

STEWARDSHIP REPORT 2021

SCOTTISH BORDERS COUNCIL PENSION FUND

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1. PURPOSE AND GOVERNANCE

Signatories purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

PURPOSE

The 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) and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. 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 Local Government Pension Scheme Scottish Borders Council is designated as an “Administering Authority” and is required to operate and maintain a pension fund – 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 Local Government Pension Scheme, which is a public-sector pension arrangement. Scheme membership is made up of active, deferred and pensioner members. To be able to join the scheme, a person must be employed by a relevant employer and not eligible to join another public-sector pension scheme. Teachers are not included as they have a separate national pension scheme.

The Fund currently has 12,178 members and paid pensions totalling £25.3m during 2021/22 with contributions received from employers totalling £22.5m. The Fund had investments of £909.4m at 31 March 2022 across a diversified portfolio of asset classes.

STRATEGY

Funding Strategy

The funding objective is to ensure sufficient resources to pay all members’ pensions both now and in the future. The Funding Strategy Statement and report on the 2021 Actuarial Valuation are available at

<https://www.scottishborderscouncilpensionfund.org/resources/funding-strategy-statement/>

Investment Strategy

The investment objective is to support the funding strategy by adopting an investment strategy and structure which incorporates an appropriate balance between risk and return. To achieve this the Fund takes a risk based approach using appropriate asset liability modelling techniques. Details of the investment strategy are available at:

<https://www.scottishborderscouncilpensionfund.org/resources/statement-of-investment-principles/>

Investment Structure

The Fund pursues a policy of lowering risk through diversification of both investments and investment managers. To achieve this, it has delegated the day to day investment decision to external professional investment managers. In addition the strategic asset allocation is reviewed on a regular basis, with the last review report to Committee on 10th June 2021. Following the 2020 Triennial valuation the required investment return (based on a probability level of 70%) was agreed by the Actuary at 3.8% for the next 20 year period. The Fund's investment returns have averaged 7.3% over the last 5 years and have exceeded the 3.8% target over the last 10 years.

CULTURE & INVESTMENT BELIEFS

The Statement of Investment Principles (SIP) sets out the Funds' approach to investment and its beliefs. Key principles underlying the investment approach are:

- Long-term perspective – due to the long term nature of its liabilities and employer covenants, the Fund is able to take a long term view and position its investment strategy accordingly.
- Diversification – to reduce risk and volatility the Fund seeks to diversify its investments.
- Stewardship – the Fund recognises it has a responsibility to ensure it undertakes all its investment activities in a socially responsible way. The Fund is fully aware of its Environmental, Social and Governance (ESG) responsibilities and approved an updated Responsible Investment policy relating to ESG in September 2021 to strengthen its commitments to ESG and the monitoring of its objectives.

The Fund's approach to Stewardship is summarised in the Responsible Investment Policy which is included in the Statement of Investment Principles. The Fund is fully invested with external investment managers and delegates the day to day management of assets to these managers. The Fund requires all managers to be PRI registered, and will in the future also require managers to be signatories to the Stewardship Code. Each manager will be monitored on an annual basis to ensure they remain signatories.

Future Improvements

A full review of the Responsible Investment Policy was completed in September 2021 which further enhanced the Funds' commitment to and the reporting of performance on ESG.

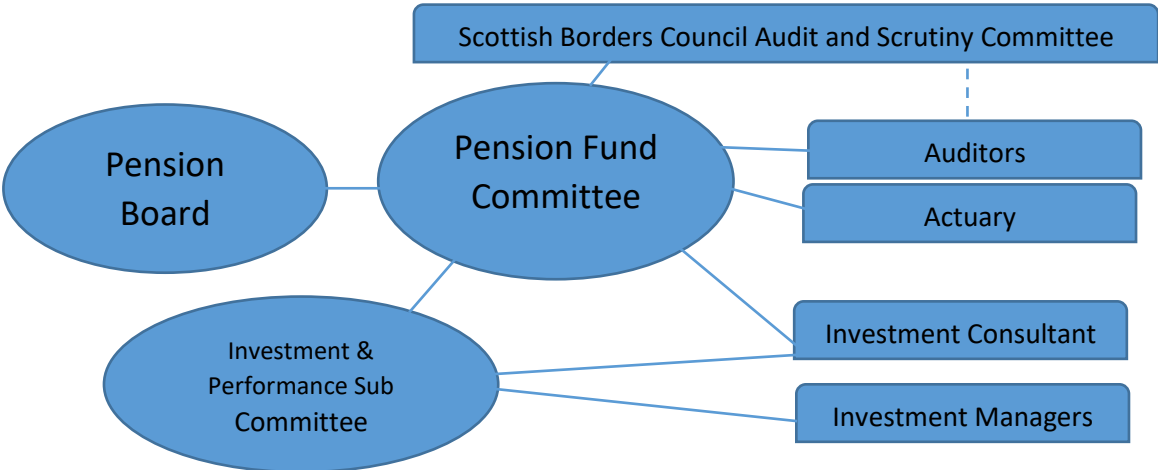
2. GOVERNANCE, RESOURCES AND INCENTIVES

Signatories' governance, resources and incentives support stewardship

SCHEME GOVERNANCE

The Fund believes that effective internal governance arrangements are fundamental to effective stewardship. Also, as a Local Authority, it must adhere to applicable regulations such as the Local Government Act 2000 and LGPS specific regulations such as the Public Service Pensions Act 2013, the Local Government Pension Scheme (Governance) Scotland Regulations 2014 and Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 20016. As such, the governance structures and processes for the Fund are designed to comply with relevant regulatory requirements whilst also seeking to deliver effective oversight and accountability, and ultimately, effective stewardship.

The Governance structure of the Fund can be seen below including the roles each of the parties undertakes. The Pension Fund Committee and Pension Board meet jointly four times a year, with papers and minutes being available one week prior to the meeting. Scottish Borders Council Pension Fund Governance:-



Pension Fund Committee – is the main decision making body for the Fund and consists of seven Scottish Borders Council Councillors.

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.

Investment & Performance Sub-Committee – develops investment strategy and monitors investment performance. 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.

Investment Consultant – provides advice on all aspects of investment objectives, strategy and monitoring, this role is currently undertaken by Isio.

Investment Managers – manage the investment portfolios.

Auditors – provide audit assurance that the Fund is adhering to regulations, other legislation and requirements of the Pension Regulator. The internal audit function is provided by Scottish Borders Council’s Internal Audit department. The external audit function is currently provided by Audit Scotland.

Scottish Borders Council Audit Committee – provides independent scrutiny of the Pension Fund Committee’s adequacy, effectiveness and systems of internal control.

RESOURCES

Stewardship activity is carried out by:

- A requirement that the Fund’s investment managers exercise the Fund’s voting rights, incorporate analysis of ESG issues into their investment analysis and decisions taken on behalf of the Fund and actively engage on these issue with the companies in which they invest.
- The Investment and Performance Sub Group meets every manager on an annual basis to scrutinise both investment performance and adherence to the Fund’s ESG policy and beliefs.

Pension Fund Committee

The membership of the Pensions Committee comprises of 7 members of Scottish Borders Council representing all the key political elements of the Council. Equal weight is given to each member’s vote. Further details can be found at:

<https://scottishborders.moderngov.co.uk/ecSDDisplay.aspx?NAME=SD272&ID=272&RPID=0>

Pension Fund Board

The membership of the Board comprises of 4 representatives from employer organisations (1 Scottish Borders Council, 1 Borders College, 1 LIVE Borders and 1 South of Scotland Enterprise) and 4 employee representatives from Unison, Unite and GMB unions. The Board’s role is to assist Committee to fulfil its functions in relation to all aspects of governance and administration of the Pension Fund. The Board is constituted under the Public Service Pension Act 2013 and the Local Government Pension Scheme (Governance)(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 no such incidents of this nature to date.

