

Examples of communications that took place during 2023/24.

- The annual Employer Liaison meeting was held in March 2024 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.
- The first annual Pension Fund newsletter distributed March 2024.
- Member Self Service continues to be a useful tool for members, with access to Annual Benefit Statements and interactive tools that members can get quotes and updated information within the need to contact the Pensions Team, this allows for two-way communication and the facility to upload documents that can then be stored digitally against records. All Fund Employers are asked to bring this to the attention of their employees at least annually.
- Information continues to be posted within the Scottish Borders Council Pension Fund website, this included the following:
  - Notice that we were unable to issue pay slips and guidance on how to sign up for online access to pay slips.
  - 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:

Communication Policy 2024 I Scottish Borders Council

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.

Action 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 2023/24 included: • ISIO downgraded the Fund's Long Lease Property manager from "Meets Criteria" to "Partially Meets Criteria" in response to risks around material outflows from the Fund, as well as concerns of asset raising due to the nature of the investor base. In addition to these concerns, the departure of the lead portfolio manager and other key personnel raised further concerns, resulting in ISIO undertaking significant due diligence on the manager. The Performance and Investment Sub-Committee met with the manager to discuss the updates and ISIO kept the Committee informed of subsequent developments through both the regular quarterly performance reports and ad-hoc papers (as and when required). The position with the manager remains subject to change, and ISIO continues to monitor the position closely. The increased risk for the Fund from the mandate prompted the Committee to review the allocation as part of the recent investment strategy review. Post-reporting period, the Committee agreed to reduce their exposure to the mandate, and additional monitoring of the remaining allocation was agreed. • Following concerns raised in the previous year relating to the performance of one of the Fund's equity managers (with a clear growth style) given the significant shift in the interest rate environment, the Committee agreed to additional monitoring of the funds in the Fund is invested in and the manager as a whole. Over the current reporting year, further concern was raised relating to the continued underperformance of the funds, particularly over the longer term. The manager's growth style has struggled as elevated interest rates continue to provide a headwind to growth stocks. This was combined with some stock specific issues. The Committee raised these concerns with the manager who reconfirmed their investment thesis and confidence in the long-term outlook for the mandate. In response to their concerns, the Committee increased the level of monitoring of the manager within the quarterly performance reports to include peer

group comparison. This helped to identify what was manager specific issues, and what was being experienced by similar growth managers. Post-reporting year end, ISIO are undertaking a due diligence review of the manager which will be shared with the Committee when completed for discussion of the potential next steps for the manager within the portfolio.

Responsible Investment Training

TCFD Strategy & Risk Management

June 2023

Detailed written report provided to the Joint Pension Fund Committee and Board by the Fund's investment advisors, ISIO. Report provided detailed analysis and results of modelling for the Fund's investment strategy across a number of different climate scenarios and time frames, to allow the Fund to align with the requirements of TCFD and consider the climate-related risks and opportunities for the Fund.

The analysis drew out some key takeaways for the Fund, which included:

- The focus should be on investing in companies that are prepared for the transition to a lower carbon economy, where transition risks are minimised.
- Under a scenario where the current global climate policies remain in place, over the longer term, the costs relating to physical damage are significant. Therefore, consideration should be given to the wider implications of this scenario and the impact over the long term.
- The Fund's equity, diversified alternatives and property managers have the greatest exposure to transitional and physical risk. It is possible that this risk could reduce over time as the Fund matures and is able to de-risk and reduce the allocation to risk assets.

The analysis and key takeaways from the report provided an opportunity for discussion with the Committee and encouraged the Committee to consider longer term opportunities and risks for the Fund. Some of the highlighted climate-related opportunities identified as part of the paper were implemented through the allocation to sustainable, impact assets over the period (e.g. Timberland, and Renewable Energy Infrastructure – formal training on both investment opportunities were provided to the Committee prior to allocations being agreed). The Committee also considered additional climate opportunities as part of the investment strategy review carried out post-reporting period and have agreed to implement a formal "Impact" mandate within the strategy.

Responsible Investment Metrics and Targets Report

November 2023

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: 54,463 metric tonnes.
- Carbon Footprint for the portfolio: 99.6 metric tonnes per $1million investment
- Implied Temperature Rise provided by managers ranged from a 1.5°C to 2.7°C temperature rise by the end of the century (normalised implied temperature rise across the managers that were able to report was 2.1°C.
- Climate Engagements: 409 individual engagements with companies within the portfolio where managers were able to report.

This report was the second annual assessment for the Fund and allowed the Committee to measure improvement and assess progress against the metrics reported in the first annual assessment, in line with the Committee's "relative improvement" target. The report showed an increase in the total greenhouse gas emissions and carbon footprint for the portfolio relative to the previous year. This was driven by increased coverage and data reporting across the total portfolio, as a number of individual underlying funds saw an improvement in their metrics.

Given gaps in the data from the Fund's managers, it was agreed that the Fund would continue to engage with the individual managers to drive improvements in the data availability and reporting quality.

Impact Assessment

February 2024
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, as well as providing an update on the managers' progress against previously identified actions.
This report is delivered on an annual basis, and ensures the Committee and Board continue to monitor the Fund's managers ESG capabilities and identify whether any are failing to meet the standards expected.

Signatories should explain where managers have not followed their stewardship and investment policies and the reason why.

There have been no incidents where managers have not followed their stewardship and investment policies.

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, which 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 existing 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 is 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 considers 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 believes 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 in managers who are not signatories to UNPRI, GRESB, TCFD, the UK Stewardship Code, or equivalent regional or asset class bodies, 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 2024 reported that all of the Fund's investment managers were signatories of the UNPRI.

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, 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.

Responsible investment approach: Investment Managers

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 asks the manager to present 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, stewardship, reporting and collaboration, as well as an overall ESG and climate specific rating. The Committee assesses the managers against the

five criteria on an annual basis, and measures changes versus the previous year's score. This assessment process also provides proposed actions, communicated to each investment manager, to drive improvements within the Fund and the broader industry. Each manager's progress against actions identified in the previous year's report is also noted, to allow the Committee to see what progress is being made.

3) For new manager selection exercises, a thorough due diligence process is followed, against an agreed evaluation criterion, across investment and stewardship, including the integration of material ESG issues.

4) The Fund continues to be 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. The Fund published its initial TCFD report for 2023 in June 2024, in which the Committee set out its response and key actions across the four TCFD pillars: Governance, Strategy, Risk Management, and Metrics and Targets.

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. Responsible Investment Policy

ESG metrics and targets

The Fund has an overriding obligation to act in the best interest of the scheme's beneficiaries. As part of this role the Fund believes that a positive approach to Environmental and Social Governance issues can positively affect the financial performance of investments. The Fund has also undertaken a full review of its Responsible Investment Policy Targets and Metrics on 12 December 2023 Scottish Borders Council Pension Fund - Metrics Monitoring Report and continues to focus on the 6 key responsible investment objectives:

- 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

These were left unchanged throughout 2023/24. Work has commenced in the assessment and collection of data to allow reporting and monitoring of SDG 13 Climate Change and SDG 7 Affordable & Clean Energy. Due to the lack of robust measurement criteria or data the remaining objectives will be reviewed regularly as data collection is developed.

The Fund continues to look for further opportunities to enhance its commitment to sustainability and climate change which will form key criterion in future investment and procurement decision making.

The Fund actively engages with managers to ensure they are meeting these key principles and is incorporating ESG considerations into their investment decisions.

The Fund actively investigates opportunities to increase investment in sustainable funds. Two clear examples of this were the recent allocations to a Timberland Fund and a Renewable Energy Infrastructure Fund focused in the UK.

Outcomes

As previously mentioned, the Fund agreed to 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 several 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 it 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. The Fund's commitment to this mandate was called in full in May 2024.
- 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 undertook a review of its investment strategy in Q3 2024 following the completion of the 2023 Actuarial Valuation, with ESG considerations and opportunities a key focus of the review. As part of the review, the Committee agreed to a formal "Impact" mandate within the portfolio. The intention is that the allocations to Natural Capital and Renewables will act as seed investments for the mandate, and the Committee are now considering viable options to build out the remainder of the mandate.

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 procurement 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.

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.

In February 2024, the Committee undertook its second annual ESG Impact Assessment. The assessment measured the Fund's investment managers against the five ESG criteria as before. In addition, the impact assessment measured progress against the proposed actions highlighted in the previous assessment and recommended further actions for each manager to consider. Examples of progress on actions suggested in the previous year for one investment manager in 2024 include: implementing mandatory ESG training across investment divisions and producing Scope 3 emissions data for the mandate.

Examples of further actions suggested for one investment manager in 2024 include: providing detailed ESG metrics within the regular reporting cycle, report and monitor engagement effectiveness over time and establish a firm level net zero target.

