

Scottish Borders Council

PENSION FUND ANNUAL REPORT AND ACCOUNTS

2025-2026



SCOTTISH BORDERS COUNCIL PENSION FUND ANNUAL REPORT AND ACCOUNTS 2025-2026

CONTENTS

SECTION 1 – MANAGEMENT COMMENTARY	3	SECTION 4 – ADMINISTRATION	55
CHAIRMAN’S REPORT	3	ADMINISTRATION STRATEGY	55
MANAGEMENT COMMENTARY	6	ADMINISTRATION PERFORMANCE	55
KEY TRENDS	14	FUND MEMBERSHIP	58
SECTION 2 – GOVERNANCE	15	COMMUNICATIONS POLICY AND PERFORMANCE	59
EXECUTIVE SUMMARY	15	COMMUNICATION PERFORMANCE	60
SCHEME ADMINISTRATION	15	SECTION 5 – FUNDING	61
SCHEME GOVERNANCE	16	FUNDING STRATEGY STATEMENT	61
RISK MANAGEMENT	18	ACTUARIAL STATEMENT	62
TRAINING POLICY & PRACTICE STATEMENT	20	SECTION 6 – INVESTMENT	65
ANNUAL GOVERNANCE STATEMENT	21	STATEMENT OF INVESTMENT PRINCIPLES	65
ANNUAL GOVERNANCE COMPLIANCE STATEMENT	25	INVESTMENT STRATEGY	66
STATEMENT OF RESPONSIBILITIES	29	INVESTMENT PERFORMANCE	70
COUNCIL’S RESPONSIBILITIES	29	RESPONSIBLE INVESTMENT	73
SECTION 3 – FINANCIAL STATEMENTS	31	SECTION 7 – INDEPENDENT AUDITOR’S REPORT	75
FUND ACCOUNT FOR YEAR ENDING 31 MARCH 2026	32	CONTACTS	78
NET ASSETS STATEMENT AS OF 31 MARCH 2026	32		
NOTES TO THE ACCOUNTS	33		

PENSION FUND ANNUAL REPORT AND ACCOUNTS 2025-2026

SECTION 1 - MANAGEMENT COMMENTARY

CHAIRMAN'S REPORT

Introduction

Welcome to the Annual Report and Accounts for the Scottish Borders Council Pension Fund (the 'Fund') for the year ended 31 March 2026. This Annual Report has been produced to provide Elected Members, Scheme Members and Employers and other interested parties with information concerning the administration and performance of the Fund in the financial year 2025/26.

Highlights of the Year

Pension Fund Committee/Pension Board

Over the year, the Fund has continued to strengthen its governance and stewardship arrangements. A key achievement was the successful submission of the Fund's fourth consecutive application to the UK Stewardship Code, reaffirming its commitment to high standards of responsible investment and effective stewardship. The Fund also demonstrated a strong level of compliance with The Pensions Regulator's General Code, which came into effect in March 2024.

Governance policies have been further enhanced during the year. A dedicated Cyber Security Policy for the Pension Fund was introduced, reflecting the increasing importance of managing cyber risk. In addition, the Cessation Policy and Conflicts of Interest Policy were reviewed, updated and formally approved by the Pension Fund Committee.

Over the 12-month period the Fund posted a positive absolute return of 5.7% and net investments increased by £42m. Despite volatile market conditions, the Fund's value reached £1.001m as at 31 March 2026, marking the first time it has exceeded £1bn as at a year-end reporting date.

During 2025/26, the Fund initiated a review of its equity portfolio. This included consideration of currency hedging arrangements and the active/ passive split of our existing portfolio. The results of this review will be formalised in the 2027 Investment Strategy. The Fund rebalanced Property, Infrastructure and Private Credit assets to ensure continued alignment with the Fund's approved Investment Strategy Statement.

The Fund's Investment Strategy Statement will be reviewed alongside the Funding Strategy Statement following the completion of the 2026 Triennial Valuation in March 2027, ensuring both documents remain aligned with the Fund's funding objectives, investment beliefs and long-term strategy.

The Pension Fund Committee and Pension Board continued to benefit from independent oversight and professional guidance provided by the Fund's Independent Professional Observer, supporting robust decision-making and effective governance.

Joint meetings of the Pension Fund Committee and Pension Board continued to provide effective governance, oversight and challenge throughout 2025/26. The arrangements supported informed decision-making, budget setting approval, regular monitoring of risk and performance, and engagement between Committee members, Board members, officers and advisers.

The Investment and Performance Sub-Committee met in person with most of the Fund's investment managers during the year, reflecting its cyclical approach to manager oversight and performance review. These meetings provided an opportunity for detailed scrutiny and strengthened the Committee's oversight of assets under management.

Scottish Borders Council Pension Fund is supportive of the Vision Statement developed by the Chair of the Pension Fund Committee, recognising it as a proactive and forward-looking response to the potential future development of the Scottish LGPS landscape. By establishing a shared vision in advance of any formal requirement to pool investments, Scottish LGPS funds would be demonstrating a willingness to explore opportunities for greater collaboration and collective working. Scottish Borders Council Pension Fund Committee approved support of the Vision Statement at the June 2026 meeting of the Pension Fund Committee and Board.

Funding

The Fund's most recent actuarial valuation was carried out as at 31 March 2023. The valuation confirmed that the Fund remained in a healthy financial position and set employer contribution rates for the three-year period commencing 1 April 2024. The positive result from the triennial valuation enabled the Scottish Borders Council employer pool, which includes Borders College and Live Borders, to reduce the employer contribution rate from 18.5% to 17.0% for the period 2024/25 to 2026/27.

The next actuarial valuation will be undertaken as at 31 March 2026 and will be finalised by 31 March 2027. The Funding Strategy Statement will also be reviewed as part of the valuation process, with any revised version taking effect from 1 April 2027.

Since the 2023 valuation, investment markets have experienced mixed conditions. During 2023, returns were adversely affected by the ongoing war in Ukraine and elevated inflationary pressures. Market performance improved during 2024 and into early 2025, although increasing geopolitical uncertainty, including the impact of US tariffs and conflict in the Middle East, has resulted in periods of significant short-term volatility. Overall, the Fund has achieved positive investment returns since March 2023. Although inflation has remained above levels experienced in recent years, resulting in cumulative LGPS pension increases of 12.6% since 2023 (6.7% in April 2024, 1.7%

in April 2025 and 3.8% in April 2026) and a corresponding increase in the Fund's liabilities, the positive investment performance achieved since the last valuation means the Fund's funding position is expected to be stronger than at 31 March 2023. This will be confirmed through the 2026 actuarial valuation when the results are finalised by 31 March 2027.

Investments

Over the 12-month period the Fund posted a positive absolute return of 5.7% and net investments increased by £42m. Despite volatile market conditions, the Fund's value reached £1.001m as at 31 March 2026, marking the first time it has exceeded £1bn as at a year-end reporting date. The 12 months to March 2026 saw a shift from supportive market conditions in 2025 to increased volatility in early 2026. In 2025, moderating inflation, resilient growth, and interest rate cuts from major central banks supported broadly positive returns across asset classes. However, in early 2026, increased geopolitical tensions between the US and Iran drove energy price spikes and renewed uncertainty in inflation and monetary policy.

Statement of Responsible Investment

Fund Officers have continued to integrate Environmental, Social and Governance (ESG) considerations across a range of the Fund's investment allocations. The Fund continues to engage with its investment managers to ensure that ESG factors are fully embedded within their investment processes and decision-making.

The Committee recognises that climate change represents a long-term financial risk to the Fund, whilst also presenting potential investment opportunities. It is anticipated that climate-related impacts will increasingly affect members, financial markets and the wider economy.

In this context, the Committee acknowledges its fiduciary responsibility to manage climate-related risks and to consider opportunities arising from the transition to a lower-carbon economy. 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.

Pensions Administration

Key targets have been met by the Pension Administration team with all payments processed on time and annual benefit statements issued within the required timescales. During the year the Pensions Administration team delivered two key projects, which were completed in addition to business-as-usual tasks and with no additional resources. The first project was the connection to the Pensions Dashboard Ecosystem, delivered by October 2025. The second project being the implementation of the new Member Self Service system, adding new functionality and improved security for members through the addition of Multi Factor Authentication (MFA).

The Member Self Service portal continues as a welcome addition for scheme members. In January 2026 an upgraded version of Members Self Service was deployed, building on the functionality from the previous version of the system. The Administration Team were responsible for the testing and implementation alongside Heywood, the Fund's Pensions Administration software provider.

Progress continued with delivery of actions set out in the Fund's Business Plan. A review of the Communication Policy and Internal Dispute Resolution Procedure was completed. The third Annual Newsletter is planned for issue in August 2026, in addition to regular communications issued by the Fund, with topics relevant to all categories of fund members.

Awards

The Fund was delighted to be noted as highly commended in the Small Fund of the year (Assets under £5 billion) category at the LGC Investment Awards 2025. The judges felt the Fund demonstrated excellent governance, ESG integration, and long-term investment performance. The submission demonstrated a clear and well-structured approach, showing strong leadership and accountability.

In addition, the Fund was also shortlisted for listed for LAPF Investment Awards 2025 in the LGPS Fund of the Year (Assets under £5bn) category and shortlisted for UK Professional Pension Awards 2025 Pension Fund of the Year. This Award is deemed

the most prestigious of all the Pension Fund Awards in the Pension Industry. Whilst the Fund was not declared winners on the day, it is testament to the status of the Fund to be shortlisted for both awards.

Acknowledgement

I would like to thank the Members of the Pension Fund Committee, Pension Board, officers of the Council, the Independent Professional Observer, our investment managers, Isio and the Fund Actuary, Hymans Robertson for their hard work during the year and their ongoing commitment to ensuring the Fund's continued success.

Councillor David Parker

Councillor David Parker
Chairman, Pension Fund Committee
Scottish Borders Council

24 September 2026

MANAGEMENT COMMENTARY

Overview of Fund Business

Under the statutory provision of the Local Government Pension Scheme ('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 used to pay pensions, lump sum benefits and other entitlements to scheme members and their dependents. Contributions to the Fund are made by employee members and by participating employers. The Fund also receives income from its investments, which include equities, bonds, property, infrastructure, private credit and diversified alternatives.

The Fund operates under the regulations of the LGPS, which is a public-sector pension arrangement. Scheme membership is made up of active, deferred and pensioner members. To be able to join the Fund, 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.

Strategy and Objectives

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 benefits basis'. All the longer-term policies, objectives and strategies of the Fund reflect this aim.

The Pension Fund Committee agree all policies and strategies. Scrutiny of these decisions is provided by the Pension Board. All key policies and strategies are located on the Fund's website.

KEY NUMBERS OF THE FUND

Total
membership of

13,466
(13,166 in 2024/25)

Total
pension paid

£37m
(£36.1m 2024/25)

Total contributions
received

£27.2m
(£26.2m 2024/25)

Total transfers in
from other Pension
Funds

£1.6m
(£2.5m 2024/25)

Total payments to
leavers from
Pension Fund

£2.9m
(£2.7m 2024/25)

Total net
investments held

£1bn
(£958.8m
2024/25)

Investment
return of

5.7%
(2.9% 2024/25)

Governance

The Pension Fund Committee is responsible for ensuring the Fund is managed effectively, transparently and in compliance with all relevant regulations.