Investment & Performance Sub Committee.

The membership of the Sub Committee comprises of 9 members. The 7 members of the Pension Fund Committee and 2 nonvoting members nominated by the Pension Fund Board. The 2 Pension Fund Board members are represented by one employer and one employee representative. The sub-committee meet every manager at least once a year to review

performance. Stewardship and responsible investment are a key area each manager is required to provide updates on.

Internal Staffing resource

The Section 95 Officer, the Director of Finance and Corporate Governance, is responsible for the financial Administration of the Council. They are supported by a team of LGPS Pensions Officers. The experience, qualifications and structure of the team of officers supporting the Council in carrying out its functions as Administering Authority for the Fund is as follows:

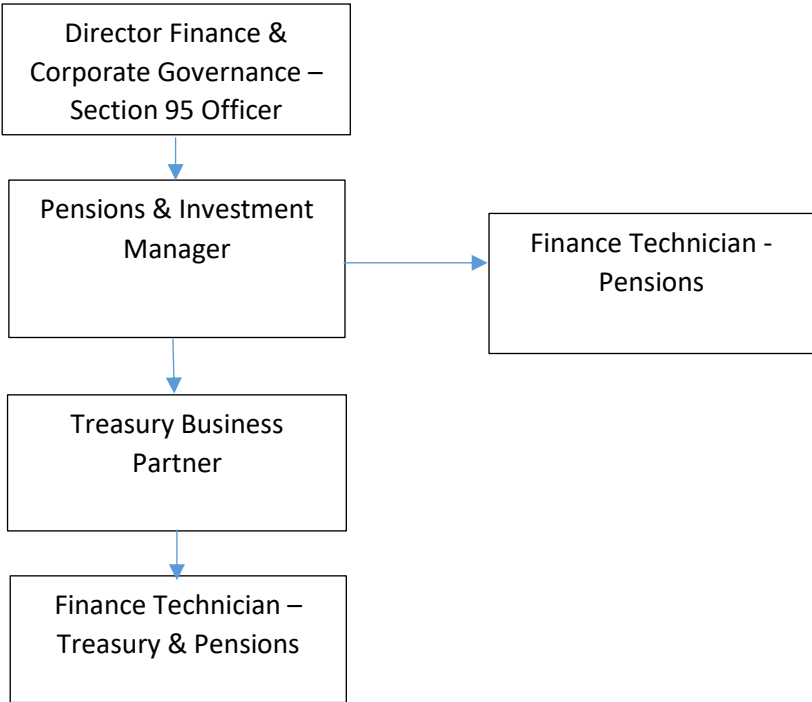
Experience

< 1 year experience	0
1- 5 years experience	20%
6-10 years experience	0
11-15 year experience	40%
> 15 years experience	40%

Relevant formal qualifications

Formal qualification	60%
No formal qualification	40%

S95 Officer and LGPS Pensions Officers team structure



Advisors

Specialism	Company	Key services provide during the year
Actuary	Hyman Robertson	Provision of annual IAS19 and FRS 102 accounting valuations, input into the strategic asset allocation review and responsible investment policy
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, procurement of fund manager for Passive equities, infrastructure and residential property. Led on update of review of responsible investment policy, agreement of key goals and improvements to the monitoring regime of the policy

Skills & Knowledge

To ensure the members of the Pension Fund Committee and Pension Fund Board have the required level of skills and knowledge to fulfil their functions, the Fund has a training policy which requires all members to undertake an annual skills assessment, attend at least 2 training events a year and also complete The Pension Regulator Trustee Toolkit within 6 months of joining the Committee or Board.

The outcome of the annual assessment and training attendance is reported on an annual basis to the Joint Pension Fund Committee and Pension Fund Board. If members have not fulfilled their requirements a formal letter is sent and if poor attendance continues they are removed. All members of the committee and Board met the training attendance requirement in 2021. One new member of the Board is currently working through the toolkit and a timescale has been agreed with them.

INCENTIVES

As previously noted, the Fund does not directly invest itself. Instead, it appoints investment managers to do this 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 2022 are described below.

Activities	Details
Implementation of Investment strategy	Progress made with an appointments to ESG Passive Equities, Residential Property and Infrastructure. 40% of the Funds' equities transitioned to a Paris Aligned Global fund.
Responsible Investment Policy revised	Following a responsible investment workshop, policy fully revised to include key goals and improve the monitoring of the policy. Policy circulated to all fund Managers.

Formal annual review of fund polices	This is considered in detail in Principle 5
Overseeing performance of the Funds Investment Managers`	This includes voting and engagement activities and is undertaken throughout the year with formal reporting to the Committee and Investment and Performance Sub-committee taking place
Production of the Pension Funds Annual Report and Accounts	The Annual Report and Accounts for the year ended 31 March 2021 were published in accordance with statutory timescales, with the draft accounts being open to public inspection. The final audited accounts can be found at https://www.scottishborderscouncilpensionfund.org/resources/annual-report-and-account-2020-21/ And the draft accounts for year ended 31 March 2022 can be found at https://www.scottishborderscouncilpensionfund.org/resources/unaudited-annual-report-and-accounts-2021-22/ These are draft accounts subject to audit which finalised in October 2022.
Training on relevant matters	Training was provided in key areas identified to members of the Pension Fund Committee and Pension Fund Board

External incentives: the first step in this process is selecting external advisors and asset managers which are already closely aligned with the values of the Fund. As such, consideration of a provider's 'fit' with the Fund is a fundamental element of due diligence work prior to appointment. Furthermore, the Fund sets out clear requirements through its contracts / service level agreements.

For example in accordance with the Competition and Markets Authority (CMA) Investment Consultancy and Fiduciary Management Market Investigation Order 2019, the Fund has set clear objectives for its Independent Advisors and the Investment Consultant. The objectives include setting a strategy based on the Fund's goals/objectives and providing advice and assistance to the Pensions Committee on any other relevant issues that could impact the Pension Fund's ability to meet its strategic objectives. During the year the Fund submitted its annual statement of compliance confirming that it has complied fully with the CMA's requirements.

Once appointed, managers are incentivised to align the work they do with the Fund's requirements and expectations in relation to stewardship through regular monitoring and evaluation of their performance and engaging with providers on an ongoing basis.

Future Improvements

The Fund has highlighted in its annual business plan a number of key actions for 2022 to reflect on the current governance and stewardship of the fund. These are shown below

- Review the communication strategy and agree action plan in line with best practice and technological advancements
- Proactively engage with Pension Fund employers

- Implementation of revised responsible investment policy and agree improved monitoring requirements.
- Review and implementation of The Pension Regulator Single Code
- Review of feedback from Stewardship Code application and implementation of any Stewardship Code review recommendations.

3 CONFLICTS OF INTEREST

Signatories' manage conflicts of interest to put the best interests of clients and beneficiaries first.

Conflicts of interest policies – Councillors

All Councillors are legally bound under the Ethical Standards in Public Life etc. (Scotland) Act 2000 to adhere to the Code of Conduct made by Parliament under the provisions of that Act. The Code applies to every elected member of a local authority in Scotland. It is the Councillor's own responsibility to ensure they are familiar with the Code and that their actions comply with its requirements. The code can be accessed via the link below

<https://www.standardscommissionscotland.org.uk/codes-of-conduct>

The code is designed to promote and maintain high standards of conduct by elected members of the Pension Fund Committee and Board Fund across all activities including the stewardship of the Fund's assets.