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 a governance review of each manager.

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 annual review of the agreed metrics and targets was carried out in November 2023, where the Committee measured the managers against the agreed “Relative Improvement” benchmark. Climate scenario analysis modelling for the Fund was undertaken in June 2023 which highlighted climate risks and opportunities for the Fund. In June 2024, the Committee published its first TCFD Report for the Fund on a voluntary basis, as regulatory timescales for publishing the report are still to be confirmed.

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

	2022	2023
ESG Score	2.1	2.3
Investment Approach	2.4	2.5
Risk Management	2.2	2.5
Stewardship	1.8	2.3
Reporting	1.7	1.5
Collaboration	2.8	2.8
Climate Score	2.2	2.6

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

The Fund continues to **meet traditional ESG criteria on both ESG and Climate grounds** at an overall level, 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 continues to improve its scores across all five categories with the exception of Collaboration (which was already towards the top end of the category range) meaning good practice approaches in all of these areas. The Fund has also improved its score materially in **Stewardship** (formerly voting & engagement). The key reasons for these scores are set out below:

The climate score has improved more and is higher than the overall ESG score driven by market wide improvements we have seen in this area.

- **Investment Approach** – a number of the Fund's managers have ESG policies in place and have shown examples of buy/sell decisions based on ESG factors. Additionally, several of the Fund's managers have established a net zero commitment and interim decarbonisation targets.
- **Risk management** – a number of the Fund's managers have established dedicated ESG teams and utilise an ESG scorecard.
- **Stewardship** – a number of the Fund's managers have set both firm-wide and fund-level stewardship priorities.
- **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.

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Scores

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

↑ Category rating has improved | ↓ Category rating has deteriorated

	ESG Score 2023	Investment Approach	Risk Management	Stewardship	Reporting	Collaboration	Climate Score 2023
Manager X	2.4	2.4	2.6	2.7	1.7 ↓	2.5	2.1
Manager X	2.6	3.3 ↑	2.6	2.7	1.7 ↓	2.5	3.6
Manager X	2.4	2.2	3.0	2.3	1.8 ↓	2.8	2.5
Manager X	3.2	3.6	2.7	3.5 ↑	2.3	3.5	4.6 ↑
Manager X	2.7 ↑	2.9	3.8 ↑	2.2 ↑	1.1 ↑	3.3 ↑	2.0
Manager X	2.0	2.0 ↓	2.6 ↑	1.5	1.3	2.8	2.1 ↑
Manager X	2.5	2.9	3.2 ↑	2.4 ↑	1.5	2.4	2.2 ↓
Manager X	3.1	3.6	3.3	3.6	1.9	2.4	3.3
Manager X	3.4	4.2	3.2	2.1	3.9	3.5	4.4

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

↑ Category rating has improved | ↓ Category rating has deteriorated

Manager X

Overview

ESG Score: 2.4 **Climate Score:** 2.1

Manager X has established comprehensive firm-wide stewardship priorities. The Fund is committed to investing in line with the firm-wide commitment to the Net Zero Asset Managers initiative ("NZAMi").

The Fund has two dedicated ESG analysts who work collaboratively to integrate ESG into the Fund. At a firm level, Manager X have over 40 people within their ESG team, which work collaboratively.

Proposed Actions

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

Stewardship – Consider running engagement through a centralised team.

Reporting – Consider the inclusion of wider ESG scoring in client reporting, as well as the inclusion of carbon footprint and implied temperature pathway data as part of regular standard reports.

Assessment Criteria	Score	Overview
Investment Approach	2.4	– The Fund is managed in line with its commitment to meet the delivery of net zero emissions by 2050 or sooner. The Fund has committed to least 90% of the portfolio's direct holdings having a net zero pathway which aligns with a 1.5°C temperature rise by 2030. – Manager X are committed to managing the Fund in a way which complies with the United Nations Global Compact.
Risk Management	2.6	– The Fund is supported by two dedicated UK ESG analysts who works hand-in-hand with the Portfolio Managers to ensure ESG is fully integrated in the Fund from the bottom up. – Manager X utilises a range of external ESG data sources to supplement their in-house analysis.
Stewardship	2.7	– Manager X has a list of stewardship principles which frame the way it interacts with portfolio firms. Interactions are carried out by both the investment and ESG teams. – Manager X can provide detailed examples of engagements with firms on a range of risks, including climate and social related issues.
Reporting	1.7 ↓	– Manager X's annual sustainability report is thorough; however, the manager does not report on detailed ESG metrics in quarterly reports on a fund level basis.
Collaboration	2.5	– Manager X is a member of several ESG related initiatives, including UNPRI, TCFD, IIGCC and the Net Zero Asset Managers Initiative.
Climate	2.1	– All the Fund's holdings are assessed on their alignment to net zero, with the highest emitting stocks being subject to further analysis using their Climate Transition Research Framework.

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

Manager Proposed Actions and Progress Update

Proposed Actions

✓ Action completed
Action in progress
✗ Action not yet started

Mandate	Proposed Action Category	Progress	Manager Progress Against Action
Manager X	Investment Approach	Action in progress	Manager X should consider implementing a firm-level net zero target. *The firm is carbon neutral, and the parent company, Manager X, has a target of being net zero by 2050; however, Manager X does not yet have a specific commitment.*
	Stewardship	✓	Manager X should consider having engagement managed by a central team. *The Global Stewardship team co-ordinates stewardship and engagement activities, working closely with the investment teams.*
	Reporting	Action in progress	Manager X should consider tracking social metrics as part of their ESG regular reporting. *While these are provided as part of ad hoc reporting, they are not yet available as part of regular reporting.*
	Climate	✗	Manager X should consider aligning with a temperature pathway.

SECTION 3 ENGAGEMENT

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 if engagement with the investment manager has not produced an 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, 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, identifies 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 March 2024.

The Fund has also produced an Implementation Statement (see Appendix) 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 regard 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 2024 (noting the Committee's delegation of Fund voting rights to the investment managers through its investment in pooled fund arrangements).

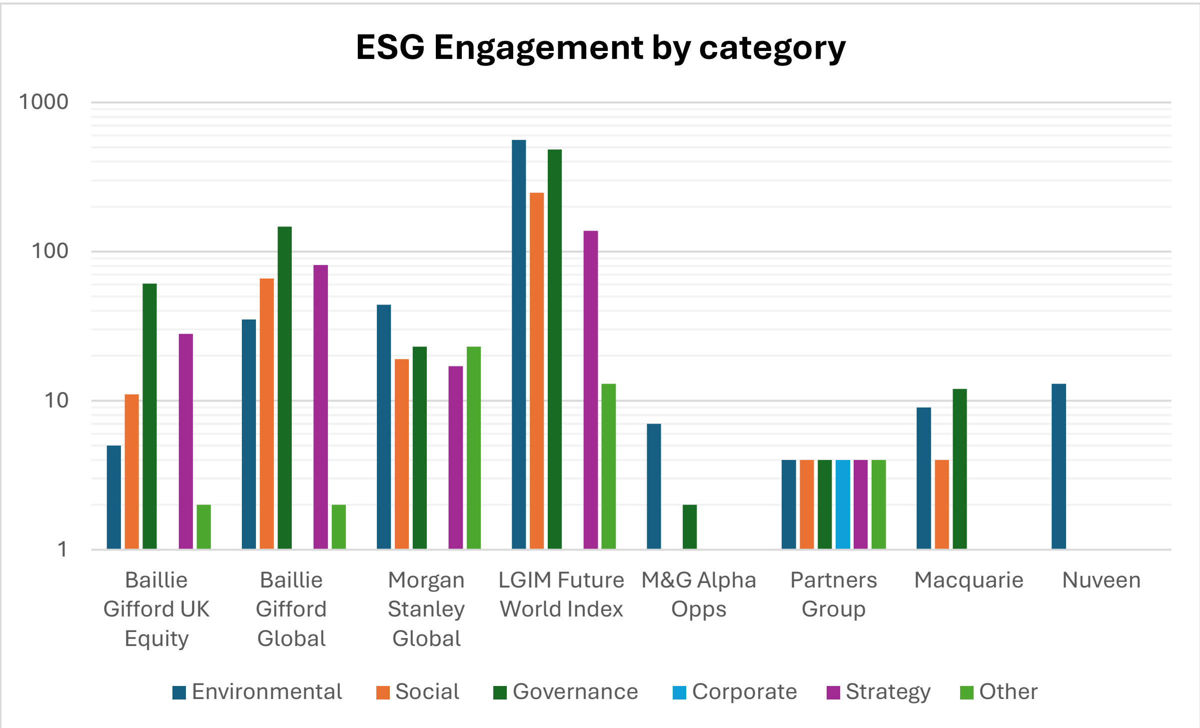
To ensure effective and consistent use of the voting rights, investment managers are tasked with exercising the voting rights accruing to the Fund. If important issues impacting residents do emanate from actions of invested companies, the Pensions Committee will contact investment managers in charge 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 leads 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.