Following a governance review undertaken in 2022, a series of recommendations were presented to the Pension Fund Committee and Pension Board across key areas including governance structure, decision-making, risk management and oversight. A Governance Action Plan was subsequently developed and approved in December 2023.

All required actions within the Governance Action Plan were acknowledged by 2024/25. During 2025/26, focus shifted to embedding and maintaining these improvements. Ongoing governance activity is now monitored through The Pensions Regulator (TPR) General Code Compliance Tracker, which was introduced in 2024/25 and captures all elements of the original Governance Action Plan.

The TPR General Code of Practice, introduced on 28 March 2024, consolidates previous codes and sets out expectations for scheme governance, including required policies, procedures and controls. The Fund has assessed its arrangements against the Code using a compliance tracker developed by Hymans Robertson, which supports ongoing monitoring, evidence and reporting of compliance.

The initial assessment confirmed that the Fund demonstrates strong governance and alignment with best practice. As part of this process, several enhancements were identified, resulting in the introduction of new policies during 2024/25, including a Conflicts of Interest Policy, Escalation Policy and Breaches Policy, all approved by the Pension Fund Committee.

During 2025/26, the Pension Fund delivered a wide range of improvements across pension administration, investments and governance. Key achievements included the successful completion of major regulatory and digital projects, including the Member Self Service upgrade, connection to the Pensions Dashboard ecosystem and completion of the McCloud member data review. The Fund continued to strengthen its governance framework through enhanced risk management, cyber security and regulatory compliance activities, while maintaining high standards of stewardship

and achieving an unqualified external audit opinion. Progress was also made in developing the Fund's responsible investment approach and implementing changes to the strategic asset allocation, ensuring the Fund remains well positioned to meet its long-term objectives and provide an efficient and effective service to members and employers.

The Pension Fund Committee retains responsibility for approving all decisions considered at joint meetings of the Committee and Board

Completed actions from the General Code Compliance Tracker for 2025/26 can be read in more detail in Section 2 of this report and are also acknowledged within the [Business Plan 2026-27 to 2028-29 PDF](#)

The Fund, annually, agrees a three-year Business Plan which sets out the action plan to deliver the key areas identified to ensure objectives continue to be met and any new legislative requirements are built into work plans. The actions are monitored and reported to the Joint Pension Fund Committee and Pension Board. The key actions completed in 2025/26 are noted in Section 2 – Governance.

Looking forward, the Fund will continue to strengthen governance arrangements through delivery of its 2026/27 Business Plan. Key priorities include the 2026 actuarial valuation, review of the Funding Strategy Statement and Investment Strategy, completion of the Business Continuity Plan, further development of cyber security and data governance arrangements.

In accordance with the Local Government Pension Scheme (Scotland) Regulations 2018, the Fund has an established Pension Board, which meets jointly with the Pension Fund Committee. The Pension Board meet independently of the Committee on a quarterly basis at a meeting which directly follows the joint meeting of the Committee and Board. The Pension Board is responsible for assisting the Fund in securing compliance with the regulations and other legislation relating to the administration and governance of the Fund.

The constitution of the Pension Board is defined within Scottish Borders Council's Scheme of Administration to have 4 members representing the employers and 4 trade union members representing the employees.

Risks and Uncertainties

The Pension Fund faces a wide range of risks in the delivery of its functions. Appropriate and effective risk management practice will be embraced by the Pension Fund as an enabler of success to deliver its primary aim, 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 recognises that risk management should be aligned with its objectives and it is therefore considered within the business planning process. This ensures that the strategic and operational risks to achieving these objectives are identified and prioritised.

The Pension Fund continues to systematically identify, analyse, evaluate, control and monitor those risks where there is exposure to significant financial, strategic, and reputational damage in relation to the achievement of its objectives, whether related to funding from scheme employers, investment practices, administrative processes, governance arrangements or regulatory obligations. Within these 5 categories of Risk, there are 17 Principal Risks (none of which are red rated), each with specific internal controls to mitigate/minimise the risk. During the formal Risk Review cycle, the effectiveness of internal controls is assessed, any new mitigations are identified, and a forward look is considered relating to future risks and uncertainties - the summary Risk Register is in Section 2.

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 current and future challenges and enables positive outcomes. It will increase success in the achievement of objectives and targets set in the associated Pension Fund Business Plan and Strategies.

A new Risk Management Policy and Risk Management Strategy were approved by the Pension Fund Committee in March 2024. This supports the appropriate application of good risk management practices which assists in the prevention or mitigation / minimisation of negative impacts and increases success in the achievement of objectives and targets set out in the associated Pension Fund Business Plan and Strategies, ensuring decision-makers are risk aware.

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 promotes the pursuit of opportunities that will benefit the delivery of its primary aim. As such, the Pension Fund acknowledges that risks may need to be taken to capitalise on opportunities, but these must be carefully evaluated in the context of the anticipated benefits versus any potential negative impacts.

Further information on the application of risk management practices can be found in Section 2 – Governance and within the summary Risk Register.

Administration and Membership

The Pension Administration Strategy sets out the performance standards required by both Scottish Borders Council, as the administering authority, and all employers of the Fund. The performance of the Fund against these standards is reported on an annual basis to the Joint Pension Fund Committee and Pension Board. The continuation of hybrid working has enabled the administration function to maintain strong performance and consistent delivery.

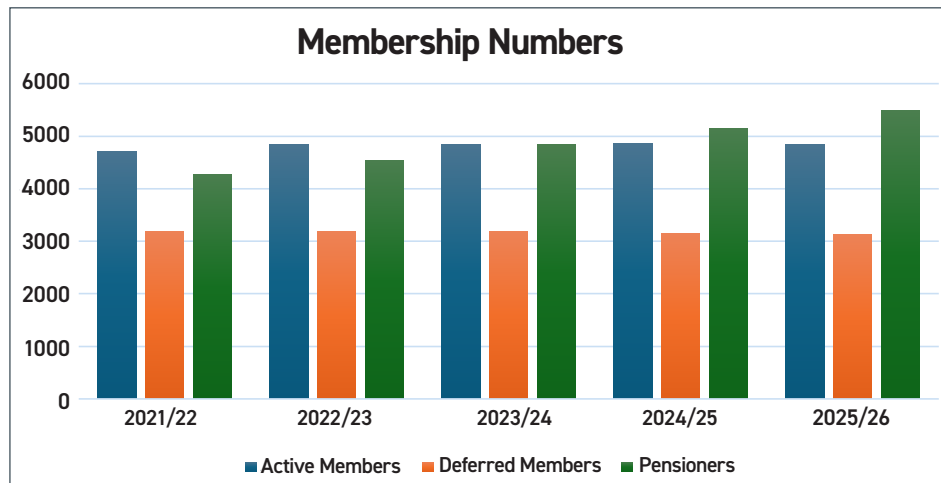
Performance has remained at a high standard throughout the reporting year, reflecting the continued dedication and resilience of the team. This has been achieved through effective hybrid working arrangements, alongside successful integration of a replacement team member during the year. The Employers within the Fund are continuing to provide information in the expected timely manner with information on Starters, Leavers and Changes being received on a monthly basis.

The Pensions Team were able to comply with the legislative requirement to issue Annual Benefit Statements (ABS) by the deadline of 31 August 2025 by publishing online for all Active and Deferred scheme members on 26 August 2025. Fund Employers issued communications to advise members of the LGPS scheme that the ABS were available to view within the online member self-service portal.

The Fund has pensions expenditure (including pension fund pension payments and payments to leavers from the pension fund) of £39.9m during the year (£38.8m in 2024/25) and pensions income received (including contributions and transfers in) of £28.9m (£28.7m in 2024/25). Following the 2023 valuation there was a reduction in the Employer contribution rate, for those in the SBC Pool, this saw a reduction from 18.50% to 17.00%, with Scottish Borders Housing Association going to 0.00%. This had a direct impact on the level of contributions received which are in line with the contributions rates detailed in the triennial valuation carried out in 2023.

The Fund had a net withdrawal of £11m (£10m in 2024/25) during the year which was funded by investment income. Pensions have been paid on time and contributions have been collected in accordance with scheme regulations in all instances. Further information on the performance of Pension Administration and the Pension Administration Strategy can be found in Section 4 – Administration.

The maturing nature of the Fund is reflected in the membership numbers, which are shown in the table below. Overall members at 31 March 2026 increased during the year to 13,466 but active contribution members now only represent 36% of the membership compared to 39% at 31 March 2022. The continued decrease in active members was considered during the investment strategy review to ensure there is the correct balance of investments, including income-generating investments to provide sufficient cash to pay pensions when they are due.



Communication

The Fund's Communication Policy seeks to ensure communication in an efficient manner for all stakeholders. Communication is undertaken in several ways including the Fund's website, annual newsletters and statements, emails, face-to-face meetings including video calls and telephone calls.

Funding

The three yearly Actuarial Valuation for 31 March 2023 was completed in March 2024 which resulted in a funding position of 134% (110% 31 March 2020) for the Fund. The next formal valuation of the Fund will be 31 March 2026 and will be finalised by 31 March 2027. Monitoring the funding position is undertaken on an annual basis and reported to the Pension Fund Committee.

The approved Funding Strategy Statement sets out the approach to funding. Further detail can be found in Section 5 of the report and the full version of the Funding Strategy Statement is available via the Fund's website.

[Funding Strategy Statement - 2023](#)

Investment Returns

The Fund's investment objective 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; to set levels of employer contributions that will build up assets that will be sufficient to meet all future benefit payments from the Fund and to build up the required assets in a way that produces employer contributions, which are as stable as possible.

Changes in market conditions and investment opportunities have altered the relative attractiveness of different asset classes in recent years. In response, the Pension Fund Committee undertook a review of the Fund's investment strategy and strategic asset allocation in September 2024 and agreed a number of refinements to further strengthen the Fund's long-term investment approach. Implementation of the revised strategy commenced during the fourth quarter of 2024 and substantial progress has been made. The Fund is currently completing the remaining elements of the transition, with implementation expected to be completed over 2026.

Following year end 31 March 2026, the Pension Fund Committee approved the full disinvestment from the Baillie Gifford UK Equity mandate (£39.6m at 31 March 2026) and the withdrawal of approximately £30 million from the Baillie Gifford Global Alpha mandate. These changes were undertaken as part of the Fund's equity allocation review and are expected to reduce Baillie Gifford's overall share of the Fund's equity portfolio to approximately 25%. In addition, on 11th June 2026 £119m of assets within the NT transition account were transferred to LGIM Global Equitix (GBP Share Class) Fund.

The 2026 Actuarial Valuation is currently in progress and is expected to show a further improvement in the Fund's funding position. Initial results will be received by Committee in December 2026. Following receipt of the results, the Fund's investment arrangements will be reviewed to ensure they remain appropriate.