A key element of the Code is the requirement to register any notes of interest with the local authority's Monitoring Officer within one month of becoming a Councillor. Councillors are also required to notify the Monitoring Officer of any changes to their register of interest with one month of the change. The code details the key definitions and includes explanatory notes to assist councillors in deciding if they have to register an interest. The key categories are: Remuneration, Related undertakings, Contracts, Elections Expenses, Houses, land & buildings, Interest in shares & securities, Gifts & hospitality and Non-financial interests.

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

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

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

Conflicts of interest policies – Employees

As the Adminstrating Authority all employees are required to adhere to the Employees Code of Conduct set out by Scottish Borders Council. The code details the high standard of conduct required from all local government employees and includes key areas of Relationship & personal conduct, Conflicts of interest, Openness & disclosure of information, Paid & voluntary work outside the authority, Hospitality, gifts and Corruption. The full policy can be accessed via the link below.

https://www.scotborders.gov.uk/downloads/file/8006/employees_code_of_conduct

The policy requires all employees to register via the Authority's online system any private interests which could influence their decisions. Employees are required to maintain their

register as circumstances change. Employees must declare an interest with their line manager if there is a conflict and should be removed from involvement in work where required and not attend any relevant meetings.

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

Investment Managers and Service Providers

The Fund requires all its investment managers and services providers to maintain a Conflicts of Interest policy and provide the Fund with an electronic version of this on an annual basis as part of the annual due diligence review. Investment managers are also required to provide assurance of their internal control systems and to report any breaches of these. The Fund also reviews the annual audit report produced by each of the manager’s independent service auditors.

Given the key role service providers have, the Fund obtains annual assurance on the adequacy of the internal control systems operated by them. These are reviewed annually and form part of the annual service review meeting with service providers

Identification and management of Conflicts of interest

The Council delegates responsibility for the management of the Fund to the Director of Finance and Corporate Governance (S95 Officer) and the Pensions Committee. This includes the overall responsibility to ensure that systems, controls and procedures are adequate to identify, manage and monitor Conflicts of Interest.

Training is a key tool to ensure Members and Officers are aware of and understand their responsibilities in relation to the Fund, including the identification and management of conflicts of interest. Further details on the Fund’s training policy and plan can be found in Principle 2.

Other key steps: the table below sets out the key steps employed by the Fund in the identification and management of actual and potential conflicts of interest relating to the stewardship of the Fund’s assets. Case studies of how actual or potential conflicts have been addressed are set out at 3.3 below.

Identification	Management
<p>Members of the Pensions Committee and Pension Fund Board(‘Members’): The Code of Conduct requires that all Members must declare any pecuniary or other registerable interests.</p> <p>The Code of Conduct requires that Members consider whether they have an interest</p>	<p>Details of the declared interests of Council Members are maintained and monitored on a Register of Interests. These are published on the Council’s website under each Member’s name and updated on a regular basis e.g. the Chair of the Pensions Committee: These can be found via the link below: https://www.scotborders.gov.uk/councillors/name</p> <p>Full details of the process for the management of declarations of interests at meetings are set out in</p>

<p>connection in with any matter on the agenda for a meeting and if so whether there it amounts to an interest which they is a need to disclose. such an interest.</p> <p>All formal meetings of the Committee and Board have 'disclosures of interest' as a standing item on the agenda. At that point each Member formally considers conflicts of 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.</p>	<p>Section 5 stage 3 of the Standards Commission Code of Conduct for Councillors. https://www.standardscommissionscotland.org.uk/codes-of-conduct</p> <p>Unless a dispensation has been granted, they must then leave the meeting room and may not participate in any discussion, vote on, or discharge any function related to the matter.</p>
<p>Advisors to the Fund: upon appointment Independent Advisors are required to sign a declaration statement outlining any potential conflicts they may have</p> <p>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</p>	<p>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.</p>
<p>Officers of the Fund ('Officers'): The Employees' Code of Conduct requires that Officers make a formal declaration about any financial or non-financial interests which could bring about a potential or actual conflict of interest. Such declarations should be discussed with their line manager and submitted using the Council's online reporting tool.</p>	<p>Where a potential or actual conflict of interest is identified then the Officer is removed from the relevant work stream.</p> <p>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.</p>
<p>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.</p>	<p>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.</p>

<p>These are considered as part of due diligence work undertaken prior to the appointment of a manager and manager policies are informally considered as part of the annual review process.</p>	
<p>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 focussed on what serves the best interests of clients and beneficiaries of the Fund.</p>	<p>The Scheme of Administration requires all major political parties to be represented on the Committee. Induction training to the Pension Fund Committee and Board highlights their fiduciary duties to the Fund come before any personal or political objective. The Committee makes decisions on a politically neutral basis in order to deliver the overriding objective of the Fund (i.e. to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due).</p>

Outcome

All conflicts of interests have been managed effectively during 2021/22 and a detailed example is given below.

A possible conflict of interest was referred to the Council's Monitoring by an individual Councillor who wanted to be clear on whether there conflict of interest for them under the Code of Conduct. The issue was fully investigated by the Monitoring officer based on information gathered from Fund Officers. The Monitoring Officer deemed the issue not to be a conflict of interest due to the scale and the robust decision making processes of the Committee.

4 PROMOTING WELL FUNCTIONING MARKETS

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

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'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 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 is formally reviewed on an annual basis, with further quarterly monitoring of progress on agreed actions being reported to the Joint Pension Fund Committee and Pension Fund Board. Committee and Board members are therefore afforded the opportunity to regularly scrutinise risks and satisfy themselves that the Fund’s response to these risks i.e. whether to tolerate, or treat risks through mitigation actions are acceptable to those charged with Governance.

Examples of areas of risk the Committee have reviewed and discussed during 2021 are shown below

Risk	Response
<p>Performance: Adverse market movements impact on the Fund’s long-term performance: e.g. Continued Global COVID-19 Pandemic, inflation etc.</p>	<ul style="list-style-type: none"> • Adherence to the Fund’s Investment Strategy ensures that the assets of the Fund are invested in a diverse portfolio of investments, the impact on overall performance is therefore not as extreme as that experienced in any one asset class alone. • Potential new investments are closely scrutinised by officers and Fund Advisors to assess • Potential new investment category of Residential property fully investigated and training to members provided. Included in strategy to increase diversification of the fund and mitigate risk. • Review of Responsible investment policy undertaken, including detailed discussion climate change risks. Investment Strategy update to move funds into areas of

	<p>reduce reliance on fossil fuels and increase areas of renewable green energy to mitigate the investment risk.</p> <ul style="list-style-type: none"> • Quarterly investment advisor reports to the, Pension Committee, highlight market wide risks and macroeconomics d
<p>Regulatory Changes: There is a risk that the LGPS is mandated to invest in particular markets or risks that may otherwise impact onto the sovereignty of the Fund. This may be caused by government policy or amendments to regulations.</p>	<ul style="list-style-type: none"> • Officers of the Fund respond to government consultations where relevant to help influence policy. • Where relevant, the Fund will support lobbying or lobby directly to ensure that its voice is heard in the development of national policy. • Officers within the Fund ensure that they are aware of impending amendments to regulations and advise Pensions Committee and the LPB (and, where relevant, employers and scheme members) in a timely way as to any amendments and their impact to the Fund.

The Fund has actively worked with its Investment Advisor and managers to diversify the portfolio of investments. 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 and the financial impact of the Russian/Ukraine conflict has been successfully mitigated by this diversification to an acceptable degree.

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 also encouraged via the annual due diligence process to become signatories to the Stewardship Code, Climate Action 100 and TCFD. The Fund requires all its managers to be either signatories, or to demonstrate they are actively working towards becoming signatories of the Stewardship Code from 2021 and has incorporated this as a mandatory requirement for any appointments process to run one or more of the Fund's mandates.