Details of engagement activities, undertaken by investment managers in 2023/24, are provided in the Fund's implementation statement (see Appendix).

The chart below illustrates the number and type of engagement activities demonstrated by several of our Fund Managers. This information is not available from all Fund Managers; however, we will aim to receive this information in the future on a best practice basis



Examples of engagement activity and two short case studies are given below:

Case Study – Baillie Gifford UK Equity Fund – Ashtead – Objective: Gain a greater understanding of the challenges faced in decarbonising the business.

Discussion

We took part in an open and wide-ranging discussion with an experienced Managing Director of Ashtead, responsible for the company's approach to ESG. The discussion covered various emission reduction initiatives that Ashtead spearhead, including the trialled use of hydrogenated vegetable oils in the company's diesel engines and the ordering of electric versions of large plant equity from their key original equipment manufacturer suppliers.

The focus of our discussion was around the company's work to reduce carbon emissions and the challenges that they are facing. Ashtead made it clear that they anticipated their short-term carbon emissions would continue to increase but were focused on setting science-based absolute emission reduction targets for the longer term. The company recognised the practical restrictions on the shorter-term and acknowledged that reasonable timescales for the adoption and scaling of new carbon reducing technology would need to be determined. We noted that as Ashtead owns one of the largest global fleets of diesel engines, a significant investment in infrastructure to support the carbon reduction initiative would be required.

Outcome

The company intends to publish their inaugural sustainability report shortly. As part of our discussions with the company, we have encouraged them to increase their disclosures on the various efforts being made to reduce carbon emissions across all scopes (1, 2 and 3). In addition, the company has committed to publishing an audit of its Scope 3 emissions. We continue to encourage the company to lead its industry to decarbonise and will continue to engage in and monitor the company's progress.

Case Study – EnQuest PC – Objective: Engage with operational leaders to discuss how the company is addressing different aspects of the energy transition.

Disussion

We spoke about forthcoming projects at Sullom Voe Terminal (SVT) including decommissioning the power plant by 2025 as the terminal will connect to a large offshore windfarm. The company is also planning to reduce operational capacity at the terminal to match the lower throughput volumes. As a result, the company is considering various brownfield opportunities at SVT to generate commercial revenues aligned to the energy transition. The most significant is the potential to develop SVT as a carbon capture and storage (CCS) hub. We learned about EnQuest's ambition to receive via shipment up to 10 million tonnes of captured CO2 every year from UK and European customers.

Outcome

The company has now established a Net Zero decarbonisation target for its direct emissions by 2040, substantially ahead of the UK government's 2050 target. We are encouraged by various projects undertaken by EnQuest to reduce the company's direct emission footprint. However, we also recognise that many significant challenges remain. We will continue to monitor the company's progress and engage with management to support the company's decarbonisation ambitions.

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 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 published its first TCFD report in June 2024, on a voluntary basis, as there are currently no regulated timescales in place for the Fund.
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 passed on to 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 (where appropriate). 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 by 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 in other initiatives (for example Net Zero Asset Manager Initiative, TNFD, Climate 100+, etc.). The Fund makes 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 have 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 several 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 focused engagement activity at the underlying holdings level.

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

ESCALATION

Signatories, where necessary, escalate stewardship activities to influence issuers.

The Fund recognises that its size and scale mean 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 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).

The Fund has had 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.

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 – Thames Water exposure via Macquarie Junior Infrastructure Debt

As part of the Committee's regular monitoring of their investment managers via their quarterly investment performance reports, it was identified that Macquarie had added their position in Kemble Water, the holding company for Thames Water, to their Credit Watchlist. This was following news that Thames Water's CEO had suddenly departed, coupled with negative publicity surrounding the company's financial position and recent sustainability issues, including sewage release into the river, retraction of their climate targets and a track record of poor customer service.

Shortly after being placed on the Fund's watchlist, Thames Water published their annual results where the auditor noted material uncertainty in relation to Kemble Water's going concern. As a result, Macquarie downgraded their internal credit rating for the position, noting that key concerns for the company would be the refinancing of £190m of debt in April 2024 and securing additional equity funding from shareholders, which was conditional on an acceptable business plan supported by appropriate regulatory arrangements.

The financial situation with Kemble Water has continued to deteriorate, and Macquarie have subsequently applied a 100% loss provision to their valuation of the holding.

The evolution of the negative press in relation to Thames Water, coupled with the significance of the write down as a proportion of total fund assets has raised concerns for the Committee on the robustness of the manager's due diligence process and their ability to be a steward of the Fund's assets going forward.

The Committee asked ISIO to engage with Macquarie to investigate their process for managing the position and remain abreast of any updates to the evolving situation. ISIO hosted an in-person meeting between the Committee and the manager in October 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 a detailed update on the position and how they were managing this.

Macquarie have taken proactive steps to protect their investors interests and attempt to preserve value for the Fund, forming a lender group to discuss ongoing developments in the position, appointing legal counsel to act on their behalf and engaging directly with Kemble Water, as well as with credit rating agencies to discuss possible downgrades to the position. The Committee have maintained regular engagement with Macquarie since the initial engagement in October 2023, via their investment advisor, who have provided key milestone updates to the Committee as the situation has evolved. Regular updates have also been provided on the position at the Investment and Performance Sub-Committee meetings.

The Committee are comfortable that Macquarie have been proactive in managing the situation and are acting in the best interests of the Fund as they manage the position. The Committee understand that due to the nature of the investment with Macquarie, there are limited options available to them with regards to actions which they can take directly (e.g. divest). Managing the risk of loss to the Fund is the key concern when engaging with the manager. The Committee are also understanding of the sensitive nature of this investment, given the significant media attention associated with Thames Water. However, as the situation continues to develop, the Committee asked ISIO to maintain ongoing engagement with the manager, and to provide regular updates.

SECTION 4 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 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 the companies concerned should also be reported. Both require to be held and made available to the Fund for a full voting audit trial.

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 an 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 expects 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

Full information in relation to voting on equity and multi-asset funds is detailed in the Implementation Statement (see Appendix). This includes 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 expects 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 expects 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 receives 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 has fully integrated ESG and stewardship into its investment ethos. Baillie Gifford provides 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.

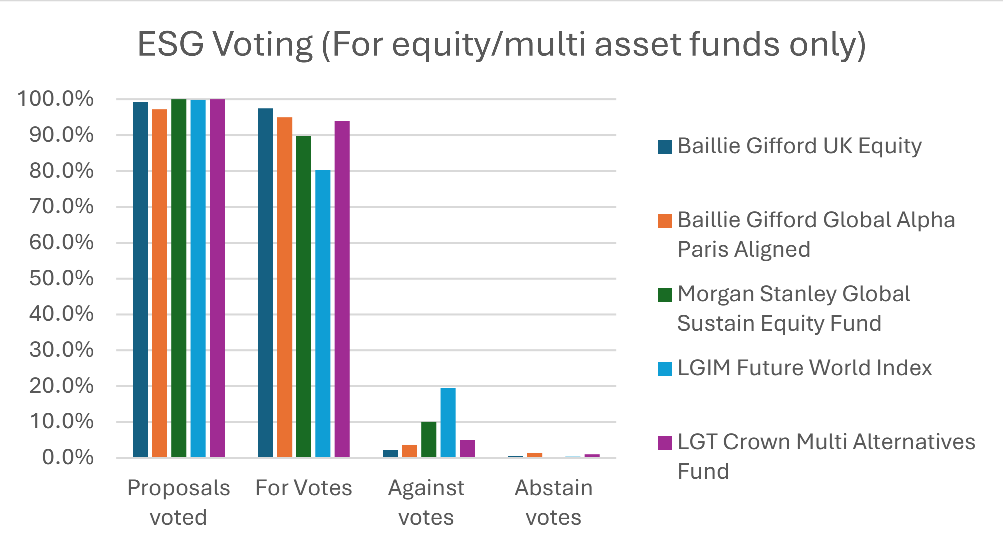
The Fund has an active stock lending programme for its segregated funds. Where stock lending is permissible, lenders of stock do not generally retain any voting rights on lent stock.

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 detailed in the attached Implementation Statement (see Appendix).

The chart below demonstrates shows the Voting activity per investment manager. This information was not available from all investment managers. We will look to obtain this information from all investment managers in the future on a best practice arrangement.