The Fund's investments delivered a return of **5.7% (2.9% 2024/25)** against a benchmark of **12.2% (5.9% 2024/25)** for the year to 31 March 2026. The value of the fund was volatile during the year, with a net increase of **£42m** during the year to **£1,001m** as at 31 March 2026.

The Fund delivered positive absolute performance over the 12 months to 31 March 2026, primarily driven by its equity and real assets allocations. The L&G Global Equity mandate was a key contributor, as it continued to benefit from enthusiasm around Artificial Intelligence ("AI"), strong corporate earnings, and a gradual easing of monetary policy over the period. Alongside the equity mandates, the IFM Infrastructure mandate was also a notable contributor to absolute performance over the 12-month period.

With the exception of the L&G Global Equity and Partners Group 2018 Private Credit mandate, all of the Fund's mandates underperformed their objectives. The most notable detractors from relative performance were the Fund's equity mandates with Baillie Gifford. Over the 12-month period to 31 March 2026, the UK Equity and Global Equity mandates returned 7.4% and 9.2% but underperformed their objectives by 15.1% and 11.3%, respectively. Fund officers continue to monitor underperforming mandates through the Fund's quarterly performance reporting framework and regular meetings with investment managers to ensure that performance remains consistent with the long-term objectives of each mandate.

Market Overview

The Fund's investment performance during the year was influenced by a number of significant market developments across equity, bond and property markets. The commentary below provides an overview of these wider market conditions, while Section 6 - INVESTMENT contains details of the Fund's specific investment returns and mandate performance.

Equities

Equity markets experienced contrasting conditions over the 12-month period, delivering strong positive returns through 2025 before facing increased volatility during the first quarter of 2026. AI was a key driver of equity markets during much of 2025, supporting robust performance in growth and technology oriented stocks, although this momentum weakened over the latter part of the period as valuations came under scrutiny and cost pressures increased.

Emerging market equities outperformed developed markets and proved particularly resilient during the escalating Middle East conflict as oil prices surged, benefiting energy exporters. UK equities also delivered strong gains over the year and outperformed the global equity index. The UK's heavy exposure to mining, defence and energy-related stocks performed strongly, benefitting from elevated commodity prices and geopolitical risk, particularly towards the end of the period. In contrast, US equities lagged somewhat, impacted by concentration in large technology stocks and increased volatility in early 2026. Investors increasingly rotated towards more defensive and value oriented sectors as market uncertainty rose.

Bonds

Credit markets benefitted from easing inflation and the continuation of the rate-cutting cycle across major economies over 2025, but returns were muted through Q1 as market conditions became more challenging. The backdrop of growing geopolitical tensions led to rising interest rate expectations and a widening of credit spreads. Despite this, credit market delivered positive performance for the period, with High Yield Credit continuing to outperform Investment Grade given their lower sensitivity to interest rate movements.

Property

The UK property sector continued to recover over the period, delivering modest positive returns driven by improvements in performance of retail, industrial and residential assets. Whilst the office sector lagged, it remains resilient and continues to generate positive returns, supported by prime Central London assets. The backdrop of geopolitical tensions weighed on sentiment, however the impact on performance was minimal.

Fund Activity

Over the year to 31 March 2026, the Pension Fund Committee continued to implement the strategy revisions agreed as part of the September 2024 strategy review. Notable developments include the termination of the Morgan Stanley Global Equity mandate following long-term underperformance. The proceeds (c.£115m) were transitioned to an interim passive solution with Northern Trust in December whilst the Committee conduct a wider review of the equity portfolio.

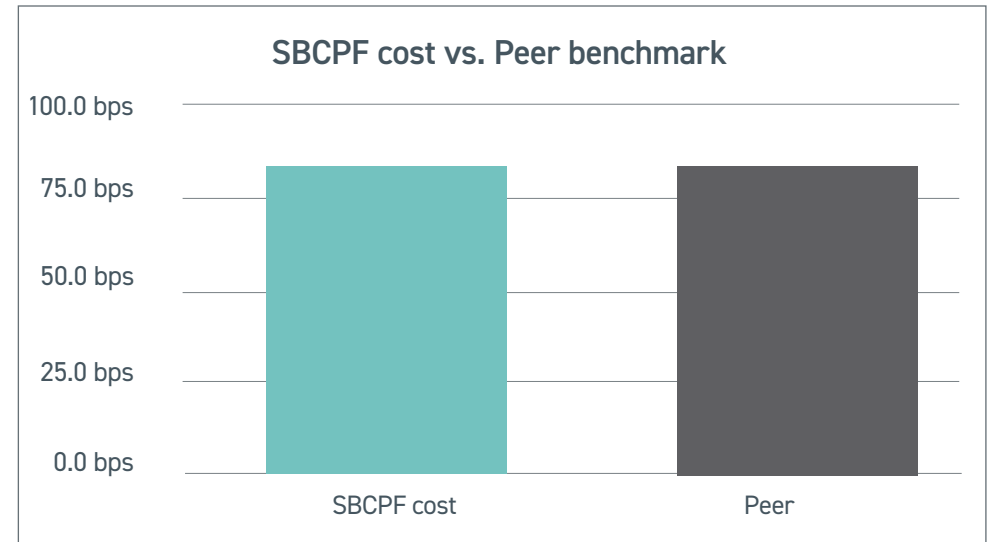
Over the period, the Fund agreed to build out the remaining impact allocation via the introduction of the M&G UK Social Investment Fund. The mandate launched in April 2026 and the Fund is awaiting its £30m commitment to be drawn. This activity is expected to commence in the later half of 2026.

The Fund increased its allocation to Private Credit, addressing the strategically underweight position, by investing £40m in the open-ended vehicle managed by Partners Group. The Fund gained exposure on 30 September 2025. Given its open-ended structure, the Fund's allocation to this mandate is expected to increase over time, replacing the exposure that is lost from the unwinding, closed-ended private credit vehicles. This change should help streamline overall Fund governance in the future.

Other notable events included the switch of the Index-Linked Gilts mandate. The Committee agreed to switch the Fund's mandate from an actively managed mandate with M&G to a passively managed mandate with L&G. This was completed over December 2025 and helped align the allocation with the Fund's strategic target.

Scottish Borders Council Pension Fund Investment Benchmarking

The Fund appointed CEM Benchmarking to compare our costs with other pension funds, inside and outside the LGPS. As CEM benchmarking data is reported on a one-year lag, the latest analysis compares the Fund's costs at 31 March 2025 with those of 49 global peer funds, ranging in size from £0.2 billion to £8.0 billion. The Fund is pleased to report costs of 83.2 basis points were below Peer benchmark costs of 83.7 basis points. The main driver for this was that we paid less for external fund management compared to our peers.



Environmental Social and Governance Issues

The Fund has an overriding obligation to act in the best interest of the scheme beneficiaries. As part of this role the Fund believes that a positive approach to Environmental, Social and Governance issues can positively affect the financial performance of investments. The Fund carried out its annual review of its Responsible Investment Metrics and Targets reporting over the period and continues to focus on the 6 key responsible investment objectives.

Sustainable Development Goal 13 – Climate Change

Sustainable Development Goal 7 – Affordable & Clean Energy

Sustainable Development Goal 1 – No Poverty

Sustainable Development Goal 2 – Zero Hunger

Sustainable Development Goal 3 – Good Health & Well-being

Sustainable Development Goal 10 – Reduce Inequalities

These were left unchanged throughout 2025/26. Work has commenced in the assessment and collection of data to allow reporting and monitoring of Sustainable Development Goal 13 Climate Change and Sustainable Development Goal 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 decision.

The Fund actively investigates opportunities to increase investment in sustainable funds. The Fund ratified a formal allocation to impact assets as part of the recent investment strategy review. This includes the existing allocations to a Timberland Fund and a Renewable Energy Infrastructure Fund focused in the UK. During 2025/26, the Fund committed £30 million to the newly launched M&G UK Social Investment Fund. This investment serves to seed the fund and positions the Fund as one of its foundational investors. Capital will be deployed into core impact areas, including affordable housing, urban regeneration, clean energy, and essential community infrastructure. Early pipeline opportunities for the fund include partnering with local authorities to deliver purpose-built accommodation for young care leavers and building additional affordable homes.

Climate Action 100+

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.

Further information on the Fund's investments can be found in Section 6 of this report. In addition, in support of transparency and accountability, the Fund produces an annual report aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), providing stakeholders with information on the Fund's governance, strategy, risk management, and climate-related metrics and targets.

Through ongoing monitoring and engagement, the Fund seeks to enhance its resilience to climate-related risks while supporting the transition to a more sustainable economy. The TCFD report can be viewed on the Pension Fund website: [Task Climate Force Disclosure 2025](#)

Pension Scheme Act 2026

Following the year end, the Pension Schemes Act 2026 received Royal Assent, introducing a significant package of reforms for UK pension schemes, including provisions relating to LGPS asset pooling, governance and investment management. The Act includes powers that could enable Scottish Ministers to introduce similar arrangements for the Scottish Local Government Pension Scheme in the future, although the legislation has no immediate impact on Scottish LGPS funds and no corresponding Scottish regulations have yet been introduced.

The Fund will continue to monitor developments in the regulatory environment and engage with Scottish Government consultations and guidance as proposals emerge. While the timing and extent of any future changes remain uncertain, the Fund recognises that increased collaboration and asset pooling may become an important area of focus for the Scottish LGPS in the years ahead and will ensure it is well placed to respond to any future legislative or regulatory requirements.

Acknowledgement

The contribution and commitment of all elected members, employer and employee representatives and staff involved in ensuring the continued success of the Scottish Borders Council Pension Fund, particularly during this most challenging of years, is gratefully acknowledged.

Councillor David Parker David Robertson Suzanne Douglas

Councillor David Parker
Chairman
Pension Fund Committee

David Robertson
Chief Executive
Scottish Borders Council

Suzanne Douglas
Director of Finance
Scottish Borders Council

24 September 2026

24 September 2026

24 September 2026

KEY TRENDS

Membership	2021/22	2022/23	2023/24	2024/25	2025/26
Active Members	4,703	4,842	4,836	4,859	4,839
Deferred Members	3,194	3,187	3,195	3,162	3,140
Pensioners	4,281	4,532	4,848	5,145	5,487
Total Members	12,178	12,561	12,879	13,166	13,466

Investments	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Opening Net Value	859,794	909,381	866,011	936,842	958,785
Movement in year	49,587	(43,370)	70,831	21,943	41,896
Closing Net Value	909,381	866,011	936,842	958,785	1,000,681
Investment Income	17,600	16,284	22,505	24,031	20,805
Investment Fees	5,668	5,209	6,627	7,308	7,598

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Administrative Costs	(378)	(450)	(452)	(621)	(555)
Oversight & Governance	(349)	(338)	(498)	(453)	(630)
Contributions & Transfers In	25,939	25,060	30,212	28,718	28,879
Pension Payments & Transfers Out	(26,071)	(30,163)	(33,986)	(38,814)	(39,898)
Net Pensions Cashflow	(132)	(5,103)	(3,774)	(10,096)	(11,019)



PENSION FUND ANNUAL REPORT AND ACCOUNTS 2025-2026

SECTION 2 - GOVERNANCE

EXECUTIVE SUMMARY

The Scottish Borders Council Pension Fund remains committed to maintaining effective governance, sound risk management and strong internal controls to support the delivery of high-quality pension and investment services for members and employers.