The Fund as a defined benefit scheme is a long term investor and consequently is less impacted by short term market events. In recognition of this throughout the COVID-19 pandemic the Fund continued to maintain its focus on what it believes is a sustainable investment strategy that protects the long-term interests of its beneficiaries. Its investment strategy and approach were unaffected, with relatively few changes made to underlying portfolio holdings.

Promotion of well function financial system

Due to the relatively small size of the Fund in LGPS terms and the limited resources the Fund is not able to actively participate in initiatives. The Fund however is a signatory to Climate Action 100 and encourages its managers to be. The Fund also actively encourages all its Managers to engage in relevant industry initiatives.

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.

Future improvements

During 2021 the Fund reviewed and updated its Responsible Investment Policy to further enhance the commitment to Climate Change and ESG consideration. The Fund has agreed objectives and will during 2022 provide further training to members and work with managers to implement the identified improvements to the monitoring of the policy. A key part of the work will be to prepare the Fund for TCFD reporting requirements.

The Fund is also currently in discussion with LAPFF to understand the work the undertaken and how the Fund can work them to further become more active and involved in industry initiatives.

5 REVIEW AND ASSURANCE

Signatories' review their policies, assure their processes and assess the effectiveness of their activities.

Sources of assurance

Policies

The Fund reviews its key policies on a regular basis as part of its annual governance and compliance statement. The key policies reviewed every June are the Funding Strategy Statement and the Statement of Investment Principle's. Other policies are reviewed at a minimum every 3 years. The Fund identifies the cycle of review in its annual 3 year business plan which is approved by the Joint Pension Fund Committee and Pension Fund Board. The implementation of the Business plan is monitored thereafter.

Financial Regulations

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

https://www.scotborders.gov.uk/downloads/file/156/financial_regulations

Pension Fund Board

The role of the Board is to assist Pension Fund Committee to fulfil its functions in relation to all aspects of governance and administration of the Pension Fund. As such, it plays an integral part in providing assurance that the Fund is undertaking its governance and stewardship effectively and appropriately. The membership of the Board has equal Employer and Employee representatives, with the Employee's being represented by Trade Unions.

Internal Audit

Internal controls are in place to ensure procedures and policies are followed. Internal Audit undertake an audit of the control environment in line with agreed public sector standards for Internal Audit, to provide an assessment of the effectiveness of the internal controls in operation and to ensure they are applied consistently.

External Audit

The annual Fund Report (including Accounts) is subject to external statutory audit by Audit Scotland. The External Auditor prepares an 'Audit Findings Report' in accordance with the requirements of the under Part VII of the Local Government (Scotland) Act 1973 and prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003, auditing standards and other professional requirements. This work provides assurance that the financial statements of the Fund, which include details of investment performance and other core stewardship information such as expenditure in relation to budget, present a true and fair view of the financial transactions during the reporting year and of the amount and disposition of the Fund's assets and liabilities at the end of that year.

The 2021 review found the Fund has appropriate arrangements in place to support governance and accountability.

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 2020 Governance and Compliance statement was fully compliant with published best practice guidance.

Actuary

The Actuary prepares the valuation and sets the contribution rates to ensure Fund solvency and long-term efficiency with due regard to LGPS Regulations. The Actuary is instrumental in assisting the Fund in the production of its Funding Strategy Statement and the Actuary's valuation assumptions play a key role in the development of the Investment Strategy Statement (both of which are key stewardship policy documents).

Independent Advisors

The Fund employs external Independent Advisors, whose remit includes the provision of clear, concise and understandable investment and governance advice to the Committee and the ISG; and supporting the Committee, ISG and Officers in developing and reviewing the Investment Strategy Statement relevant to the Fund's current funding level and risk appetite. Their input into and challenge of the Fund's approach to the stewardship of its assets is integral to providing assurance to the Committee that the approach to stewardship is efficient and effective.

Reporting

The Fund seeks to ensure its stewardship is fair, balanced and understandable. In addition to the sources of assurance set out above the Fund also undertakes the following

- Sets and monitors a 3 year Business plan which identifies areas of improvements and timetables regular review of key assurance policies and procedures.
- Sets an annual budget which is monitored on a quarterly basis via formal reports to the Joint Pension Fund Committee and Pension Fund Board
- All reports to the Joint Pension Fund Committee and Pension Fund Board undergo a formal internal consultation process involving key senior officers of the Council. The agendas and reports published via the Councils website one week prior to the meeting date.

Future improvements

The Fund previously submitted an application to the Stewardship Code but was not accepted on that occasion. Good clear feedback however was received and further work has now been completed and reflected in an improved submission for 2021.

The Business Plan for 2022/23 to 2024/25 has also approved a review of the TPR Code and the identification of actions required to ensure the Fund fully adhere to its requirements. This work will allow a fully health check to be carried out on the overall governance of the Fund.

Following the review for the Single Code, the Training Policy will also be reviewed and updated to ensure it continues to fully meet the skills and knowledge requirements.

INVESTMENT APPROACH

6 CLIENT AND BENEFICIARY NEEDS

Signatories' take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Beneficiaries

The Fund comprises of 17 employer organisations with Scottish Borders Council representing 88% of members. The table below details the size and profile of membership as at 31 March 2022.

	Active members	Deferred members	Pensioners	Total Beneficiaries
People	4,703	3,194	4,281	12,178
Percentage	38.6%	26.2%	35.2%	100%
Average age	46.7	49.9	70.6	

Investment Time Horizon

The Fund is a defined benefit scheme which is open to new members (excluding two employers who represent 2% of the Fund). This means the Fund is investing to pay pension benefits to members over a long term timescale going forward and that timescale continue to extend as each new benefit accrues. The Fund's investment time horizon is therefore very long-term with the overriding objective of the Fund to achieve and maintain a 100% solvency level, the current level assessed in the 2020 triennial valuation is 110%.

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.

Activities to achieve both the ultimate investment time horizon and maintain the funding level are described in the Funds 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 access via the link below:

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

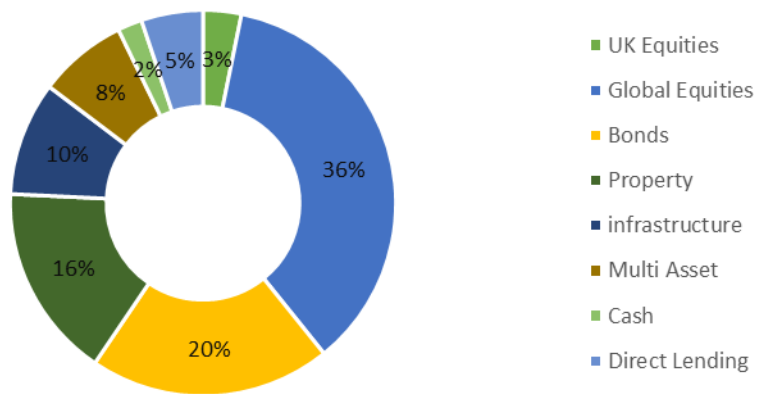
Breakdown of Assets

The Fund as at 31 March 2022 held assets valued at £909m. The Strategic Asset Allocation contain the Statement of Investment Principles sets the investment classes. The Fund has a diversified portfolio which spreads the risk and allows the Fund to meet its objectives, at the same time ensuring cash is in place to meet all cashflow commitments. A full listing of assets are available on the Funds website and can be access via the link below