SECTION 5 FUTURE ACTIONS & IMPROVEMENTS

Stewardship Code	Activity for Further Improvement
Purpose & Governance (Principles 1-5)	1.1 Review and implement the requirements of TPR's General Code. Compliance tracker completed, formal action plan to be followed on quarterly basis to ensure compliance. 1.2 Continued review and implemention the requirements of FRC's Stewardship Code' feedback. 1.3 Continually review and update Responsible Investment Policy and improve outcomes on ESG and climate change considerations including increased oversight reporting to be received from Fund managers. 1.4 Continue to review and rationalise the Fund's Risk Register, to provide greater focus on priority risks and areas which the Fund can impact and control. Continue to collaborate with Internal Risk to strengthen Governance where possible to reduce risk. 1.5 Extend remit of the Fund's Internal Audit process, to include ESG considerations, agreed by the Pension Committee in March 2023, ESG Stewardship was considered by Internal Audit during the Investment Assurance reviews. However, from 2025/26 onwards, the remit for Internal Audit is to be extended and will include specific ESG/stewardship related areas. ESG stewardship is also reviewed as part of our annual Due Dilligence of Investment Managers which is reviewed by Audit Scotland our external audit team. Audit Scotland will support a refresh of the Due Diligence questionnaire for 2024/25. 1.6 Continue to provide updates on the Governance

	action plan, for Pension Committee approval, outlining how recommendations from the independent governance review have been assessed, prioritised and progressed. This is on track for completion in 2025. The General Code compliance track will also be considered on an ongoing basis from Q3 2024. 1.7 Continue to 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. Conduct annual 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. Pension Fund Training Day for Pension Fund Committee and Pension Fund Board scheduled for November 2024. 1.8 Formal annual review of fund policies to be supported by addition of a Policy log which will be updated and reviewed on a quarterly basis.
Investment Approach (Principles 6-8)	2.1 Continue to 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: • Continue to 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. • Continue to 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 Continue to 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 Continue to 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 Continue to 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. Audit Scotland will support Due Diligence questionnaire planning for 2024/25.
Engagement (Principles 9-11)	3.1 The 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 analysis and key takeaways from TCFD Strategy and Risk Management report highlighted climate-related opportunities to be considered by the Pension Fund. The Committee also considered additional climate opportunities as part of the investment strategy review carried out and approved by the Pensiion Fund Committee and Board at the September 2024 meeting. We have agreed to implement a formal "Impact" mandate within the strategy and will monitor and review this over the next reporting period.

APPENDIX

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Scottish Borders Council Pension Fund

Implementation Statement

October 2024

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Document classification: Public

Background

Background

This document has been drafted for the Scottish Borders Council ("the Council") as the Administering Authority of the Scottish Borders Council Pension Fund ("the Fund"). This document is to be reviewed and approved by the Fund's Pension Committee ("the Committee").

The Department for Work and Pensions ('DWP') has been increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance ("ESG") factors as financially material and Funds need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that funds detail their policies in relation to these factors and demonstrate adherence to these policies in an implementation report, which includes a summary of the Fund's Responsible Investment Policy and its engagement with investment managers, including underlying voting and engagement activities.

The above is a regulatory requirement for corporate Defined Benefit Pension Schemes, and while it is not yet a regulatory requirement for Local Government Pension Schemes ("LGPS"), the Department of Levelling Up, Communities, and Housing ("DLUCH") are considering following a similar path in terms of guidance. DLUCH changed requirements for LGPS Statement of Investment Principles ("SIP") in 2016, requiring Schemes to document how ESG considerations are taken into account in investment strategy decisions. The LGPS Scheme Advisory Board ("SAB") have similarly advised Funds to take into account ESG considerations, with a similar emphasis to the regulatory requirements noted above.

This document also represents a necessary step in maintaining signatory status with the 2020 UK Stewardship Code, which is a stated objective of the Fund.

Statement of Investment Principles

The SIP is required by Regulation 7 of the Local Government Pension Scheme Regulations 2016 (the "Regulations") and must include:

- The Committee's assessment of the suitability of particular investments and types of investments;
- The Committee's approach to risk, including the ways in which risks are to be measured and managed;
- The Fund's policy on how environmental, social or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- The Fund's policy on the exercise of rights (including voting rights) attaching to investments.

The Fund updated its SIP in March 2024. The SIP can be found online at the following web address:

THE PENSION FUND of the (scottishborderscouncilpensionfund.org)

Implementation Report

The intention of this Implementation Report is to provide evidence that the Fund continues to follow and act on the principles outlined in the SIP. This report details:

- actions the Committee has taken to manage financially material risks and implement 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 Committee has followed policies on engagement, covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the underlying companies they invest; and
- the voting behaviour of the Fund's investment managers covering the reporting year up to 31 March 2024. This is in context of the Committee's delegation of Fund voting rights to the investment managers through its investment in pooled fund arrangements.

Summary of key actions undertaken over the Fund's reporting year

- The Fund made allocations to Natural Capital and Renewable Infrastructure mandates which are expected to form initial investments within a wider "Impact" portfolio:
  - Natural Capital: The onboarding process for Fund's allocation to Natural Capital, managed by Nuveen, was completed in early October 2023. The Fund's full commitment (£9.9m) was then drawn in November 2023.
  - Renewable Infrastructure: The onboarding process for the Fund's allocation to Renewable Infrastructure, managed by Quinbrook, was completed over Q3 2023. The Fund's commitment was also partially drawn over the reporting period. Quinbrook issued the first capital call (£8m) in October 2023 and two further capital calls were issued over Q1 2024. As at 31 March 2024, the Fund's commitment was c.93% drawn.
- The Fund completed its Responsible Investment Metrics and Targets Report in November 2023, which documents each manager's ability to report on the required metrics and current position. This was the second year the Fund had delivered this report, which will be produced on an annual basis going forward.
- The Fund completed its annual ESG Impact Assessment of the Fund's investment managers in February 2024.
- The Fund continued to progress the various workstreams required under its voluntary compliance with the Task Force on Climate Related Financial Disclosures (TCFD). The most notable action was the Fund's work on climate modelling. The Fund is due to deliver its first TCFD report post-reporting year end.

Implementation Statement

This report demonstrates that the Scottish Borders Council Pension Fund has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Implementing the Current ESG Policy and Approach

ESG as a Financially Material Risk

The Fund's Responsible Investment Policy and SIP describe ESG as a financially material risk. This page details how the Fund's Responsible Investment Policy is implemented, while the following page outlines the Committee's ESG beliefs used in evaluating the Fund's investment managers' ESG policies and procedures, and any alignment or lack thereof. The remainder of this statement details a summary of the Committee's views of the managers, actions for engagement and an evaluation of the stewardship activity.

The below table outlines the areas which the Fund's investment managers are assessed on when evaluating their ESG policies and engagements. The Committee intends to review the Fund's ESG policies and engagements periodically to ensure they remain fit for purpose.

Implementing the Current ESG Policy

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social Responsibility, Corporate Governance factors and the exercising of rights and engagement activity	• The Committee will continue to develop their understanding of ESG factors through regular training on ESG and keeping up to date on the latest sustainable investment opportunities. • The Committee's ESG beliefs will be formally reviewed biennially or more frequently if required by the Committee. • 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 UK Stewardship Code. • The Committee will undertake annual reviews of the investment	• The investment manager has not acted in accordance with their policies and frameworks. • The investment managers' ability to abide by the Committee's Responsible Investment Policy ceases due to a change in the manager's own ESG policies.

		managers' approach to integrating ESG factors and identify where investment managers are misaligned with the Committee's ESG beliefs. Isio will engage with each manager on the Committee's behalf to remedy these issues where possible.
		• 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 Committee has also agreed to specifically monitor the following responsible investment and metrics:
		  ○ Carbon emissions (Scope 1 & 2)
		  ○ Carbon footprint (Scope 1 & 2)
		  ○ Implied Temperature Rise (ITR)
		  ○ Number of climate-related Engagements

Areas of Assessment and ESG Beliefs

The Committee has agreed the following ESG beliefs for the Fund with which to help assess the investment managers against.

Risk Management	1. 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. 2. 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. 3. The Committee will consider Council and other employer policies and values in the Fund's ESG policy
Approach / Framework	4. The Committee seeks to understand how investment managers integrate ESG considerations into their investment process and in their stewardship activities. 5. The Committee believes that certain sectors that provide a positive ESG 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	6. 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. 7. The Committee wants to understand the impact and effectiveness of voting & engagement activity within their investment mandates. 8. The Committee believes that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance. Divestment will be considered on a pragmatic basis in the event that the engagement with the investment manager has not produced positive results.
Reporting & Monitoring	9. ESG factors are dynamic and continually evolving, therefore the Committee will receive training as required to develop their knowledge. 10. 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. 11. The Committee will set ESG targets based on their views and how key ESG metrics evolve over time.