During 2025/26 the Fund continued to strengthen its governance arrangements through the implementation of its Business Plan, Risk Management Strategy and General Code compliance programme. Significant developments included the approval of a Pension Fund Conflicts of Interest Policy, introduction of a Cyber Security Policy, completion of the Pensions Dashboard connection project, ongoing quarterly risk reporting, continued stewardship and responsible investment oversight, and enhancements to governance scrutiny through the Independent Professional Observer role.

The annual review concludes that the Fund's governance arrangements were fit for purpose and operated effectively throughout 2025/26. No significant governance failures or material weaknesses were identified. This opinion is supported by the work of Fund Officers, Internal Audit, External Audit, the Pension Fund Committee, Pension Board and professional advisers. In particular, the Chief Officer Audit & Risk concluded that the Fund's systems of governance, risk management and internal control were appropriate and effective, with improvements demonstrated during the year.

Assessment of effectiveness has been informed by the Governance Policy and Compliance Statement, General Code compliance review, quarterly risk management reporting, delivery of the Business Plan, training and knowledge monitoring, Internal Audit work and External Audit findings.

Looking forward, the Fund will continue to strengthen governance arrangements through delivery of its 2026/27 Business Plan. Key priorities include the 2026 actuarial valuation, review of the Funding Strategy Statement and Investment Strategy, completion of the Business Continuity Plan, further development of cyber security and data governance arrangements, and ongoing monitoring of compliance with The Pensions Regulator's General Code of Practice.

The Pension Fund Committee, Pension Board and Officers remain committed to continuous improvement and ensuring that governance arrangements remain proportionate, effective and resilient in response to an increasingly complex and evolving LGPS environment.

SCHEME ADMINISTRATION

The Scottish Borders Council Pension Fund (the 'Fund') is Part of the Local Government Pension Scheme (LGPS) and is administered by Scottish Borders Council (the Administering Authority).

The Fund is administered in accordance with the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Scotland) Regulations 2018. The Fund adheres to Scottish Borders Council policies for managing conflicts of interests, codes of conducts and register of interests. Following guidance from The Pension Regulator's General Code March 2024, the Pension Fund Committee approved the Conflicts of Interest Policy for the Pension Fund at the December 2024 joint meeting of the Pension Fund Committee and Board.

SCHEME GOVERNANCE

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 meetings.



The full Council agreed on 30 May 2024 to amend the Scheme of Administration to transfer to the Pension Fund Committee from the SBC Audit Committee the function to Review the Pension Fund's audited Statement of Accounts and the Annual Report from the External Auditor to members and the Controller of Audit, prior to submission to Council.

Scottish Borders Council Pension Fund Governance:

Pension Fund Committee – is responsible for overseeing the management and administration of the Fund and acts as its primary decision-making body. The Scheme of Administration recognises the non-political nature of the Committee's role and provides that its membership shall comprise seven Members of the Council.

Pension Board – assists the Committee in securing compliance with the regulations, other legislation and requirements of the Pensions Regulator. The Pension Board consists of four employer representatives and four employee Union representatives. The Live Borders vacancy noted in 2024/25 was filled in September 2025.

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.

Independent Professional Observer - strengthens governance by providing independent observations to the Pension Fund Committee and Pension Board. The role also aims to enhance the scrutiny of the decision making and provide the Committee and Board with additional experience and knowledge impartial from the Scottish Borders Council Pension Fund's Officers.

Actuary – provides advice on funding. This role is currently undertaken by Hymans 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 service.

The external audit function is conducted by Audit Scotland and they will provide an independent audit opinion on the true and fair view of the financial statements in accordance with applicable standards and legal requirements.

Pension Fund Committee

Members of the Pension Fund Committee have a fiduciary responsibility to the Fund members and employers that are similar to those holding office of trustee in the private sector. The Members of the Pension Fund Committee are responsible for the decision making of the Fund and hold meetings four times a year. As at 31 March 2026, the Pension Fund Committee is comprised of seven Councillors of Scottish Borders Council.

The membership is shown below:



Councillor David Parker
(Chair)



Councillor Simon Mountford
(Vice Chair)



Councillor Donald Moffat



Councillor Sandy Scott



Councillor Carol Hamilton



Councillor Leigh Douglas



Councillor Tom Weatherston

Pension Board

The Local Government Pension Scheme (Scotland) regulations require each administering authority to have a Pension Board, responsible for assisting the Fund in securing compliance with the regulations and other legislation relating to the administration and governance of the Fund.

The Pension Board comprises four employee and four employer representatives appointed by relevant trade unions and scheme employers.

During the year to 31 March 2026, the Pension Board membership comprised the following:

Employer Representatives:

- Councillor Julie Pirone - Chairperson. Scottish Borders Council
- Kirsty Robb - Borders College
- Ross MacNay - Live Borders
- Nicola McArthur - South of Scotland Enterprise

Employee Representatives:

- David Bell - Vice chair. UNITE
- Malcolm Drysdale - GMB
- Kay Marie Hughes - UNISON
- Alistair Stavert - UNISON

In accordance with the regulations the Pension Board meets jointly at the same place and time as the Pension Fund Committee to allow consideration of the same agenda, presentations, and advice from external advisors. The Chair of the Pension Fund Committee acts as Chair of the joint meeting. The Pension Board has no voting rights at the joint meeting but meets separately, immediately following the joint meeting.

Investment and Performance Sub-Committee

The Investment and Performance Sub-Committee is responsible for making recommendations to the Pension Fund Committee on all areas of investment management including the Statement of Investment Principles and the management of Investment Managers.

The Sub-Committee comprises Pension Fund Committee Members and an employee and employer representative from the Pension Board. The Sub-Committee meets three to four times a year.

RISK MANAGEMENT

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 identification, analysis, evaluation, control and monitoring of risks linked to the business plans and activities.

The Pension Fund’s Risk Management Policy and Strategy 2024-2026 were approved at the joint meeting of the Pension Fund Committee and Pension Board on 4 March 2024. The development of the Policy and Strategy ensures that there is a relevant Risk Management Framework in place for the Pension Fund aligned to its objectives, governance and administration.

The Risk Management Policy defines risk and risk management, outlines the vision, states the roles and responsibilities in managing the risks, and highlights its importance as a key control associated with strategic and operational activities. The Pension Fund is committed to a strong control environment to ensure that risks are identified, evaluated, managed and monitored appropriately, with the outcome that better and more assured risk management will bring many benefits to its stakeholders.

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 Risk Management Strategy 2024-2026 states that “The SBC Chief Officer Audit & Risk will deliver a quarterly Risk Register Update Report to the joint meetings of the Pension Fund Committee and Pension Board, ensuring they have adequate oversight to fulfil their roles and responsibilities with regard to the management of risk.” The Risk Management Strategy also contains the following table which illustrates the Quarterly Meeting Cycle by Risk Category to enable the Members of the Committee and Board to focus on specific risks at each meeting which are broadly aligned to the established business reporting cycle:

Risk Category	Quarterly Meeting Cycle
Investment	March
Administration	June
Governance	September
National Policy / Regulations	September
Funding	December

It is important that the Pension Fund has its own robust risk management arrangements in place because if objectives are defined without taking the risks (threats and opportunities) into consideration, the chances are that direction will be lost should any of these risks materialise. The identification, evaluation, control, and review of the Pension Fund Risks is a management responsibility. However, knowledge of the strategic risks faced by the Pension Fund and associated mitigations will enable Committee and Board Members to be more informed when making business decisions.

As the management of risk is an iterative process, the Pension Fund Risk Register is not a static document and will continue to evolve over time to reflect new and emerging threats, opportunities and objectives associated with the business plans and activities of the Pension Fund.

Appropriate and effective risk management practices have been applied during 2025/26 for the Pension Fund, in accordance with the vision stated in the Risk Management Policy of the Pension Fund. In line with the schedule of risk review activity set out in the Risk Management Strategy 2024-2026, SBC Officers who support the Pension Fund carried out the review of risks in the following categories: Funding; Investment; Administration; Governance; and National Policy / Regulations. The output of this activity was then presented at the quarterly Joint meetings of the Pension Fund Committee and Pension Board.

This provides a focus on a more manageable number of risks at each meeting and aligns Risk Management to the business planning and performance management process. In conclusion, the Pension Fund and its stakeholders have accrued the benefits from systematic and assured risk management practices during 2025/26, ensuring that decision-makers are risk aware, which will assist in the prevention or mitigation/minimisation of negative impacts and will increase success in the achievement of objectives and targets set out in the Business Plan.

The quarterly Pension Fund Risk Register Update Reports can be found on modern.gov
[Pension Fund Committee and Pension Board - Scottish Borders Council \(scotborders.gov.uk\)](https://www.scotborders.gov.uk)

The table below summarises the Pension Fund Risk Register as at March 2026.

Category	Risk Title	Risk Score	Status	Latest Review Date
Funding	Investment Strategy	6 Moderate-Unlikely	▲	14 -Nov-2025
	Scheme Employers	6 Moderate-Unlikely	▲	14 -Nov-2025
	Differences between Actuarial Assumptions in the Triennial Valuation Reports & Reality	6 Moderate-Unlikely	▲	14 -Nov-2025
Investment	Target Investment Returns	8 Major-Unlikely	▲	05-Feb-2026
	Market/Economic Conditions	8 Major-Unlikely	▲	05-Feb-2026
	Failure to Manage Liquidity	3 Moderate-Remote	✓	05-Feb-2026
Administration	Over-Reliance on Key Officers	6 Moderate-Unlikely	▲	21-May-2025
	Failure to Process Payments on Time	6 Moderate-Unlikely	▲	21-May-2025
	Failure to Collect and Account for Contributions	6 Moderate-Unlikely	▲	21-May-2025
	Failure to Manage Data and Information	6 Moderate-Unlikely	▲	21-May-2025
	Cyber Security	10 Critical-Unlikely	▲	03-Feb-2026
Governance	Engagement with Scheme Employers	6 Moderate-Unlikely	▲	20-Aug-2025
	Roles and Responsibilities	6 Moderate-Unlikely	▲	20-Aug-2025
	Failure of the Fund's Governance Arrangements	4 Major-Remote	✓	22-Aug-2025
National Policy/ Regulations	Failure to Administer and Manage the Fund in line with Requirements	8 Major-Unlikely	▲	21-Aug-2025
	Changes in Legislation/Regulatory Frameworks	8 Major-Unlikely	▲	22-Aug-2025
	Fiduciary Duties and ESG Responsibilities	4 Major-Remote	✓	22-Aug-2025
Total: 17 risks				
Red (Score 15-25) ● Amber (Score 6-12) ▲ Green (Score 1-5) ✓				

TRAINING POLICY & PRACTICE STATEMENT

The Council recognises the importance of ensuring that all staff and members, charged with the financial administration and decision making of the Fund, are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. It therefore seeks to utilise individuals who are both capable and experienced. Training for staff and members of the Pension Fund Committee and Pension Board is provided to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

The approved Training Policy adopts the key recommendations of the Myners Principles, LGPS regulations 2010 and the CIPFA Code of Practice on Public Sector, Pensions Finance Knowledge and Skills. The Policy also reflects guidance issued by the Scottish Public Pensions Agency and The Pensions Regulator (TPR) General Code of Practice concerning skills and knowledge requirements.