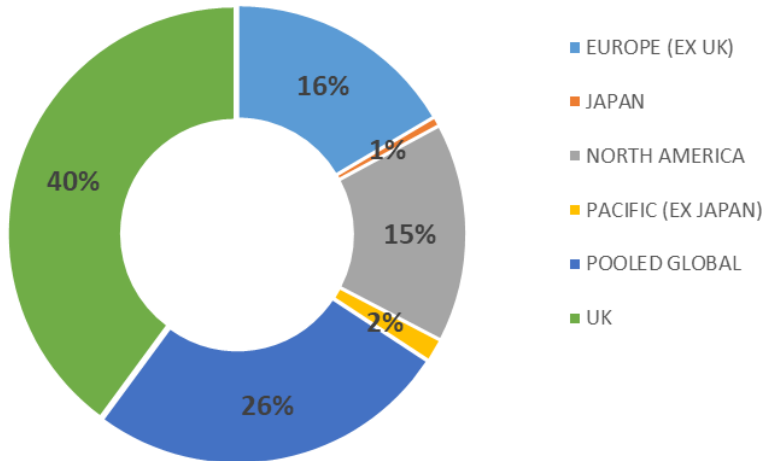
<https://www.scottishborderscouncilpensionfund.org/resources/investments-as-at-31-march-2022/>

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

Assets as at 31 March 2022 by asset class



Assets as at 31 March 2022 by Geography



Communications

The Fund approved the current Communications Policy on 16 September 2021. The overall aim of the Communications Policy is to provide communication in an efficient manner to all stakeholders, ensuring that it is: -

- Delivered in a timely efficient and effective manner
- Provides relevant content to the audience, with a clear purpose and message
- Well written, avoiding being of a technical nature wherever possible, based on the differing needs of the stakeholders
- Becoming increasingly digital.

The objective of this policy is to ensure that: -

- Pension regulations and the policies of the Fund are communicated in a clear and informative manner
- Benefits of the scheme are promoted to ensure this is recognised as an integral part of the employee reward package
- Information is provided in the most appropriate manner to allow scheme members to make more informed decisions relating to their pensions
- Communication methods are continually evaluated, assessed and redesigned where necessary to ensure continuing effectiveness

The communication methods utilized are:-

Fund website to provide information to as many stakeholders as possible at a time that suits them we provide access to the following: -

- Scheme policies
- Scheme benefits
- Contact details
- Links to other useful sites

The Fund has deployed a secure portal for all active and deferred members of the LGPS, which provides direct access for scheme members to view personalised pension data and further enhances the communications with active and deferred scheme members in a modern digital manner. The portal also allows members to carry out the following: -

- View all the details they need about their LGPS Pension in real time
- Carry out pension quotes on demand without needing to contact [The Pensions Team](#)
- Annual Benefit Statements available to view
- Check and update nominations of beneficiary
- Upload any documents that the Pensions Team request
- Use the contact facility to raise any questions in an electronic manner
- Provide feedback on the MSS application

Scottish Borders Council Website for Pension Committee and Local Pension Board agendas and minutes can be accessed via the main Council website, www.scotborders.gov.uk The Fund uses both surface and e-mail to send and receive general correspondence.

Roadshows and presentations are available to employer workplaces and attend roadshows, seminars, induction and pre-retirement presentations on request, a minimum period of four weeks' notice will be required to allow for appropriate preparations. Scheme members can

arrange to visit our offices to speak to a member of our Pensions Administration Team, they can arrange to pre-book appointments by e-mail or telephone.

The introduction of the Pension Fund website in June 2018 has allowed members to access information and documents. The graph below details the number of visits to the site since it was launched to end of March 2022. The scheme website can also be accessed at

www.scottishborderscouncilpensionfund.org



COMMUNICATION PERFORMANCE

The following communications took place during 2021/22

- The Employer Liaison meeting was held as a virtual meeting due to the restrictions in place as a result of the Covid-19 situation. 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
- Deployment of Member Self Service with emails issued to all active members to encourage sign up and provide access to the Annual Benefit Statement
- Annual Benefit Statements were issued in hard copy format to all deferred members including information on how to sign up for the Member Self Service portal and newsletter
- A total of 6,971 Annual Benefit statements issued
- Information continues to be posted within the Scottish Borders Council Pension Fund website, this included the following: -
 - Notice that we were unable to issue payslips and guidance on how to sign up for online access to payslips
 - Information regarding Pensions Increase
 - Details of Shared Cost AVC
 - Investments held – updated on twice annually

Seeking the view of beneficiaries – how and the reason for chosen approach

The Fund's framework for communication is contained in the Communication Policy which can be accessed via the link below:

<https://www.scottishborderscouncilpensionfund.org/resources/communication-policy/>

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

The key communication channels with the beneficiaries used for seeking views in relationship to stewardship to the investments assets are shown below

Pension Fund Committee – The core functions of the administration authority are delegated to the Pension Fund Committee. This forms the key decision making body for the Fund. The membership of the Committee comprises of 7 elected members for Scottish Borders Council which represents 88% of the beneficiary. In the main the Fund seeks the views of the Committee through formal quarterly meetings. The members of the Committee can, however, meet informally under certain circumstances. In August 2021 the Committee and Board met informally to receive training and to decide on the direction of the Responsible Investment Policy prior to its formal updating.

Performance & Investment Sub Group – The Sub group comprises of all members of the Pension Fund Committee and 2 representatives from the Pension Fund Board (1 employee and 1 employer representative) Due to the highly complex and technical nature of investments and their stewardship requirement the Sub Group meets regularly on a quarterly basis to allow detailed consideration and challenge of the performance and ethos of Fund Managers and the individual investments.

Pension Fund Board: Member representation arrangements adhere to the Local Government Pension Scheme (Scotland) regulations 2015. The Boards comprise of equal numbers of employer and trade union representatives (employee). This is consistent with established local government practice whereby recognised trade union representation ensures that members' voices are heard and their needs addressed. The 4 employer representatives represent 94.5% of the total membership. The Trade union representatives seek member's views via responding to individual enquires, meeting members at branch meetings and attending national and regional Union conferences. The Board meets jointly with the Pension Fund Committee and is party to all papers and training opportunities.

Formal Consultation with employers: In addition to the above channels the Fund also undertakes formal and informal consultations with employers including

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

The Fund also holds a formal annual meeting with all employers which includes presentations on the annual accounting requirements, any changes to policies and an overview of the investment strategy and investments held by the Fund.

What actions has been taken as a result

Investment Performance (at Fund & manager level)	
When	Quarterly
How	Detailed written reports provided to 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.
Outcome & Actions	<p>Key actions and outcomes in 2021/22 included</p> <ul style="list-style-type: none"> In response to concerns raised around the maturing nature of the fund and the ongoing requirement to pay beneficiaries an exercise was undertaken to review current arrangements for dividends and disbursements. This review confirmed the current arrangements meet both current and projected future requirements. Actions arising from the review resulted in income and expenditure quarterly cash flow monitoring being included in each quarterly budget report to Pension Committee. Concern was raised about the long term effect on the demand for office accommodation resulting from changed working habits during COVID 19. Reduce demand for office accommodation is now seen to be the new norm. Questions were directed to property fund manager, who demonstrated that a need for office accommodation still exists and still there and the assets held could be adapted if required. This resulted in an agreement to continue monitoring the position but no additional action was required at this point.
Strategic Investment Review	
When	June 2021
How	Detailed written report provided to Joint Pension Fund Committee and Board by Officers. The report detailed the current asset allocation and recommended changes to further enhance the diversification of the fund and its commitment to ESG focused investments.
Outcomes & Actions	<p>Approved the following actions</p> <ul style="list-style-type: none"> Reallocation of passive equity funds to an ESG focussed passive fund. Transfer of the whole global equity fund with Baillie Gifford into their Paris Aligned Global Equity Fund which has an environmental focus Additional allocation to a new Infrastructure Manager, with strong ESG criteria. <p>Authority delegated to the Executive Director Finance & Regulatory to implement the changes.</p>
Responsible Investment Review and policy update	
When	September 2021
How	Detailed written report provided to Joint Pension Fund Committee and Board by Offices. Report detailed the outcome from a Responsible investment workshop held on the 23 rd August with Isio incorporated the key elements agreed into a revised and strengthened Responsible Investment Policy.
Outcomes & actions	<p>The revised Policy was approved and the following actions agreed</p> <ul style="list-style-type: none"> Further work agreed to take forward scope of reporting and monitoring requirements