Collaboration	12. The Fund's investment managers should be actively engaging and collaborating with other market participants to raise broader ESG investment standards and facilitate best practices as well as sign up and comply with common frameworks such as UNPRI, GRESB, TCFD and Stewardship Code. 13. The Fund should sign up to further recognised ESG framework/s to collaborate with other investors on key issues.

Changes to the SIP

The Statement of Investment Principles was updated over the reporting year to account for the changes made to the investment strategy (as outlined earlier in the section “summary of key actions undertaken over the Fund’s reporting year”).

There were no changes made to the Fund’s policies over the reporting year.

ESG Manager Summary

The table below details ESG views, actions identified and engagement details for the Fund's current investment mandates (following the end of the financial year) with any mandates which are in the process of being redeemed excluded.

The information contained in the table below is as at December 2023 and is intended to be updated annually going forward. These managers and funds will evolve as the investment strategy changes through time.

Manager and Fund	ESG Summary View	Actions Identified	Engagement Details
Baillie Gifford UK Equity	Baillie Gifford ("BG") has established comprehensive firm-wide stewardship priorities. The Fund is committed to investing in line with the firm-wide commitment to the Net Zero Asset Managers initiative ("NZAMi"). The strategy has two dedicated ESG analysts who work collaboratively to integrate ESG into the portfolio. At a firm level, Baillie Gifford have over 40 people within their ESG team, which work collaboratively.	Baillie Gifford should consider the use of fund specific ESG objectives and an ESG scorecard to score the assets within the portfolio. Baillie Gifford should consider running engagement through a centralised team. Baillie Gifford should consider the inclusion of wider ESG scoring in client reporting, as well as the inclusion of carbon footprint and implied temperature pathway data as part of regular standard reports.	Baillie Gifford have confirmed that they manage Scottish Border's UK Equity Portfolio in line with the following ESG commitment: • By 2030, at least 90% of the portfolio's direct holdings will have a net zero pathway which aligns with a 1.5°C temperature rise Baillie Gifford confirmed that they utilise their own four question Climate Transition Framework to carry out climate analysis on the highest emitting stocks within the portfolio, but did not provide details on the implementation of an ESG scorecard. Baillie Gifford provided their TCFD report which includes climate-related risks and opportunities facing the portfolio under different climates, over the short to long term. Baillie Gifford have confirmed there is a

			dedicated ESG Services team, but it is currently unclear how this team manages the overall engagements. Baillie Gifford confirmed that there is an overview of key ESG developments included within quarterly reports at present, however, did not provide an update if wider ESG metrics will be incorporated going forward.
Baillie Gifford Global Alpha Paris Aligned	The strategy is a variation of the Baillie Gifford ('BG') Global Alpha strategy. The parent strategy is adjusted in order to screen out carbon intensive companies from the portfolio. The strategy has a commitment to lowering carbon intensity and this is assessed by having a lower greenhouse gas intensity than the MSCI ACWI EU Paris Aligned Requirements Index (which itself has an intensity 50% lower than the MSCI ACWI, with a 7% year-on-year decarbonisation pathway).	Baillie Gifford could consider introducing specific social objectives within the investment process, as well as introducing an ESG scorecard. Baillie Gifford should consider the use of ESG scoring for assets held within the portfolio to aid with the identification and monitoring of ESG risks. The introduction of climate scenario analysis could enhance identification of climate risks. Baillie Gifford should extend ESG reporting within quarterly client reports to include key ESG metrics on a portfolio level basis. In addition, engagements with portfolio companies could be run by a centralised team to provide oversight and coordinate engagements across the firm.	Baillie Gifford confirmed they do not have explicit social objectives and did not confirm plans to introduce any in the short-term. They did not provide an update on the implementation of an ESG scorecard. Baillie Gifford confirmed that they utilise their own four question Climate Transition Framework to carry out climate analysis on the highest emitting stocks within the portfolio, but did not provide details on the implementation of an ESG scorecard. Baillie Gifford have a dedicated 'ESG Services' team and one dedicated ESG analyst for Global Alpha but it is currently unclear how this team manages the overall engagements. Baillie Gifford confirmed that there is an overview of key ESG developments included within quarterly reports at present, but wider ESG metrics are yet to be incorporated.

Morgan Stanley Global Sustain Equity Fund	While investment teams are ultimately responsible for defining their approach to ESG integration within their funds, Morgan Stanley continue to grow their dedicated Sustainability Team which provides support and training to enhance ESG integration. The fund targets a significantly lower greenhouse gas emissions intensity than that of the benchmark, as well as requiring a minimum of 20% of the portfolio be in sustainable investments.	Morgan Stanley should consider implementing a firm-level net zero target with agreed interim decarbonisation targets. Morgan Stanley should consider producing a dedicated sustainability report for the fund and have their ESG metrics independently verified by a third party. Morgan Stanley should consider modelling the impact of physical risk on companies and work to improve their coverage of GHG emissions.	Morgan Stanley confirmed that the firm is carbon neutral, and the parent company, Morgan Stanley, has a target of being net zero by 2050; however, Morgan Stanley Investment Management does not yet have a specific commitment. The Global Stewardship team now co-ordinates stewardship and engagement activities, working closely with the investment teams. Morgan Stanley confirmed that they provide social metrics as part of ad-hoc reporting; however, they are not available yet as part of regular reporting.
LGIM Future World Index	LGIM continues to grow their dedicated and experienced ESG team that drive engagement with portfolio companies on key ESG issues. Within LGIM's Future World Index, a set of exclusions are applied, alongside enhancements based on the comprehensive evaluation of ESG factors. Climate considerations are a key priority for the fund, and LGIM are continually improving their capabilities in the space. In 2023, LGIM introduced Scope 3 and GHG emissions data in regular reporting for the fund. We view LGIM as being leaders in promoting ESG through collaboration with the broader industry and clients, specifically on climate-related topics.	LGIM should increase the percentage of portfolio companies they engage with, which is currently 48%. LGIM should consider incorporating social metrics outside of the typical ICSWG band. LGIM should strive to have their ESG metrics and data independently verified to ensure accuracy of key metrics and data.	LGIM have considered mandating ESG training across its investment divisions, by providing training for investment professionals regarding the development of sustainability and governance changes. LGIM is now producing Scope 3 emissions data for the LGIM Future World Index Fund.
LGT Crown Multi Alternatives Fund	LGT have made strides to improve overall ESG integration at a firm and fund level. Over 2023, LGT established ESG objectives for the fund and have made improvements to their ESG tool to incorporate additional analysis within their due diligence process. Stewardship and ESG integration is limited at a fund-level due to the	LGT could consider setting explicit stewardship priorities at a fund-level. LGT could improve the level of coverage and emissions data within the fund.	LGT is currently considering improving its coverage of emissions data. We continue to engage with LGT on their progress against

	nature of the fund as it invests in private assets. LGT focus their ESG analysis on the fund around disciplined due diligence on the underlying managers' integration of ESG into their investment processes.	LGT could consider producing a dedicated sustainability or impact report for the fund.	the other actions identified.
BlackRock Long Lease Property	BlackRock have a robust firm wide ESG process that is well integrated within their Real Assets platform. Each asset within the portfolio is reviewed from an ESG standpoint to ensure ESG is monitored throughout the lifecycle of an investment, although they admit their limited control over properties and the importance of engaging with tenants going forward. BlackRock have committed to improving their ESG framework on an ongoing basis to identify the ESG risk and rewards associated with each underlying asset. BlackRock currently report on some ESG metrics for the fund however are actively looking to improve their reporting once data quality is improved.	BlackRock should provide evidence they are providing detailed ESG metrics within their regular reporting cycle. The manager should report and monitor engagement effectiveness overtime. BlackRock should aim to establish a firm-level net zero target.	BlackRock continue to provide limited ESG metrics (i.e. GHG emissions only) within their regular reporting, however the manager is considering improving its reporting quality in the future. BlackRock are working on providing more data in relation to engagement effectiveness in 2024. The manager has confirmed that their quarterly reports now include carbon data.
M&G Alpha Opportunities Fund	M&G boasts a robust company-wide ESG strategy, illustrating their competency in managing ESG risks within the fund. However, the ESG reporting lags vs peers in the market as M&G do not produce detailed ESG metrics and tracking for the assets contained within the portfolio. M&G have launched a 'sustainable' version of the fund with a greater focus on impact investments to cater for clients with stronger ESG objectives.	M&G should consider implementing a fund-level ESG policy. M&G could look to formalise stewardship priorities at the fund-level and increase the proportion of underlying portfolio assets that are engaged with. M&G should continue to improve data coverage and reporting metrics, in addition to disclosing the ESG ratings for assets held in the fund as part of their quarterly monitoring. M&G should report on the ESG rating/scores for assets held in the fund.	There has been limited progress made by the manager over the reporting period. We continue to engage with M&G on their progress against our proposed actions.
M&G Index-Linked Gilts Fund	M&G showcase a comprehensive firm-wide ESG approach with a commitment to net-zero emissions across all portfolios by 2050, with a	M&G should look to include Green Gilts in the portfolio, once more widely available for index-linked gilts.	There has been limited progress made by the manager over the reporting period.