The Training Policy applies to members of the Pension Fund Committee and the Pension Board. It requires all members to complete the Pensions Regulator's Toolkit within six months of joining the Pension Board and to attend at least two training events a year. The Training Policy also requires an annual training plan to be agreed. The Training Plan for 2025/26 was formally agreed by the Pension Fund Committee at the Joint meeting of the Pension Fund Committee and Pension Board held on 24 June 2025.

On 7th November 2025 an in-person Training Day was organised for members of the Pension Fund Committee, Pension Board and Officers of the Council involved in the management of the Fund. The following areas were covered:

- **Global Internal Audit Standards in the UK Public Sector** - Presented by SBC Chief Officer Audit and Risk.
- **Actuarial Valuation- Assumptions and Funding Ratio explained** – Presented by Hymans-Robertson.
- **Actuarial Valuation- Reporting requirements** – Presented by Hymans-Robertson.
- **Overview of Current Investment Strategy - Governance, Market and Objectives** - Presented by Isio.
- **Peer Group Comparison and Risk Considerations including currency hedging** – presented by Isio.
- **Administration-Pensions Dashboard** – Presented by HR Shared Service Manager.

All members are required to attend, as a minimum, two meetings of the joint Pension Fund Committee and Pension Board a year. The following table evidences that all seven Members of the Pension Fund Committee, and all eight members of the Pension Board have met the training and attendance requirements for 2025/26.

Attendance 2025/26	Pension Fund Committee and Board Meeting	Pension Fund Board Meetings	Investment Sub-Committee Meetings	Training
Councillor David Parker	4/5		3/4	14/18
Councillor Simon Mountford	4/5		4/4	10/18
Councillor Carol Hamilton	3/5		4/4	8/18
Councillor Sandy Scott	4/5		4/4	6/18
Councillor Donald Moffat	4/5		4/4	12/18
Councillor Leigh Douglas	2/5		4/4	4/18
Councillor Tom Weatherston	3/5		4/4	12/18
Councillor Julie Pirone	5/5	3/3	n/a	4/18
David Bell	4/5	3/3	n/a	10/18
Nicola McArthur	3/5	1/3	n/a	4/18
Kirsty Robb	2/5	0/3	1/4	2/18
Malcolm Drysdale	5/5	3/3	n/a	4/18
Kay Marie Hughes	2/5	1/3	2/4	4/18
Alistair Stavert	3/5	2/3	n/a	4/18
Ross MacNay (from September 2025)	3/4	2/2	n/a	4/16

ANNUAL GOVERNANCE STATEMENT

The Local Government Pension Scheme (Scotland) Regulations 2018 requires Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via a number of best practice principles.

The key document summarising the governance arrangements for the Fund is the Governance Policy and Compliance Statement (as amended on 18 June 2026) which is available on the Scottish Borders Council Pension Fund website:

[Governance Policy and Compliance Statement 2026](#)

Annual due diligence has been completed for all Fund managers, incorporating a detailed review of their operational, compliance and investment processes. As part of this assessment, any qualified opinions or exceptions identified within internal control reports (for example ISAE 3402 or SOC 1) were carefully evaluated.

In 2024/25, Alinda and Macquarie (MISG) reported qualified control opinions; however, these were resolved in 2025/26, with both managers receiving unqualified reports, demonstrating improvements in their control environments. In 2025/26, Gresham House reported a qualified controls opinion; however, this has since been addressed through the implementation of appropriate remedial actions. Fund Officers will continue to monitor closely. KKR and InfraRed do not provide formal controls reports, and alternative assurance procedures have been undertaken to provide appropriate oversight.

Where relevant, follow-up actions were performed to assess any potential impact and confirm that appropriate remedial measures had been implemented. Ongoing monitoring arrangements have been updated to reflect these findings, supporting effective oversight and the continued mitigation of risk.

Governance Framework

The key elements of the Fund's governance arrangements include:

- a) Scottish Borders Council is the Administering Authority for the Local Government Pension Scheme for the Scottish Borders geographical area. The Council has acknowledged its responsibility for ensuring that there is a sound system of governance (incorporating the systems of internal control), and this is reflected in the Council's governance arrangements.
- b) The Council has delegated its responsibilities as Scheme Manager, to the Pension Fund Committee. The Members of the Pension Fund Committee act as

quasi-trustees and oversee the management of the Fund. The overall responsibility for ensuring there is a sound system of governance remains with the Chief Executive.

- c) The Pension Board meets jointly with the Pension Fund Committee and formalises the involvement of the employers and trade unions representing the membership. All members of the Pension Fund Committee and Pension Board are covered equally by the Training Policy to give them full opportunity to contribute effectively.
- d) The approval of the Pension Fund Business & Governance Plan covering the period 2025/26 – 2027/28, to improve planning and monitoring of the performance of the Fund and to demonstrate the “Myners Principle” relating to effective decision making. The Business Plan, which sets out required development and improvement actions, supports the delivery of the objectives of the Fund which are to deliver a high-quality pension service to members that is managed effectively, transparently and is compliant. Progress on actions is subject to monitoring by the Pension Fund Committee and Pension Board.
- e) The Fund appoints professional advisers and external service providers, covering investment advisory, custodian and actuarial services.
- f) The system of internal financial control operates within a financial strategy and is based on a framework of delegation and accountability for officers and Councillors embodied in procedural standing orders, financial regulations, Scheme of Delegation and Scheme of Administration. This is supported by a framework of administrative procedures including the segregation of duties, and regular financial management information. In particular, the system includes comprehensive accounting systems that record income and expenditure for both member and investment activities, regular reviews of investment reports that measure investment returns against agreed benchmarks and targets, and independent performance reviews of the Fund by the investment consultant. Sound investment practices are in place which follow approved investment principles, an appropriate investment strategy, and effective governance over investment decision. These systems and procedures are consistent with Scottish Borders Council's counter fraud policy and strategy, which are based on the national counter fraud standard CIPFA's Code of Practice on 'Managing the Risk of Fraud and Corruption'.
- g) The Fund follows a systematic approach to the management of risks in accordance with its standalone Risk Management Policy and Strategy (approved in March 2024). The Pension Fund Risk Register clearly focuses on the most significant risks with quarterly updates to the Pension Fund Committee.
- h) The Director of Finance is responsible for ensuring the proper administration of the financial affairs of the Fund. This includes ensuring appropriate professional advice is sought and is given to the Fund on all financial matters, keeping proper financial

records and accounts, and maintaining an effective system of internal financial control. The Fund complies with the CIPFA Statement on "The Role of the Chief Financial Officer in Local Government (2016)".

- i) The Director – People, Performance and Change is responsible for the pension benefit policy oversight and day-to-day administration of member benefits in accordance with statutory legislation and the approved Pension Administration Strategy.
- j) The Chief Officer Audit & Risk's (Chief Audit Executive for the SBC Pension Fund) independent and objective opinion is that the systems of governance, risk management and internal control operating within the Scottish Borders Council Pension Fund during 2025/26 are appropriate and effective, with improvements demonstrated during the year, based on the delivery of an approved plan of systematic and continuous Internal Audit review in conformance with the Global Internal Audit Standards for the UK Public Sector.
- k) The Fund responds to findings and recommendations of External Audit and Internal Audit, as appropriate. The Pension Fund Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

The new CIAA 'Global Internal Audit Standards' (GIAS) came into effect 1 January 2025 for all other sectors. The GIAS, the associated IASAB 'Application Note: Global Internal Audit Standards in the UK Public Sector' and the CIPFA 'Code of Practice for the Governance of Internal Audit in UK Local Government' (which combined are known as the GIAS in the UK Public Sector) came into effect for the UK Public Sector on 1 April 2025. The GIAS are principle-based and serve as a basis of elevating, and evaluating the quality of, internal audit functions worldwide. The Global Internal Audit Standards are relevant to the remit of the Pension Fund Committee (as the governance body for the SBC Pension Fund), specifically Domain III: Governing the Internal Audit Function (Principle 6 Authorised by the Board; Principle 7 Positioned Independently; Principle 8 Overseen by the Board). A joint virtual Development Session was held on 26 May 2025 with members of SBC Audit Committee, IJB Audit Committee and Pension Fund Committee to outline the requirements for the governance of Internal Audit, and determine any steps required to demonstrate conformance. The functions of the Pension Fund Committee were updated in the Scheme of Administration to reflect the above which was approved by full Council on 25 September 2025.

The Internal Audit Annual Assurance Report 2025/26 for the SBC Pension Fund concluded that the systems of governance, risk management and internal control operating within the Scottish Borders Council Pension Fund during 2025/26 are appropriate and effective, with improvements demonstrated during the year.

Full details can be read on the Pension Fund website: [Pension Fund Internal Audit Annual Assurance Report 2025-2026](#)

Review of Framework

The annual review of the effectiveness of the Fund's governance framework is informed by:

- The work of an officer assessment of the Fund's compliance with the best practice principles, General Code 2024, details of which are set out in the Governance Compliance Statement 2025/26.
- The work of professional accountancy staff within the Council.
- The assurances arising from the work of Internal Audit, the details of which are set out in the Chief Officer Audit & Risk's Internal Audit Annual Assurance Report 2025/26 [Pension Fund Internal Audit Annual Assurance Report 2025-2026](#) that is presented to Pension Fund Committee, and the external auditor's reports.

Improved Areas of Governance

The Pension Fund Committee agreed to a three-year Business Plan to ensure the ongoing management and development of the Fund is in line with the longer-term policy, objectives and strategy of the Fund. The Business Plan sets out the key actions and sets time scales for each. The progress of the action is reported mid-year to the Pension Fund Committee. The actions completed from the 2025/26 Business Plan can be observed in detail on the Pension Fund website [Business Plan 2026-27 to 2028-29 PDF](#)

Highlights of actions completed within the year are:



Pension Administration

- Completed Member Self Service upgrade Project
- Completed Pensions Dashboard Ecosystem connection project.
- McCloud review of member information finalised.
- Successfully completed the recalculation of pension benefits arising from the delayed implementation of the Scottish Borders Council pay award, ensuring members received their revised pension entitlements and any associated back payments during the year.
- Annual Employer Liaison Meeting held and Scheme's 3rd annual Newsletter to be issued August 2026.