	<ul style="list-style-type: none"> • Commitment to Responsible Investment reinforced as key principal for the Fund. • Policy agreed that voting remain with managers but in compliance to the Funds ESG principles. • Managers to be reminded of this duty. <p>Formal monitoring of ESG to be undertaken formally by the Performance and Investment Sub-Committee during their interaction with Fund Managers.</p>
Review of Stewardship Code	
When	September 2021
How	Detailed written report provided to the Joint Pension Fund Committee and Board by Offices. Report detailed the principals of the Stewardship Code and recommended the Fund submit an updated application in October 2022.
Outcomes & Actions	<p>A detailed discussion held around the principles and the key areas of work the Fund would require to undertake to meet the requirements of the Stewardship code.</p> <p>The Fund agreed to submit an application in October 2022 highlighting any areas of future improvements it plans on implementing.</p> <p>The Fund Agreed on the following actions</p> <ul style="list-style-type: none"> • Submit application in October 2022 • Approved the requirement for all Fund Managers to be a signatory to the Code • Approved an action plan of key work to be undertaken to improve areas of stewardship highlighted in the initial review of the code.
Responsible Investment Monitoring	
When	December 2021
How	Detailed written report provided to Joint Pension Fund Committee and Board by Offices. Report detailed the annual assessment undertaken on all Fund Managers.
Outcome & Actions	<p>Assessment highlighted 98.8% of the Funds' assets are managed by managers who are UNPRI signatories and agreed to encourage the remaining one manager to become a signatory.</p> <p>Agreed no investment would be made with any manager who was not a signatory.</p> <p>As a supporter of Climate Action 100+ continue along with 615 investors and 167 companies to provide support to enable Climate Action 100+ to achieve a number of keys commitments in a number of sectors. The Fund agreed to provide its continued support.</p>
Responsible Investment – Objective & Metric setting	
When	March 2022
How	Detailed written report provided to Joint Pension Fund Committee and Board by Officers. Report detailed the output from the workshop held on 28 February to identify and prioritise the areas with the UN Sustainable Development Goals for the Fund.
Outcomes & actions	The Fund agreed its 6 key SDG's priorities as SDG13 – Climate Action, SDG 7 – Affordable & Clean Energy, SDG 1 – No Poverty, SDG 2 -Zero

	<p>Hunger, SDG 3 – Good health & well-being and SDG 10 Reduce inequalities.</p> <p>The Fund agreed to develop an action plan on how it would implement this and develop a monitoring plan.</p>
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Signatories should explain where managers have not followed their stewardship and investment policies and reason why

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

Future improvements

Communication policy being reviewed and updated to reflect the increased level of information available on the website and the commitment to two newsletters per annum,

7 STEWARDSHIP, INVESTMENT & ESG INTEGRATION

Signatories systematically integrate stewardship and investment, including material environmental social and governance issues, and climate change, to fulfil their responsibilities.

Integration

The Fund's investment beliefs and approach to assessing investments are set out in its Investment Strategy Statement. This includes beliefs, as long-term investors, that integrating ESG considerations into the investment management process improves risk adjusted returns. The Fund seeks to integrate stewardship and ESG into all its investment decisions.

The Fund integrates these beliefs during its procurement process. Only managers who are UNPRI signatories can be considered. The Fund also requires all managers to demonstrate their continued active commitment by providing its annual UNPRI report, these are reviewed as part of the annual good governance review of all managers.

Investment Managers

The Fund approved its second Statement of Responsible Investment Policy on 16 September 2021 setting out the approach to responsible investment and arrangements to monitoring manager performance against the principles of the policy on an annual basis. The key principles within the policy are:

- All new managers adhere to and report on the United Nations Principles for Responsible Investment (UNPRI) Code & Stewardship Code, Managers will be expected to use ESG factors as a tool for gathering information to improve decision making, thereby managing risks.
- The Fund minimises any harm to the environment and society, whilst ensuring it builds up a portfolio of assets that are best placed to meet its future liabilities.
- The Fund wishes to see its environmental footprint minimised, its social responsibilities maximised and the highest standards of employee relations and corporate governance maintained.
- The Fund requires its Investment Managers to adhere to these standards in all their investments activities and plans to monitor how these standards are upheld for the following set of overarching principles

The annual review of the managers for 2021 reported that 16 out of 17 Managers were signatories of UNPRI representing 98.38% of the Fund. The Fund continues to engage with the remaining managers to encourage them to become UNPRI signatories.

Future Improvements

The Fund will look to include a requirement for all managers to also be signatories of the Stewardship Code to ensure the Fund only works with managers with strong and robust stewardship. Data gathered during the 2021 due diligence review showed 6 out of 17 of the current managers are signatories, these managers represent 78% of the Fund's total investments.

The Fund is currently look to expand its annual due diligence return to draw out how managers are incorporating ESG Factors into their decision making for new investments

as well as ongoing monitoring. The Fund is also currently undertaking an exercise to identify the current levels of information available from each manager across all the asset classes. This will enable information gaps to be identified and more detailed discussions to be held with the appropriate managers.

8 MONITORING MANAGERS AND SERVICE PROVIDERS

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

Monitoring arrangements Investment Managers

The Fund actively engages with managers to ensure they are meeting the key principles identified in the Responsible Investment Policy and are incorporating ESG considerations into all their investment decisions.

The Responsible Investment Policy requires the Fund to review and report on an annual basis the performance of Managers. The 2021 report was present highlighted the following key high level assessment:

- 16 out of 17 Managers are signatories of UNPRI representing 98.8% of the Funds' assets.
- PRI annual assessment scored 10 out of 15 Managers as higher than median.
- Internal scoring methodology scored 96.8%; of the funds managed by managers, scored 80% or more than the total available scores.

For managers scoring less than 80% in the internal scoring methodology additional monitoring and engagement was undertaken fund officers

Monitoring arrangements Service Providers

Custodian – Annual monitoring meetings are undertaken between Officers and the custodian. The performance is measured against key agree performance indicators.

Actuary – Annual review and monitoring meetings are undertaken between Officers and the actuary. Performance is measured against previously agree work load targets and timelines. These are agreed on an annual basis.

Investment Advisor - In line with good practice, Pensions Regulator guidance and the Competition and Markets Authority requirements, the Fund's Investment Consultants are monitored annually against an agreed set of objectives. These objectives are reviewed on a regular basis.

Investment & Performance Sub-Committee

The Sub Committee meets every manager at least once a year to discuss performance against agree benchmarks. A standard item on the agenda for each manager is ESG and how it is integrated and request key examples to demonstrate the integration process and procedures is being fully utilized.

Annual due Diligence Review

Every manager is required to complete a due diligence questionnaire and requested to provide key documents. The questionnaire has developed over time to take account of regulatory changes, audit requirements and responsible investment initiatives. A summary of the responses are reviewed by Audit Scotland to demonstrate governance review of each manager.