	dedicated stewardship team also in place. Isio continue to engage with M&G to support ESG improvements at a fund-level where possible. However, M&G have limited scope to integrate ESG into the fund's investment process due its focus on index-linked gilt investments only.	M&G could consider establishing a more formal ESG training programme for investment teams. M&G should provide examples of fund-level engagement with the UK government on ESG related issues. M&G should look to improve the coverage of emissions data for the fund.	We continue to engage with M&G on their progress against our proposed actions.
Partners Group Private Credit	Partners Group continue to demonstrate a strong firm-wide approach to ESG and have strong ESG teams and practices. They have a strong screening process in their investment approach, using industry recognised guidance, such as the TCFD and UN Global Impact. However, Partners Group lag peers in reporting and therefore have seen their score downgraded in this area.	Partners Group should review and update the ESG scorecard on an annual basis, which includes climate and social risks within ESG assessments. Partners Group should provide examples of engagements where they have enhanced ESG factors within the mandates. Partners Group should introduce ESG reporting in regular fund reporting, including ESG metrics.	Partners Group have confirmed that they have set fund-level ESG objectives through sustainability-linked loans, but they do not have an over-arching or quantifiable targets as of yet. Partners Group have begun reporting on temperature pathway alignment and emissions data at a fund-level. We continue to engage with Partners Group on their progress against our proposed actions.
Permira – PCS III	Given this fund vintage is fully deployed, the scope for fund-level improvements is limited. Future improvements are therefore likely to focus on enhancing engagement and reporting capabilities. Permira has a dedicated ESG team which supports engagement actions and aids training across the credit business. Permira have sought to improve data collection through primary data collection to feed into reporting quality, however, these areas have been downgraded from last year due to the standards improving across newer vintages within the direct lending space.	Permira should consider setting specific ESG objectives relating to areas such as climate, social and nature. Permira should consider enhancing the tracking and monitoring of engagements. Permira should improve the reporting and gathering of data on ESG characteristics in the portfolio. Permira should set a target timeframe and create a plan of action	There has been limited progress made by the manager over the reporting period given the nature and maturity of the fund. We continue to engage with Permira on their progress against our proposed actions.

		to achieving Net Zero carbon emissions. Permira should improve reporting on ESG characteristics including areas which are lacking in monitoring, such as: biodiversity. The manager should also consider increasing the frequency and regularity of reporting. Permira should enhance the monitoring and documentation of interactions by offering additional examples/case studies that demonstrate Permira's capabilities in stewardship.	
Permira – PCS V	As an SFDR Article 8 rated fund, Permira have enhanced ESG integration in PCS V compared to their previous fund vintages. The main improvements related to this are an enhanced ESG scorecard used in the due diligence process and the use of ratchets to incentivise borrowers to meet ESG-related KPIs. Permira has a dedicated ESG team which supports investment decisions and aids training across the credit business. Permira utilise an ESG scorecard in their due diligence process and have enhanced their risk management by adding in additional parameters to assess environmental and societal impacts.	Permira should consider increasing the use of ESG ratchets across new deals made. Permira should enhance the level of engagements and provide evidence of the impact of these. Permira should improve fund-level reporting and gathering of data on fund ESG characteristics. The manager should set a target timeframe and create a plan of action to achieving Net Zero carbon emissions.	There has been limited progress made by the manager over the reporting period. We continue to engage with Permira on their progress against our proposed actions.
Macquarie – Senior / Junior Infrastructure Debt	Macquarie has made improvements to its implementation of ESG policies, stewardship and risk analysis at the firm level, however, these strategies lack specific ESG objectives, reporting is both lacking in terms of detail and frequency. Due to the limitation of publicly available data on carbon emissions, Macquarie has excluded its Private	Macquarie should consider setting up strategy specific ESG objectives. Macquarie should develop an ESG scorecard that can be used as part of asset due diligence.	Macquarie has shown progress on setting up a central process and escalation policy for engagement of portfolio assets. The manager is also currently working on providing better evidence of

	Credit strategies from its firm level net zero target.	Macquarie should set up a central process and escalation policy for engagement of portfolio assets. Macquarie should provide regular reporting (ideally quarterly) of ESG metrics at the strategy level and ESG ratings of individual portfolio assets.	engagement in line with stewardship priorities.
IFM Global Infrastructure	IFM comprehensively integrate the firm's Responsible Investment Charter throughout the fund's investment process and have a clear process for ESG integration through the investment process. They have specifically included climate concerns throughout their assessment approach, with quantifiable metrics and targets at fund level. GIF should complete its emission reduction plans at the asset level at the earliest opportunity to assess alignment with its net zero targets. Reporting is now TCFD and SFDR aligned but there is potential for more detail in fund-level ESG metrics scoring and reporting, especially for social scoring.	IFM should develop an ESG scorecard to quantify ESG risks. IFM should make climate and social factors a stewardship priority. IFM should also consider improving their climate scenario testing and its impact on fund value. IFM should continue to improve upon their overall fund-level reporting on ESG metrics, in particular social metrics.	IFM has provided carbon emissions data as specified by the Partnership for Carbon Accounting Financials (PCAF), but could continue to improve the reported carbon metrics for the fund. The fund's social areas of ESG risk are embedded into an ERM framework. However, further actions need to be taken so that the fund is reporting on social metrics.
Nuveen Global Timberland Fund	Nuveen has a firmwide Responsible Investment ("RI") policy which sets out their approach to ESG and supports stewardship efforts across their funds. They have a dedicated RI team who drives their RI programme and works collaboratively with the different fund management teams. At a fund level, in line with its Global Sustainability Policy, the Global Timberland Fund encourages asset operators to comply with industry best practices for responsible forest management.	Nuveen should consider the use of an ESG scorecard as part of the fund's due diligence process and ongoing monitoring of investments. The manager should consider setting individual objectives or key performance indicators (KPIs) for the fund's asset operators.	Nuveen is working on finalising the production of their fund-specific Sustainability Report, ensuring it demonstrates how the assets have made a positive environmental impact. This is in the pipeline following the publication of the annual firm-wide report in June. The manager is also progressing its application for the UK Stewardship Code for 2024.
Quinbrook Renewables Impact Fund	Quinbrook's fundamental investment strategy is to build energy infrastructure and related businesses that support the transition to net zero. Quinbrook have a firmwide	Quinbrook should consider the use of an ESG scorecard as part of their due diligence process and ongoing	Quinbrook has confirmed that its ESG scorecard is being updated to be used as part of the fund's due

	Responsible Investment and ESG policy which covers their approach to ESG and a Stewardship policy which supports their engagement with portfolio companies. At a fund level, RIF integrates ESG throughout the investment process. Each investment completed by the fund supports the UK's net zero energy transition, providing solutions to ensure a more reliable and accessible carbon-free power supply for the UK.	monitoring of investments. Quinbrook should consider setting Equality, Diversity and Inclusion ("ED&I") metrics and targets and measure improvements against these. Quinbrook could provide reporting on ESG ratings for underlying portfolio companies within the fund. The manager could consider using a third party or impact/thematic specialist to verify their reporting data.	diligence process and ongoing monitoring of investments. This is intended to be rolled out over Q1 2024.

ESG Engagement

Investment Managers' Engagement Activity

As the Fund invests in funds managed by various investment managers, each manager provided details on their engagement activities including a summary of the engagements by category for the 12 months to 31 March 2024 (in line with the Fund's financial reporting year).

Fund Name	Engagement summary	Commentary
Baillie Gifford UK Equity	Total engagements: 29 Environmental: 5 Social: 11 Governance: 61 Strategy: 28 Other: 2 * One engagement can comprise of more than one topic across each company.	Baillie Gifford list the primary reasons for ESG engagement as: fact finding, monitoring progress, exerting influence and supporting the management team. The team prefer to encourage changes through engagement and dialogue rather than exclusion or divestment. Examples of significant engagements include: EnQuest Plc – Baillie Gifford engaged with the company to discuss how they are addressing different aspects of the energy transition. In particular, Baillie Gifford discussed the possibility of decommissioning a gas fired power plant in the Sullom Voe Terminal, an asset acquired from BP, as the site is directly contributing to EnQuest's carbon footprint. EnQuest confirmed that they are planning to reduce operational capacity at the site and is exploring brownfield opportunities to generate commercial revenues aligned to the energy transition. Following this engagement, EnQuest has now established a net zero decarbonisation target for its direct emissions by 2040. Baillie Gifford will continue to monitor the company's progress.