Pension Funding and Investment

- 1 year performance of 5.7% against benchmark of 12.2%, in volatile market conditions.
- Review and improvement to Responsible investment including completion of 2025 Responsible Investment Metrics and Targets reporting.
- Review of strategic asset allocation and good progress made on rebalancing portfolio.



Pension Fund Governance

- Development of the standalone Pension Fund Risk Management Policy and Strategy 2024-2026 (approved in March 2024). Quarterly review and reporting cycle of refreshed Risk Register by Risk Category.
- Completion of Annual Report and Accounts 2024/25 – Unqualified audit opinion following External Audit of the Annual Report & Accounts 2024/25.
- Completion of General Code (March 2024) compliance checker; results used to determine level of compliance and ongoing actions required for 2026/27.
- Signatories of Stewardship Code for 4 consecutive years.
- Cyber Security Policy introduced for the Pension Fund – approved December 2025.
- Pension Fund Website continuously reviewed and updated to add content relevant for member and interested parties.
- Cessation Policy updated and approved June 2025.

The Fund has agreed key areas of consideration within its 2026/27 Business Plan which can be observed online [Business Plan 2026-27 to 2028-29 PDF](#) and highlights include:

- Approval of valuation assumptions for 2026 Triennial valuation
- Approval of results of Triennial valuation.
- Updates and approval of revised Funding Strategy Statement
- Updates and approval of revised Investment Strategy
- Agree updated employer contribution rates following results of 2026 Triennial valuation.

The Scottish Borders Council Pension Fund Business Plan 2026/27 was approved at the Joint Pension Fund Committee and Pension Board meeting 18 June 2026.

On 28th March 2024, The Pensions Regulator General Code of Practice was introduced. The General Code of Practice consolidates ten existing codes of practice and provides guidance to those running occupational, personal, and public service pension schemes. The code contains new governance requirements and sets out TPR's expectations of how occupational pension schemes should be managed and the policies, practices and procedures that should be in place. All schemes should continually monitor and assess actions required to ensure compliance with the single code.

Pension Fund officers completed a General Code Compliance Tracker obtained from Hymans Robertson. It is positive to report that Scottish Borders Council Pension Fund demonstrates good Governance and follows best practice guidelines set out in the code. The Best Practice items already adopted will remain in place with regular review through the General Code Compliance Tracker to ensure we continue to maintain high standards of governance of the Pension Fund.

Completed Governance actions and areas for development are reported to the Pension Fund Committee and Board on a quarterly basis. Implementation of all governance actions is closely monitored and aligned with the Business Plan. Progress is formally reviewed as part of the annual governance review cycle. This commitment ensures continuous improvement and alignment with regulatory expectations and strategic objectives.

During 2025/26 the following actions were taken to meet the required recommendations set out within the Governance plan:

- Risk Register updates continued on a quarterly basis.
- Fund's Internal Audit team continued to provide independent appraisal of governance arrangements and internal controls.
- Continued monitoring & reporting to align with Responsible Investment Policy objectives; TCFD reporting reviewed March 2026 and Responsible Investment Metrics and Targets reporting reviewed December 2025.
- Pension Fund Training Day for Fund Officers, Pension Fund Committee and Pension Board held 7 November 2025.
- General Code Compliance arrangements reviewed against the requirements of the TPR General Code and documented evidence of compliance and risk of non-compliance.
- Policy review and updates continued, and a new Cyber Security Policy was approved in December 2025.
- Dashboard go-live connection to ecosystem
- Investment monitoring performance continued a quarterly basis.

Items outstanding from the Governance Plan and to be completed in 2026/27 include:

- Business Continuity Plan
- Data Readiness and Information Asset Review
- Cyber Security Policy – Incident Response Plan

Following completion of the actions above, the General Code Compliance Tracker will show that the Pension Fund is fully compliant across all areas. To ensure continued compliance, all sections of the General Code Compliance tracker will be subject to ongoing review and update. There were no significant governance issues identified in 2025/26.

As the governance landscape for Local Government Pension Schemes continues to evolve, the Fund remains committed to engaging proactively with initiatives that support the long-term sustainability, efficiency and effectiveness of scheme delivery.

Scottish Borders Council Pension Fund is supportive of the Vision Statement developed by the Chair of the Pension Fund Committee, recognising it as a proactive and forward-looking response to the potential future development of the Scottish LGPS landscape. By establishing a shared vision in advance of any formal requirement to pool investments, Scottish LGPS funds are demonstrating a willingness to explore opportunities for greater collaboration and collective working.

Importantly, the Vision Statement extends beyond investment pooling and recognises the wider benefits that could be achieved through increased cooperation between funds. These include sharing specialist expertise, improving operational efficiency, reducing duplication of effort, and enhancing the overall value delivered to scheme members and participating employers.

While it is recognised that participation from all 11 Scottish LGPS funds cannot be guaranteed, the initiative nevertheless represents a positive step towards greater strategic alignment across the sector. It provides a framework for constructive engagement and future collaboration, while preserving the ability of individual funds to determine the extent of their involvement in line with local circumstances and governance arrangements.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Fund's systems of internal control, governance and risk management. The annual review demonstrates sufficient evidence that the Fund's Governance Policy is operating effectively and that the Fund fully complies with the best practice principles as demonstrated in the Governance Policy and Compliance Statement.

Councillor David Parker

Councillor David Parker
Chairman

24 September 2026

David Robertson

David Robertson
Chief Executive

24 September 2026

ANNUAL GOVERNANCE COMPLIANCE STATEMENT

The Fund sets out its governance arrangements within the Governance Policy and Compliance Statement (as amended on 18 June 2026)

The Local Government Pension Scheme (Scotland) Regulations 2018 require Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via a number of best practice principles. The following table contains an assessment of the Fund's compliance with these principles and reflects the changes following the introduction of the Pension Fund Board.

Principle	Full Compliance	Comments
Structure		
A The management of the administration of benefits and strategic management of Fund assets clearly rests with the main Committee established by the appointing Council.	Yes	Scottish Borders Council acts as administering authority for the Pension Fund and delegates its responsibilities as Scheme Manager to the Pension Fund Committee (the 'Committee'). The Committee comprises 7 elected Members. The Council's Scheme of Administration sets out the Committee's remit.
B LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are represented by members of either the main or secondary committee established to underpin the work of the main committee.	Yes	The Pensions Board (the Board) formalises the involvement of the employers and trade unions representing the membership. The Fund's Board has eight members (four employer representatives and four trade union representatives) covering all pension fund members.

Principle	Full Compliance	Comments
		The Board constitution is in line with the regulations, a copy of which is included in the Fund's Governance Policy and Compliance Statement. The Board meets jointly with the Committee, and the Board's Constitution and the Council's Scheme of Administration set out how disputes between the two bodies should be resolved. The Board meet independently of the Committee on a quarterly basis. This meeting takes place directly after the Joint meeting of the Committee and Board. The Investment and Performance Sub-Committee (the Sub-Committee) established under the Committee and its remit is set out in the Council's Scheme of Administration. Membership of the Sub-Committee is seven elected Members from the Pension Fund Committee and two (non-voting) members from the Board.
C Where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Yes	Minutes of the Sub-Committee and any other Sub-Groups are submitted to the Pension Fund Committee for approval. Two members from the Pension Board and all Members of the Committee are part of the Sub-Committee which has a remit to monitor investment performance.

Principle	Full Compliance	Comments
D Where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.	Yes	The Council's Scheme of Administration states that any Sub-Group established will have member(s) of the Committee as part of its membership.
Committee Membership and Representation		
A All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: (i) Employing authorities (including non-scheme employers, e.g. admitted bodies) (ii) scheme members (including deferred and pensioner scheme members) (iii) where appropriate, independent professional observers, and, (iv) expert advisors (on an ad-hoc basis)	Yes	The Pension Board and Pension Fund Committee meet jointly ensuring employer and member (trade union) representation at meetings. The Investment and Performance Sub-Committee has two non-voting members from the Board. The Independent Investment Consultant, Finance Officers, Chief Officer Audit & Risk, HR Officers and the Independent Professional Observer also attend in an advisory capacity.
B Where non-elected members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training. They are given full opportunity to contribute to the decision-making process, with or without voting rights.	Yes	All members of the Committee and Board are covered equally by the Training Policy (as amended annually).

Principle	Full Compliance	Comments
		The Board was established by Council on 2 April 2015. The Council's Scheme of Administration defines responsibilities for the Pension Fund Committee, and the Pension Board Constitution, provides for joint meetings, with equal rights to receive papers and access meetings.
Selection and role of non-elected members		
A That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Yes	For elected Members this is part of the Council's Code of Governance along with the Members' induction programme. In addition, the Fund's Training Policy provides for an annual training needs assessment, and an annual programme of training to be made available to all members of the Committee and Board. All new members of the Committee and Board are also required, within six months of joining, to complete the Pension Regulator Trustee Toolkit.
B At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Yes	Part of the Council's Code of Governance requires the declaration of Members' interests for all committees as a standard agenda item. Non-elected members will follow SBC Employee Conflicts of Interest Policy. Elected members should adhere to the Code of Conduct for Councillors.

Principle		Full Compliance	Comments
			Conflicts of Interest Policy introduced for the Pension Fund and approved by Committee at the joint meeting of Pension Fund Committee and Board in December 2024. This policy aims to identify, manage, and mitigate any conflicts of interest that could arise in the governance, management and administration of the Pension Fund to ensure that decisions are made in the best interests of scheme members.
Voting			
A	The policy of individual administering authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	This is set out in the Council's Scheme of Administration and the Pension Committee and Board's Constitution. Only members of the Pension Fund Committee have the right to vote. The Pension Board have the right to challenge any decisions made by the Pension Fund Committee.
Training/Facility time/Expenses			
A	In relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Yes	Members' expenses are managed under the Council's policies. The Training Policy covers the reimbursement of training related expenses.

Principle		Full Compliance	Comments
B	Where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	The training policy for all members of the Board and Committee is approved annually.
C	The administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Yes	The Annual Training Plan produced and implemented with logs of training attendance maintained.
Meetings (frequency/quorum)			
A	An administering authority's main committee or committees meet at least once a quarter.	Yes	The joint meetings of the Pension Fund Committee and Pension Board are quarterly.
B	An administering authority's secondary committee or panel meet at least twice a year and is synchronised with the main committee dates.	Yes	The Investment and Performance Sub-Committee meets three to four times per year separate to the joint Committee/ Board meetings.
C	An administering authority who does not include non-elected members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Yes	The Pension Board formally provides for stakeholders' engagement as it includes both elected and non-elected members. Annual employee liaison meeting, annual newsletter and online portal.

Principle	Full Compliance	Comments
Access		
A Subject to any rules in the Council's Constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Yes	Papers sent to all Committee/ Board members as detailed in the Scheme of Administration.
Scope		
A Administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes	The Council's Scheme of Administration sets out the Committee as having a remit which covers all matters relating to the Council's role as Administering Authority for the Scottish Borders Council Pension Fund, within the terms of all relevant Local Government Pension Scheme legislation and the requirements of the Pension Regulator.
Publicity		
A Administering authorities have published details of their governance arrangements in such a way that stakeholders, with an interest in the way in which the scheme is governed, can express an interest if wanting to be part of those arrangements.	Yes	Scottish Borders Council Pension Fund has a standalone website with all governance documents and Fund information. A link is provided to minutes and public papers available via the Council's website.