Future Improvements

The Fund is looking to improve the information received from investment managers to be on a more consistent basis to allow more robust monitoring of carbon emission in preparation for the TCFD reporting requirements. The Fund is working with the Isio the Investment advisor to identify information gaps from individual investment managers which will all detailed discussions to be held with them. The Fund will look to see managers reporting how they are looking to close any information gap identified.

The Fund is currently look to expand its annual due diligence return to draw out how managers are incorporating ESG Factors into their decision making for new investments as well as ongoing monitoring. The Fund is also currently undertaking an exercise to identify the current levels of information available from each manager across all the asset classes. This will enable information gaps to be identified and more detailed discussions to be held with the appropriate managers.

9 ENGAGEMENT

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

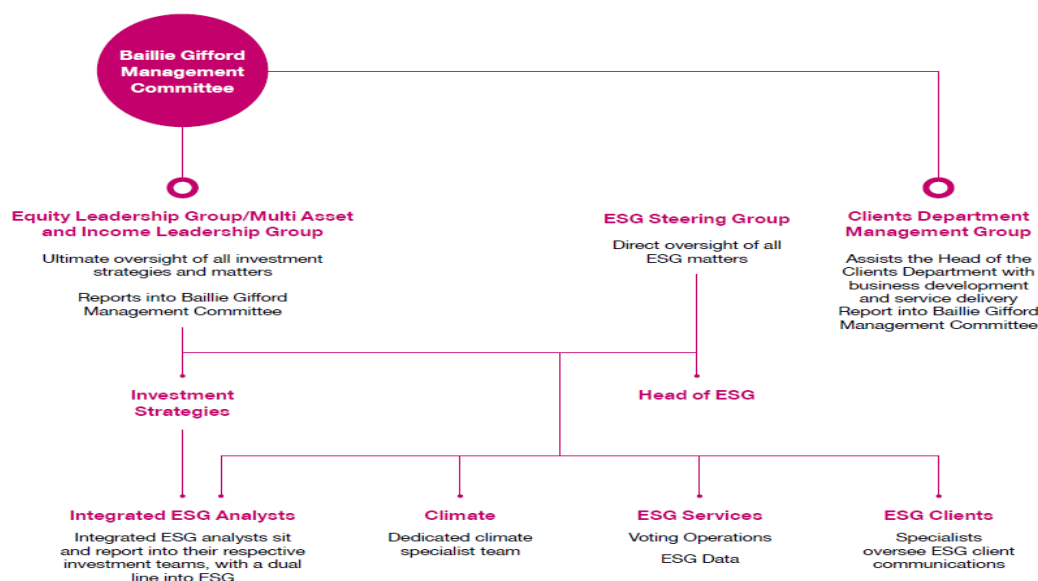
The Fund is small fund and recognises it does not hold the resources to actively engage directly with companies. The Fund therefore delegates all voting and engagement to its investment managers to vote in line with the Funds Responsible Investment Policy. The Fund believe

- 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.
- 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.
- That managers should be able to demonstrate the impact and effectiveness of voting and engagement activities.

The Fund reviewed and updated its Responsible Investment Policy and agreed its key ESG objectives. These have been fully communicated to all investment managers and work is ongoing with Managers to identify data which will allow the fund to fully monitor and report on.

Monitoring

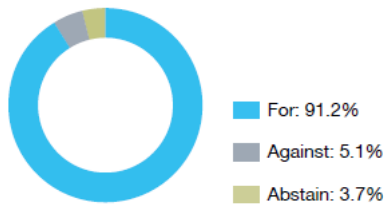
Segregated Funds - The Fund receive quarterly voting information for all its segregated investments along with annual reports of the Stewardship activities and TCFD Climate report. The Funds segregated investments are all held with Baillie Gifford who have fully integrated ESG and stewardship into its investment ethos. The diagram below shows Baillie Gifford's structured approach to ESG and engagement. Baillie Gifford provide regular reports on the voting undertaken on behalf of the Fund and these are discussed at the Performance and Investment Sub Committees.



As at 31 December 2021.

Shown below are examples of voting activity undertaken by Baillie Gifford on the funds behalf.

Remuneration

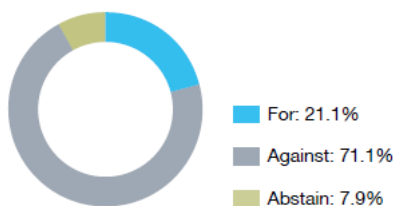


Example – Abiomed

We opposed executive compensation due to concerns with one-off equity awards granted during the year. We believed these awards undermined the integrity of the standard compensation policy and misaligned the experience of the senior management team and shareholders. We disagreed with the rationale provided by the company for granting these special payments, outlining our strong belief that we did not consider them to be appropriate. At the AGM, the pay proposal narrowly passed with 51 per cent support. Given this large oppose vote, we think it is important for the company to engage with shareholders and we look forward to encouraging better pay practices in the future.

Voting Result: For 91.2%; Against 5.1%

Shareholder Proposals

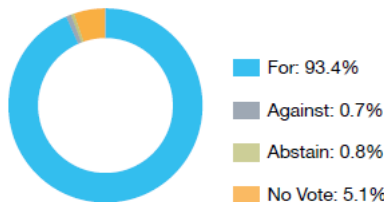


Example – Booking Holdings

We supported a shareholder resolution requesting the company produce a climate transition report. The climate audit of the portfolio completed during the year identified Booking Holdings as a laggard with regards to its climate strategy. Specifically, the company fails to provide sufficient disclosure of its emissions and does not outline reduction targets. We engaged with the company ahead of the AGM to encourage enhanced reporting and to explain our voting intention. We were pleased to see the resolution pass and look forward to the company improving its environmental disclosures.

Voting Result: For 21.1%; Against 71.1%

Director Elections



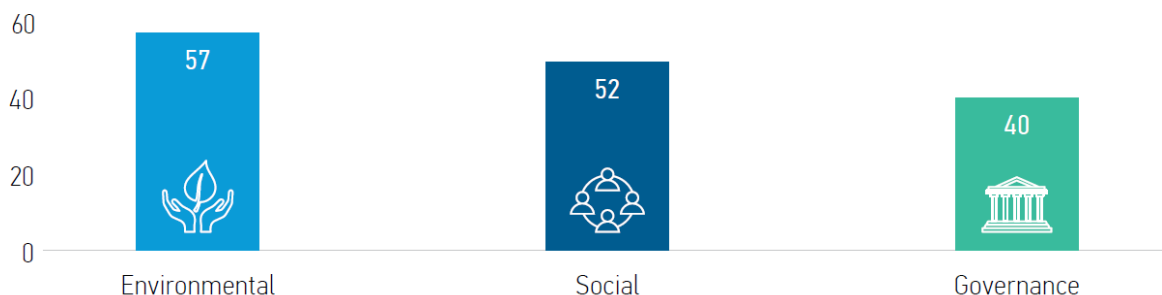
Example – Deutsche Börse

We opposed the election of the chair of the risk committee, Mr Andreas Gottschling. Subsequent to Mr Gottschling being put forward for re-election, he had to stand down from a similar position at Credit Suisse due to an ongoing investigation regarding the company’s risk practices. While no evidence of wrongdoing has been found against Mr Gottschling specifically, the ongoing investigations made us feel unable to support his re-election to the same position at Deutsche Börse at this time.

Voting Result: For 93.4%; Against 0.7%

Morgan Stanley, an active pooled equity fund, also provide the Fund with regular reports detailing the engagement activities undertaken by them on behalf of the pooled funds. These demonstrate strong engagement across a range of themes. The table below shows these themes from a recent report.