Baillie Gifford Global Alpha Paris Aligned	Total engagements: 85 Environmental: 35 Social: 66 Governance: 147 Strategy: 81 Other: 2 * One engagement can comprise of more than one topic across each company.	Baillie Gifford list the primary reasons for ESG engagement as: fact finding, monitoring progress, exerting influence and supporting the management team. The team prefer to encourage changes through engagement and dialogue rather than exclusion or divestment. Examples of significant engagements include: CATL**:** Baillie Gifford engaged with CATL to understand the company's pathway towards their newly released carbon-neutral targets. The engagement included a visit to a net zero factory in Yibin, Sichuan province, the first zero-carbon battery factory in the world. Through the engagement, Baillie Gifford gained a better understanding of how CATL is making net zero efforts in its factories and throughout the value chain. This resulted in stronger conviction in the role that CATL will play in its commitment to mitigate the inevitable environmental and social impacts of battery making. Given the challenges raised, Baillie Gifford identified actions for CATL to reinforce supplier training and communication through the procurement departments to have a real net zero impact on the supply chain.
Morgan Stanley Global Sustain Equity Fund	Total engagements: 118 Environmental: 44 Social: 19 Governance: 23 Strategy: 17 Other: 23 * One engagement can comprise of more than one topic across each company.	The fund's portfolio team are responsible for all engagement and voting activities but receive support from Morgan Stanley's stewardship team which tracks proxy voting from research providers. Examples of significant engagements include: IQVIA – Morgan Stanley met with the Company do discuss the diversity within clinical trials. Morgan Stanley believe that a lack of diversity has the potential to be a financially material risk as more robust clinical trials will be better positioned to market medication/treatment and be more informative on the safety and effectiveness of these. Following two meetings with the Company on this topic, Morgan Stanley now have a greater understanding of the best practice procedures in clinical trial design. They have also encouraged the Company to enhance their disclosures on their diversity in clinical trials going forward.
LGIM Future World Index	Total engagements: 1,162 Environmental: 560 Social: 248 Governance: 484 Strategy: 138 Other: 13 *Data provided for the 12-month period to 31 December 2023	LGIM's Investment Stewardship team are responsible for engagement activities across all funds. LGIM share their finalised ESG scorecards with portfolio companies and the metrics on which they are based. LGIM leverage the wider capabilities of the global firm to engage with companies meaningfully. Examples of significant engagements include: Amazon - LGIM engaged with Amazon to observe how the company is planning to improve its disclosure and transparency on civil rights, equity, diversity and inclusion, following accusations that Amazon had interfered with employees attempting to unionise. In addition to this engagement, LGIM has supported several shareholder resolutions in the company's 2022 and 2023 AGMs. Amazon has shown progress against some of the resolutions and actions identified, including agreeing to

	*One engagement can comprise of more than one topic across each company.	conduct a racial equity audit. However, Amazon remains unresponsive to several other requests. LGIM will continue to engage with the Company to drive changes.
LGT Crown Multi Alternatives Fund	LGT were unable to provide specific engagement data given the nature of the fund (e.g. fund of funds).	LGT have a dedicated ESG team who ensure ESG practices are embedded across the firm. While being unable to provide sufficient evidence of engagement with underlying portfolio companies at the Fund-level, LGT integrate ESG issues and engagement on a Firm-level. LGT have not provided examples of Fund-specific significant engagements.
BlackRock Long Lease Property	BlackRock do not currently provide details of their engagement activities for this investment due to the nature of the fund. Isio will work with BlackRock on behalf of the Fund to develop BlackRock's engagement reporting going forward.	BlackRock's ESG related engagement is led by the BIS team. BlackRock lease on full repairing and insuring ("FRI") terms, which means that whilst a tenant is in a property BlackRock has limited control over that property. BlackRock does recognise the importance of engaging with tenants and other stakeholders to gain insight into their ESG practices and key performance indicators. Engagement activity varies from asset to asset, but often includes a combination of campaigns, activities and events to address sustainable best practice, particularly in relation to energy and resource efficiency, which is a key priority area for BlackRock and the wider industry.
M&G Alpha Opportunities Fund	Total engagements: 10 Environment: 7 Social: 1 Governance: 2	M&G have a systematic approach to engagements whereby specific objectives are outlined in advance and results measured based on the outcomes from the engagements. M&G Analysts are expected to have a more granular awareness of key ESG risks which impact the individual issues they monitor. Where engagement is deemed to be necessary, analysts engage with issuers supported by M&G's Sustainability and Stewardship Team, allowing them to leverage their expertise and sustainability themes. M&G monitor the success of engagement by assessing whether they have met their objective and log this in a central system. Examples of significant engagements include: AIA Group Ltd – M&G has been engaging the insurance company AIA to increase the diversity within their board of directors. Following the first engagement on this topic in 2021, AIA added two female directors to its board. Over 2023, a third female director was appointed to the board (and the Nomination Committee) which takes the total female representation on the board to 23%.
M&G Index-Linked Gilts Fund	M&G currently do not provide details of their engagement activities for this investment due to the nature of the fund.	M&G have a systematic approach to engagements whereby specific objectives are outlined in advance and results measured based on the outcomes from the engagements.

		M&G Analysts are expected to have a more granular awareness of key ESG risks which impact the individual issues they monitor. Where engagement is deemed to be necessary, analysts engage with issuers supported by M&G's Sustainability and Stewardship Team, allowing them to leverage their expertise and sustainability themes. M&G monitor the success of engagement by assessing whether they have met their objective and log this in a central system.
Partners Group PMCS 2016	Total engagements: 2 ESG: 1 Corporate: 1 *Note that Partners Group provide data semi-annually, and as such the engagement data shown reflects their activity over the 2024 calendar year. Total engagements does not include engagements related to the realisation of underlying investments within the portfolio.	Partners Group maintains ongoing contact with the management teams of their portfolio companies, however, given their position as lenders they will typically rely on the equity sponsor to report ESG-related concerns and drive ESG improvements. Investing in private companies also reduces the transparency of the information available to assess ESG risks. Partners Group has engaged on mostly governance related issues over the period, rather than environmental or social considerations. An example of a significant corporate governance activity within the portfolio project includes: Access Group – Partners Group engaged with the company and received an update of a fraudulent case involving one of the company's employees. An external advisor has been engaged to review the case and no broader issues were discovered. Additional governance has also been put in place following this event.
Partners Group PMCS 2018	Total Engagements: 3 Corporate: 2 ESG: 1 *See above	Partners Group has engaged on mostly governance related issues over the period, rather than environmental or social considerations. An example of a significant corporate governance activity within the portfolio project includes: **Voogd & Voogd and Heilbron**: Partners Group met with the company's CEO and CFO to discuss shifts in management strategy. The discussion centred around the change in focus under the new management, in particular concerns were raised over the high operational costs and excessive EBITDA adjustments. As part of this meeting, the Company confirmed the new management will work to introduce more robust cost controls and restrict EBITDA adjustments. They also acknowledged the previous budget was not achievable and there was a need for a revised, more realistic budget, going forward.
Partners Group PMCS 2020	Total engagements: 5 ESG: 2 Corporate: 1 Other: 2 *See above	Partners Group has engaged mostly on environmental related issues over the period. An example of a significant environmental engagement within portfolio projects is as follows: Meine Radiologie – Partners Group met with the Company's management and sponsor to discuss the Company's ESG strategy. As part of the engagement, the Company presented its key ESG targets and progress against these, such as: reducing their carbon footprint per patient exam, increasing their share of renewable energy and reporting on employee satisfaction target metrics and strategy. Partners Group will continue to monitor the Company's progress against these targets.