Councillor David Parker

Councillor David Parker
Chairman - Pension Fund Committee

24 September 2026

David Robertson

David Robertson
Chief Executive -
Scottish Borders Council

24 September 2026

STATEMENT OF RESPONSIBILITIES

COUNCIL'S RESPONSIBILITIES

Scottish Borders Council as the administering authority for Scottish Borders Council Pension Fund (the 'Fund') is required to:

- Make arrangements for the proper administration of the Fund's financial affairs and to ensure that the proper officer of the authority has responsibility for the administration of those affairs in relation to the Fund. That officer is the Director of Finance.
- Manage the affairs of the Fund to secure the economic, efficient and effective use of resources and safeguard its assets.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and so far, as is compatible with that legislation, in accordance with proper accounting practices (Section 12 of the Local Government in Scotland Act 2003).
- Approve the Fund's Annual Accounts for signature.

I certify that the Annual Report and Accounts have been approved to be submitted for Officer signature and Council approval by the Pension Fund Committee at the Joint meeting of the Pension Fund Committee and Pension Board on 18 September 2026. The Council approved on 24 September 2026.

Councillor David Parker

Councillor David Parker
Chair, Pension Fund Committee

24 September 2026



DIRECTOR OF FINANCE RESPONSIBILITIES

The Director of Finance is responsible for the preparation of the Fund's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code)

In preparing the Annual Accounts, the Director of Finance has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with legislation, and
- Complied with the local authority Accounting Code (in so far as it is compatible with legislation).

The Director of Finance has also:

- Kept adequate, up to date accounting records.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2026 and the transactions of the Fund for the year then ended.

The unaudited accounts were authorised for issue 18 June 2026 and the audited financial statements were authorised for issue by Suzanne Douglas on 24 September 2026.

Suzanne Douglas

Suzanne Douglas CPFA
Director of Finance, Scottish Borders Council

24 September 2026



PENSION FUND ANNUAL REPORT AND ACCOUNTS 2025-2026

SECTION 3 - FINANCIAL STATEMENTS

FUND ACCOUNT for the year ending 31 March 2026

2024/2025 £000		2025/2026 £000	Notes
	Dealings with members, employers and others directly involved in the scheme:		
26,173	Contributions	27,262	7
2,545	Transfers in from other pension funds	1,617	8
(36,088)	Benefits	(36,976)	9
(2,726)	Payments to and on account of leavers	(2,922)	10
(10,096)	Net Additions/(Withdrawals) from Dealings with Members	(11,019)	
(8,382)	Management expenses	(8,783)	11
	Return on Investments:		
24,031	Investment Income	20,805	12
14,659	Profits and (Losses) on Disposal of Investments and Changes in the Market Value of Investments	41,052	17a
(91)	Taxes on Income	(55)	
38,599	Net Return on Investments	61,802	
20,121	Net Increase/(Decrease) in the Fund during the Year	42,000	
938,250	Opening Net Assets of the Scheme	958,371	
958,371	Closing Net Assets of the Scheme	1,000,371	

Note 1-28 form part of the Financial Statements

NET ASSETS STATEMENT as of 31 March 2026

2024/2025 £000		2025/2026 £000	Notes
959,499	Investment Assets	1,001,152	14
(714)	Investment Liabilities	(471)	14
958,785	Total Net Investment	1,000,681	
	Current Assets & Liabilities		
2,371	Current Assets	2,944	21
(2,785)	Current Liabilities	(3,254)	22
958,371	Net Assets of the Fund available to fund benefits at the period end	1,000,371	

Notes 1 to 28 form part of these Financial Statements

The unaudited accounts were authorised for issue on 18 June 2026 and the audited financial statements were authorised for issue by Suzanne Douglas on 24 September 2026.

Suzanne Douglas

Suzanne Douglas CPFA
Director of Finance, Scottish Borders Council

24 September 2026

NOTES TO THE ACCOUNTS

1 DESCRIPTION OF THE FUND

A) General

The Scottish Borders Council Pension Fund (the 'Fund') is part of the Local Government Pension Scheme ('LGPS') and is administered by Scottish Borders Council.

The LGPS scheme is governed by the Public Service Pensions Act 2013. The Fund is administered by the Council in accordance with the following secondary legislation:

- The Local Government Pension Scheme (Scotland) Regulations 2018 (as amended).
- The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014.
- The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2016.
- The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015.

It is a contributory defined benefit pension scheme administered by Scottish Borders Council to provide pensions and other benefits for pensionable employees of Scottish Borders Council and a range of other scheduled and admitted bodies within the Scottish Borders area.

Organisations participating in the Fund include:

- Scheduled Bodies – which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted Bodies – which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation.

B) Funding

Pensions and other benefits are funded by contributions from employees, employers and investment earnings.

The Fund is subject to a triennial valuation by an independent, qualified Actuary, whose report indicates the required future employer's contributions. For 2025/26 this was based on the valuation undertaken as at the 31 March 2023, as amended by specific changes, agreed by the Committee relating to an individual employer. The overall contribution rate was 17% for the Fund as a whole; however, employers' contribution rates during 2025/26 ranged from 17% to 21.3%.

Contributions from active members of the Fund are paid on a tiered basis, the contribution rate being determined by the amount of salary falling into each earnings tier. These rates are made in accordance with the 2008 Regulations and ranged from 5.5% to 12.0% of pensionable pay for the financial year ended 31 March 2025. From 1 April 2015 these contributions are based on the LGPS Regulations 2018 in line with the updated LGPS Scheme.

C) Benefits

The Local Government Pension Scheme is a defined benefit scheme. From 1st April 2015 benefits are accrued at a rate of 1/49th of pensionable pay on a career average basis. Before that date, benefits were accrued on a final salary. These benefits are fully protected on the basis under which they were accrued.

The table below gives a summary of the scheme benefits

Membership up to 31 March 2009		Membership from 1 April 2009 to 31 March 2015		Membership from 1 April 2015
Annual pension = (service years/days x final pay)/80		Annual pension = (service years/days x final pay)/60		Annual pension = Pensionable pay each years/49 (half that if in 50/50 section)
+		+		+
Automatic lump sum of 3 x annual pension		No automatic tax-free lump sum but can convert		No automatic tax-free lump sum but can convert pension
+		+		+
• Annual revaluation and pensions increase in line with CPI inflation. • Partners and dependents pensions • Ill health protection • Death in service protection				

Further details can be found on the Fund's website.
[Scottish Borders Council Pension Fund \(scotborders.gov.uk\)](http://scotborders.gov.uk)

All benefits are paid in accordance with the Local Government Pension Scheme regulations.

D) Membership

Breakdown of membership per the Council and other bodies for employees, pensioners and deferred pensioners can be found in Section 4 – Administration.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements summarise the Fund's transactions for the 2025/26 financial year and its position as at the 31 March 2026. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2025/26* (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The financial statements also present the net assets available to pay pension benefits. These do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they consider the actuarial present value of promised retirement benefits. Local authorities responsible for administering a Pension Fund that forms part of the LGPS are required by The Local Government Pension Scheme (Scotland) Regulations 2018 to publish a Pension Fund Annual Report, which is required to include a Fund Account and Net Assets Statement prepared in accordance with proper accounting practices.

The accounts have been prepared on a going concern basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account

Accruals Basis

In accordance with the Code, the Fund's Financial Statements are generally prepared on an accruals basis. The Net Assets Statement does not include liabilities to pay pensions and benefits after the end of the Fund year and the accruals concept is applied accordingly.

Contributions Income

Normal contributions, both from members and employers, are accounted for on an accruals basis at the percentage rate recommended by the Fund Actuary in the payroll period to which they relate. Employers augmented contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amounts in respect of strain on the Fund due in a year but unpaid are classed as a current financial asset.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when the member liability is accepted or discharged.

Investment Income

i) Interest income

Interest is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any income not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue.

iv) Movement in the net market value of investments

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Administration Expenses

All administration expenses are accounted for on an accruals basis. Central Support Costs from Scottish Borders Council have been recharged to the Fund based on time spent by staff on the service. The recharge includes overheads apportioned to this activity.

Investment Management Expenses

Fees of the external investment managers and custodian are agreed in the respective mandates or subscription agreements governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. Management fees also include transaction costs incurred by the managers.

Investment management expenses incurred by funds in the UK have come under increasing scrutiny in recent years resulting in establishment of the Cost Transparency Initiative (CTI) and the launch of collection templates in 2019. The majority of Fund Managers have submitted their investment expenses information on the new template and financial reports which will ensure consistency of reporting.

Oversight and Governance Expenses

All oversight and governance expenses are accounted for on an accruals basis. These expenses include Investment Consultant costs, Fund Actuarial expenses, Benchmarking fees and External Audit Services.

Net Assets Statement

Valuation of Investments

The values of investments as shown in the net assets statement have been determined as follows:

- **Market-quoted investments** – Investments listed on recognised Stock Exchanges are valued at the bid price on the close of business on 31 March.
- **Unquoted investments** – directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- **Pooled investment vehicles** – holdings in pooled investment vehicles, which are not traded on active markets are stated at bid price for funds with bid/offer spreads, or single price values where there are no bid/offer spreads, as at 31 March. Shares in other pooled arrangements have been valued at the latest available net asset value ('NAV'), determined in accordance with fair value principles.
- **Private equity/debt and infrastructure assets** – are independently valued by the appointed Fund Manager and General Partners. Fair value is calculated by applying Private Equity and Venture Capital Valuation Guidelines.

The valuation processes of the fund managers, who are listed in Note 14b, are subject to audit and verification and this is reported in their respective assurance reports on internal controls (in accordance with Technical Release AAF 01/06).

Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts market values of overseas investments.

Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks (in particular currency) arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of the derivative contracts are included in the change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end and determined as the gain or loss that would arise if the outstanding contracts were matched at the year-end with an equal and opposite contract.

Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimal risk of change in value.

Contingent Assets and Contingent Liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it isn't possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities aren't recognised in the Net Assets Statement but are disclosed by way of narrative in the notes.

Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme Actuary in accordance with the requirements of International Accounting Standards (IAS) 19 and relevant actuarial standards. As permitted under The code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20).

Additional Voluntary Contributions ('AVCs')

The Fund provides an additional voluntary contributions ('AVC') scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Standard Life to act as the AVC provider. AVCs are paid to the AVC provider by employees and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment Funds) (Scotland) Regulations 2010 (SSI 2010/233) but are disclosed as a note only (Note 23).

Accounting Standards that were issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated.

The standards introduced by the 2026/27 Code where disclosures are required in the 2025/26 financial statements, in accordance with the requirements of paragraph 3.3.4.3 of the Code, are:

- a) Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (Amendments to Heritage assets) issued in March 2024
- b) Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7) issued in May 2024
- c) Annual improvements to IFRS accounting standards – Volume 11 issued in July 2024
- d) Contracts Referencing Nature-dependent Electricity (Amendments to IFRS 9 and IFRS 7) issued in December 2024.