Number of times ESG-related topics were discussed, 1H 2021 ^{2,3}



Future Improvements

The Fund overall has recognised engagement as a key area where further improvement is required across its wider investments. The Fund continues to investigate the use of an Engagement manager and other opportunities via organisation like LAPFF. As the fund continues to diversify away from equities into other areas the ability to engage via traditional voting methods will reduce and engagement methods will need to be sought.

The Fund is currently working with its pooled funds to obtain the same information from its investment managers. This will be summarised on a quarterly basis for report to the Joint Pension Fund Committee and Pension Fund Board. This will enhance the current monitoring undertaken by the Investment & Performance Sub-Committee during its meetings with investment managers.

10 COLLABORATION

Signatories', where necessary, participate in collaborative engagement to influence issuers.

The Fund recognises the benefits of collaborative working and actively looks for opportunities to increase its collaborative working. Accordingly it currently collaborates via the following organisations and arrangements.

Climate Action 100+

The Fund as part of its responsible investment policy has become a signatory to Climate Action 100+ which was launched in December 2017 with 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.

They have continued to make strong progress with key activities for 2021

- Continued growth of the initiative
- A selection of focus company commitment from around the world
- Record results achieved during a historic proxy season
- Launch of ground breaking net zero company benchmark and global sector strategies work stream
- Key goals set for 2022.

Scottish IGG/RI Group:

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.

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.

Future Improvements

The Fund will continue to look opportunities and areas where it can work in collaboration with other groups and organisation such as LAPFF to increase the overall influence when engaging with issuers.

11 ESCALATION

Signatories, where necessary, escalate stewardship activities to influence issuers

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

Examples of escalation undertaken by Baillie Gifford on behalf of the Funds are shown below. These are highlighted and discussed at the Performance and Investment Sub Committees

CRH - Objective: Discuss updated climate strategy	
Discussion	We had a call with the Chief Operating Officer and Investor Relations to discuss CRH's updates regarding its approach to decarbonising its business. Before Christmas, we had a call with the Chief Executive Officer who felt strongly that CRH had an important role to play in decarbonising cement - one of the company's building materials which accounts for 16 per cent of its sales but 82 per cent of its carbon emissions. We explained that we felt the company's targets were limited in scope and were pleased to see that earlier this year the company announced broader and more ambitious carbon targets. It was encouraging to hear that various parts of the business have developed their own decarbonisation strategies to implement the new targets. Executive remuneration has also been amended and decarbonisation now represents 5 per cent of the long-term incentive plan. The company has also announced an innovation fund to encourage those within the business to think about the solutions needed to decarbonise at scale.
Outcome	We welcome the positive development of updated climate targets and funding to incentivise decarbonisation. We have joined the Climate Action 100 collaborative engagement group for CRH to support our dialogue with the company. Ensuring the company finds a solution to decarbonise at scale is vital to ensure a competitive advantage and the sustainability of revenues. This will continue to be the key focus of our engagement
Amazon - Objective: We met with the company's head of ESG engagement to discuss a broad range of ESG topics including climate strategy, unionisation and employee health and safety.	
Discussion	We were encouraged to learn that work to progress Amazon's climate strategy is ongoing. This work includes a plan to publish a science-based target later this year and expand carbon labelling on products and delivery choices. Unionisation is a high-profile issue, and we discussed the recent successful vote at a New York facility as well as employee engagement efforts. On a related note, we spoke about the company's recently disclosed health and safety statistics. This is an area where we have been encouraging enhanced disclosure for several years and we are pleased to see the company has responded positively to our requests. The data shows a positive year-on-year trend in

	employee injury rates, although these remain average relative to the broader industry.
Outcome	We are encouraged by Amazon's ongoing efforts to develop its approach to environmental and social practices. Going forward, we will continue to monitor the company's interaction with employees and their efforts to unionise, as well as supporting the business to lead the industry in workplace health and safety.
Stericycle - Objective: We engaged with the company as part of its Fall shareholder engagement programme.	
Discussion	We spoke with non-executive director Lynn Bliel and members of investor relations. The focus of our discussion was on the company's developing environmental efforts. Our ongoing dialogue has encouraged better disclosure of carbon data, target setting and establishing a long-term climate strategy. Over 2020 and 2021, Stericycle has built its baseline data and filed its first CDP Climate Change survey. It plans to publish emissions reduction targets in the next two years. As one of the portfolios most carbon-intensive businesses we encouraged them to do this as soon as possible, setting ambitious goals aligned with the objectives of the Paris Agreement.
Outcome	We are pleased by the ongoing progress in the company's approach to matters of ESG. Future discussions will repeat our requirements for science-based emissions reduction targets and a comprehensive climate strategy.

Future Improvements

The Fund will continue to work with its non-equity managers to ensure reporting and monitoring of escalation activities are provided. The Fund is also investigating other ways to escalate stewardship and is currently in discussion with LAPFF around membership.

12. EXERCISING RIGHTS AND RESPONSIBILITIES

Signatories' actively exercise their rights and responsibilities.

Voting

The Fund believes exercising shareholder rights and responsibilities is fundamental to improving investment outcomes. As an asset owner, the Fund must make best use of these rights in order to manage a sustainable and solvent Local Government pension fund on behalf of current and future members.

The Fund currently delegates its voting to its listed equity managers the Investment managers and encourage them to actively vote. 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 – UBS up to August 2021 and LGIM from January 2022.

Investment managers are expected to approach the subject of voting with care and attention as other matters which influence investment decisions and voting should be undertaken where it is believed to be in the best interests of the Fund. Where a resolution is put forward which is deemed to be controversial, investment managers should liaise with the Fund as appropriate. The Fund's investment managers are required to report quarterly on their voting actions for every appropriate investment. Any responses received from companies concerned should also be report. Both require to be held and made available to the Fund for a full voting audit trail.

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.

Regular reports are provided by Baillie Gifford and Morgan Stanley as the Funds active equity managers.

The table below details the topics addressed during 2021 of the engagement activities undertaken by Morgan Stanley.



The below provided examples of shareholder proposals and the rationale used by Morgan Stanley when voting.

COMPANY	RESOLUTION DESCRIPTION	OUR VOTE	OUR RATIONALE
American medical devices and health care company	Shareholder Resolution: Report on Racial Justice	FOR	The company has committed to disclosing more information on diversity and inclusion, including adding EEO-1 type data. While we approve of this commitment, a vote FOR signals to the board and market the importance of this issue to shareholders.
American technology conglomerate	Shareholder Resolution: Report on Takedown Requests	FOR	We recommended a vote FOR as we believe shareholders would benefit from a better understanding of the constraints the company faces when handling government takedown requests, as well as its management of related risks.
American soft drink manufacturer	Shareholder Resolution: Report on Sugar and Public Health	AGAINST	In 2020, the proposal garnered the support of 7.7 percent of the votes cast. Reasons that we voted AGAINST the proposal were the same as last year: the proponent highlights a serious risk associated with consuming the company's products, but it is one that is already very well-documented by scientific journals and public health agencies. Having the company publish its own scientific report on the topic would not provide new information. Plus, the company has made strides to diversify its product line simply as consumer tastes change and as some local regulators (e.g. NYC) clamp down on the issue. This proposal would not add value to investors.
American business and financial services company	Say on Climate	FOR	The company reports in line with the Taskforce on Climate-related Financial Disclosures (TCFD), has 2030 carbon reduction targets for Scope 1&2 (50% reduction) and carbon neutrality by 2050 using science-based targets. We recommended a vote FOR the proposal at this time.

Future Improvements

Voting and engagement has been identified as a key area for improvement. The Fund will investigate the use of an Engagement manager and other opportunities via organisation like LAPFF. This will ensure the Fund is able to demonstrate its fully exercising its rights and responsibilities.