Permira PCS III	Total engagements: 13 *Permira was not able to provide a breakdown of engagement activities by theme/topic.	Permira have dedicated ESG teams for the credit department and the wider business who are responsible for ESG integration. Permira have fund-level Stewardship Objectives, relating to climate and social factors, but their fund-level engagement data and evidencing of progress remains limited. An example of a significant engagement includes: Autovista – Permira engaged with the company on their ESG approach and strategy, and ways on how Permira could support them to improve. In 2022, Permira's Head of ESG presented to an internal conference at Autovista, helping the company's management to understand the importance of ESG and its effect on performance. Permira also supported the company in their rating annual refresh in 2023 and attending the debrief discussion on actions they could improve.
Permira PCS V	Total engagements: 10 *Permira was not able to provide a breakdown of engagement activities by theme/topic.	An example of a significant engagement includes: April – Permira engaged with the company on its ESG approach and strategy, and ESG margin ratchets embedded within the documentation. In 2023, Permira provided enhanced terms via an ESG margin ratchet on a loan to April Group on the condition it demonstrated commitment to improving its ESG measures. Following this engagement, Permira has seen improvements in several climate metrics achieved the company.
Macquarie – Senior Infrastructure Debt	Total engagements: 14 Environmental: 3 Governance: 1 Strategy: 10	Macquarie have engaged on several different issues over the reporting period. An example of a significant engagement is as follows: Equitix Fund II, III – Macquarie engaged with the company to discuss their risk management. Macquarie was particularly interested in the company's exposure to Reinforced Autoclaved Aerated Concrete ('RAAC') after the risk of this in certain UK buildings emerged. Macquarie wanted to ensure the company was taking the necessary precautions to mitigate any potential risks posed by RAAC. Following the engagement, the sponsor confirmed it was not exposed to RAAC. Macquarie will continue to monitor any changes in the portfolio.
Macquarie – Junior Infrastructure Debt	Total engagements: 10 Environmental: 6 Governance: 3 Strategy: 2 * One engagement can comprise of more than one topic across each company.	Macquarie have engaged on several different issues over the reporting period. An example of a significant engagement is as follows: Gaslamp – Macquarie engaged with the company in to discuss issues raised within their FY22 and FY23 Sustainability report. In particular, the reports highlighted six fatalities involving company assets and an increase in the already high levels of hazardous waste produced. Macquarie is aiming to understand how the company is responding to these incidents. Following the engagement, the company confirmed that specific measures have been put in place and how the hazardous waste is dealt with; and Macquarie now has a better insight in the company's policies and steps taken to improve these ESG metrics.

IFM Global Infrastructure	IFM currently do not provide details of their engagement activities due to the nature of the fund. Isio will work with IFM on the development of the firm's engagement reporting.	IFM engage through board representation in both their private equity and public market portfolio holdings. IFM will only invest in companies which have appropriate governance structures in place. IFM bring together key executives of their portfolio companies to help spread good ESG practice and objectives across the portfolio. An example of a significant engagement includes: **Naturgy –** IFM engaged with the company on the underlying theme of Environment, in particular their alignment with IFM's commitment to achieving Net Zero across all asset classes by 2050. Naturgy confirmed their commitment to reducing emissions and outlined their long-term climate strategy which includes; increasing the installed capacity of renewable generation, developing biomethane and green hydrogen, developing storage systems and improving value chain energy efficiency. IFM will continue to work closely with the company on these initiatives.
Nuveen Global Timberland Fund	Total engagements: 13 Environmental: 13	Nuveen have only engaged on Environmental issues over the reporting period. An example of a significant engagement is as follows: Columbia Land Trust, North Coast Land Conservancy and Sustainable Northwest – Nuveen together with the conservation consortium announced the conservation of more than 2,500 acres of forestland in Oregon. This project will protect the working forest of future development or subdivision, ensuring tribal and public access, and preserving water quality. Nuveen will also continue to own and manage the property for forestry, preserving the jobs, timber supply, and tax base it provides.
Quinbrook Renewables Impact Fund	Quinbrook currently do not provide details of their engagement activities for this investment due to the nature of the fund. Isio will work with Quinbrook on the development of the firm's engagement reporting.	The fund focuses on investments that directly support the UK's "Net Zero" energy transition and provides solutions for decarbonisation and clean energy. The fund also supports broader sustainability goals within its portfolio companies, aligned with protocols such as the UN Sustainable Development Goals ("UN SDG") and TCFD.

ESG Voting (for equity/multi asset funds only)

Investment Managers' Voting Activity (for equity/multi asset funds only)

The Committee has acknowledged responsibility for the voting policies that are implemented by the Fund's investment managers on their behalf.

As the Fund invests via fund managers the managers provided details on their voting actions including a summary of the activity covering the financial reporting year up to 31 March 2024. The managers also provided examples of any significant votes.

The Committee has adopted the managers definition of significant votes and has not yet set stewardship priorities, although it is considering agreeing and implementing priorities in the near future. The managers have provided examples of votes they deem to be significant, and the Committee has shown the votes relating to the greatest exposure within the Fund's investment. When requesting data annually, the Committee informs their managers what they deem most significant and going forward this will include stewardship priorities.

Fund Name	Voting summary	Examples of significant votes	Commentary
Baillie Gifford UK Equity	Votable Proposals: 1,117 Proposals Voted: 99.3% For votes: 97.5% Against votes: 2.1% Abstain votes: 0.5%	Hargreaves Lansdown Plc – Baillie Gifford voted in favour of a proposal for a share repurchase. The rationale being that they were satisfied with the amount of capital requested and previous capital management decisions made by the company. The resolution passed.	Whilst Baillie Gifford makes use of proxy advisers' voting recommendations (ISS and Glass Lewis), they do not delegate or outsource stewardship activities or rely upon their recommendations. All client voting decisions are made in-house.
Baillie Gifford Global Alpha Paris Aligned	Votable Proposals: 1,171 Proposals Voted: 97.2% For votes: 95.0% Against votes: 3.6% Abstain votes: 1.4%	Analog Devices Inc – Baillie Gifford voted against a resolution on remuneration as they were not satisfied with the performance conditions for the long-term incentive plan. Baillie Gifford have voted against the company's proposals on executive compensation since 2021 as they do not believe the targets are sufficiently stretching. The voting outcome was successful, and Baillie Gifford will continue to discuss this during their engagements with the company following the 2023 AGM and in advance of the 2024 AGM.	Whilst Baillie Gifford makes use of proxy advisers' voting recommendations (ISS and Glass Lewis), they do not delegate or outsource stewardship activities or rely upon their recommendations. All client voting decisions are made in-house.

Morgan Stanley Global Sustain Equity Fund	Votable Proposals: 701 Proposals Voted: 100.0% For votes: 89.7% Against votes: 10.1% Abstain votes: 0.1%	Texas Instruments Inc – Morgan Stanley voted in favour of a resolution for the company to report on its due diligence efforts to trace end-user misuse of their products. Morgan Stanley believe there is a risk that the chips within the products could be used as part of illicit activities. This resolution did not pass but Morgan Stanley have engaged with the company to understand their efforts to mitigate these risks and will continue to engage with them on this topic.	Morgan Stanley make use of research providers (ISS) to analyse proxy issues, but are not obligated to act in line with their recommendations and will review all recommendations before issuing a decision. All Morgan Stanley proxy votes are made in line with their own proxy voting policy, in the best interest of each client.
LGIM Future World Index	Votable Proposals: 52,212 Proposals Voted: 99.9% For votes: 80.3% Against votes: 19.5% Abstain votes: 0.3%	Royal Bank of Canada – LGIM voted in favour of a resolution to report on 2030 Absolute Greenhouse Gas Reduction Goals. LGIM expect scope 3 disclosures and targets to be disclosed as a minimum for all sectors, with specific detail within individual sectors and will generally support resolutions which seek to expand and improve the level of emissions disclosure. LGIM consider decarbonisation of the banking sector and its clients as key to ensuring the goals of the Paris Agreement are met. LGIM consider this to be an example of a significant vote as they pre-declared their intention to support. Amazon.com, Inc – LGIM voted in favour of a resolution to report on median and adjusted gender and racial pay gaps. LGIM expect companies to disclose meaningful information on their gender pay gap and any initiatives being applied to close the gap. LGIM believe the disclosure is important in allowing investors to assess the progress of the company's diversity and inclusion initiatives. LGIM consider this to be an example of a significant vote due to the nature of the vote – viewing gender diversity as a financially material issue for their clients with implications for the assets being managed.	LGIM's Investment Stewardship team are responsible for managing voting activities across all funds. LGIM's Investment Stewardship team uses ISS's 'Proxy Exchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM, and they do not outsource any part of the strategic decisions. To ensure the proxy provider votes in accordance with their position on ESG, LGIM have put in place a custom voting policy with specific voting instructions. LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management.

LGT Crown Multi Alternatives Fund	Votable Proposals: 1,701 Proposals Voted: 100% For votes: 94% Against votes: 5% Abstain votes: 1% *Voting data is from the LGT Select REITS which makes up 3% of the LGT Crown Multi Alternatives Fund.	LGT did not provide details of significant votes over the period.	The fund is, to a degree, restricted by its investment approach as it invests in private assets and often implements this through third party funds which means voting and engagement is limited within the portfolio. Voting decisions are executed by external managers in LGT Select REITS. LGT Capital Partners verifies whether voting rights have been exercised to the agreed standard.

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