4 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

There were no critical judgements used in applying accounting policies.

5 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION AND UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions consider historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates. The items in the financial statements at 31 March 2026 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial Present Value of Promised Benefits (Note 20)	Estimation of the net liability to pay pensions in the future depends on a number of complex judgements relating to the discount rate used, the rate of which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Hymans Robertson is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on net pension liability of changes in individual assumptions can be measured. • A 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £12m. • A 0.1% increase in the Consumer Price Index assumption for inflation would increase the value of liabilities by £11m. • A 0.1% increase in the long-term rate of salary increase would increase value of liabilities by £1m, and • A 1-year increase in assumed life expectancy would increase the liability by £29m. Source- IAS26 report 2026
Portfolio of Level 3 assets held	Level 3 assets are those which do not have observable market data. The valuations are provided by administrators of the funds and are validated by independent administrators. Such valuations are prepared in accordance with the valuation principles of IFRS. There is, however, a degree of estimation involved in the valuations.	The total assets held in Level 3 £342.66m and include Equities, Private Equity Funds, UK Property Funds, Overseas Venture Capital and UK Venture Capital. Assurance has been obtained over the year end values. The value could move materially over the next few months depending on the market. Based on historical data and current market trends actual valuations could be between £380.34m and £304.98m.

6 EVENTS AFTER THE REPORTING DATE

Events after the reporting date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue. Two types of events may be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period - the annual accounts are adjusted to reflect such events; and
- Those that are indicative of conditions that arose after the reporting period - the annual accounts are not adjusted to reflect such events, but where this would have a material effect, the nature and estimated financial impact of such events are disclosed in the notes.

Following year end 31 March 2026, the Pension Fund Committee approved the full disinvestment from the Baillie Gifford UK Equity mandate (£39.6m at 31 March 2026) and the withdrawal of approximately £30 million from the Baillie Gifford Global Alpha mandate. These changes were undertaken as part of the Fund's equity allocation review and are expected to reduce Baillie Gifford's overall share of the Fund's equity portfolio to approximately 25%. In addition, on 11th June 2026 £119m of assets within the NT transition account were transferred to LGIM Global Equitix (GBP Share Class) Fund. Under IAS (International Accounting Standard) 10 these would not be classed as adjusting events.

7 CONTRIBUTIONS RECEIVABLE

2024/2025				2025/2026		
Employers £000	Members £000	Total £000		Employers £000	Members £000	Total £000
19,338	6,812	26,150	Normal	20,120	7,128	27,248
16	0	16	Special/Pension Fund Strain	7	0	7
0	7	7	Augmentation	0	6	6
19,354	6,819	26,173	Total	20,127	7,134	27,261

2024/2025 £000		2025/2026 £000
22,322	Administering Authority	23,403
1,076	Scheduled Bodies	1,012
2,775	Admitted Bodies	2,846
26,173	Total	27,261

8 TRANSFERS IN

2024/2025 £000		2025/2026 £000
2,545	Individual Transfers into the scheme	1,617
2,545	Total	1,617

9 BENEFITS PAYABLE

2024/2025 £000		2025/2026 £000
27,560	Pension Payments	29,011
6,874	Commutation and lump sum retirement benefits	6,884
1,654	Lump Sums death benefits	1,081
36,088	Total	36,976

2024/2025 £000		2025/2026 £000
31,634	Administering Authority	32,192
853	Scheduled Bodies	1,441
3,601	Admitted bodies	3,343
36,088	Total	36,976

10 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2024/2025 £000 (restated)		2025/2026 £000
65	Refunds to members leaving service	97
2,661*	Individual Transfers	2,825
2,726	Total	2,922

*2024/25 restated to correctly reflect Individual transfers (previously shown as Group transfers).

11 MANAGEMENT EXPENSES

2024/2025 £000		2025/2026 £000
621	Administrative costs	555
7,308	Investment management expenses	7,598
453	Oversight and governance costs	630
8,382	Total	8,783

11(a) Investment Management Expenses

2025/2026	Total £000	Management fees £000	Transaction costs £000
Equities	1,059	787	272
Pooled investments	1,343	964	379
Private Equity/Infrastructure	4,225	4,222	3
Property	905	808	97
Total	7,532	6,781	751
Custody fees	65		
Total	7,597		

2024/2025	Total £000	Management fees £000	Transaction costs £000
Equities	710	523	187
Pooled investments	3,179	2,902	277
Private Equity/Infrastructure	2,113	1,822	291
Property	1,238	1,122	116
Total	7,240	6,369	871
Custody fees	68		
Total	7,308		

12 INVESTMENT INCOME

2024/2025 £000		2025/2026 £000
2,272	Dividends from equities	2,896
11,275	Income from Pooled Investment vehicles	7,569
6,899	Incomes from Pooled Property Investment	5,433
1,993	Income from Private Equity/Infrastructure	2,669
1,592	Interest on Cash Deposits	2,238
24,031	Total	20,805

13 OTHER FUND ACCOUNT DISCLOSURES

13(a) External Audit Costs

In 2025/26 the agreed the audit fee for the year was £28,040 (2024/25 £26,870). The external auditor is Audit Scotland.

14 INVESTMENTS

Market Value at 31 March 2025 £000		Market Value at 31 March 2026 £000
	Investment Assets	
153,777	Equities	278,925
269,950	Pooled Equities	126,474
177,721	Pooled Bonds	198,619
70,448	Pooled Other	109,012
120,385	Pooled Property Investments	83,233
151,987	Private Equity/Infrastructure	150,213
14,429	Cash Deposits	53,312
461	Investment Income Due	825
340	Accounts receivable for sales	539
959,499	Total Investment Assets	1,001,152
(714)	Amounts payable for purchases	(471)
958,785	Net Investment Assets	1,000,681

14(a) Reconciliation of Movement in Investment and Derivatives

The table below follows the guidance of the standard presentation for the movement in investments

	Opening Market Value 1 April 2025 £000	Purchases & Derivative Payments £000	Sales & Derivative Receipts £000	Change to Market Value during year £000	Closing Market Value 31 March 2026 £000
Equities	153,777	154,944	(148,783)	118,987*	278,925
Pooled investments	518,120	151,324	(148,028)	(87,311)*	434,105
Pooled Property Investments	120,385	0	(38,409)	1,257	83,233
Private Equity/ Infrastructure	151,987	3,143	(7,715)	2,798	150,213
Other Investment Balances					
Cash Deposits	14,429			14	53,312
Amount receivable for sales	340			(1)	539
Investment Income due	461				825
Spot FX				25	
Forward currency contracts		32	(19)	(13)	
Amount Payable on Purchases	(714)			2	(471)
Net Investments	958,785			35,758	1,000,681

As per CIPFA disclosures, the change to market value during year intentionally does not balance opening/closing market values.

*Please note that movement in Market Values in the period includes the transition of Morgan Stanley to Northern Trust which resulted in a reduced Pooled investment value and increased Equities value.

	Opening Market Value 1 April 2024 £000	Purchases & Derivative Payments £000	Sales & Derivative Receipts £000	Change to Market Value during year £000	Closing Market Value 31 March 2025 £000
Equities	152,237	35,101	(32,623)	(938)	153,777
Pooled investments	474,029	61,427	(24,568)	7,232	518,120
Pooled Property Investments	104,604	22,000	(7,854)	1,635	120,385
Private Equity/ Infrastructure	146,193	15,966	(11,314)	1,142	151,987
Other Investment Balances					
Cash Deposits	58,835			(39)	14,429
Amount receivable for sales	574			1	340
Investment Income due	626			0	461
Spot FX				(39)	
Forward currency contracts		5	(5)		
Amount Payable on Purchases	(256)			(2)	(714)
Net Investments	936,842			8,992	958,785

As per CIPFA disclosures, the change to market value during year intentionally does not balance opening/closing market values.

Significant Transactions during the year:

Since 31st March 2025 investments have been made in the following mandates: £8m into Permira (£2.5m June 2025, £3.2m September 2025, £0.7m December 2025, and £1.6m February 2026), £40m into Partners October 2025, £100m into LGIM Index Linked Fund December 2025, £98m In-specie transfer of Morgan Stanley assets to Northern Trust transition account. Disinvestment proceeds were received £44m LGT April 2025, £4m UBS May 2026, £33m BlackRock (£10.5m July 2025 and £22.5m January 2026), £87m M&G Index Linked Bonds December 2025 and £99m Morgan Stanley disinvestment December 2025.

Baillie Gifford executed purchases of £55.1m and sales of £53.0m during the year as part of the ongoing active management of the portfolio. These transactions have not been included as significant movements, as they represent the normal trading activity associated with an actively managed mandate rather than strategic investment or disinvestment decisions.

14(b) Investment Analysed by Fund Managers

Investment management was undertaken on behalf of the Fund during the financial year by 14 firms of investment managers (this excludes the managers used through the collaboration with the Lothian Pension Fund ('LPF')) and these are shown below. Details of new investments are detailed above in the Significant Transactions section.

The benchmarks and performance targets for each manager are contained in the Statement of Investment Principles published on the Fund's website.

[2026 Statement of Investment Principles](#)

As at 31 March 2026 the market value of the assets under management, broken down by manager and mandate (including cash held) was:

2024/2025 £000	%	Fund Managers	Asset Class	2025/26 £000	%
35,687	3.7	Baillie Gifford	UK Equities	39,605	4.0
118,090	12.3	Baillie Gifford	Global Equities	131,326	13.1
	0	Transition Account	Global Equities	112,766	11.3
118,267	12.3	Morgan Stanley	Global Equities	0	0
107,716	11.2	LGIM	Passive Global Equities	126,474	12.6
	0	LGIM	Pooled Fund-Bonds	100,445	10.1
94,256	9.8	M&G Alpha	Pooled Fund-Diversified	98,175	9.8
83,466	8.7	M&G Index Linked	Pooled Fund-Bonds	0	0
20,777	2.2	CBRE	Pooled Fund-Property	20,899	2.1
4,310	0.5	UBS	Pooled Fund-Property	0	0
95,298	9.9	Blackrock	Pooled Fund-Property	62,334	6.2
43,967	4.6	LGT	Pooled Fund-Alternatives	0	0
33,827	3.5	Partners Group	Pooled Fund-Private Credit	66,044	6.6
36,621	3.8	Permira	Pooled Fund-Private Credit	42,968	4.3
44,043	4.6	Lothian Pension Fund	Infrastructure Equity	42,740	4.3
38,747	4.1	Macquarie	Pooled Fund-Infrastructure	36,273	3.6
34,944	3.7	IFM	Pooled Fund-Infrastructure Debt	37,075	3.7
19,847	2.1	Nuveen Global	Infrastructure	18,749	1.9
14,406	1.5	Quinbrook	Infrastructure	15,376	1.5
14,516	1.5	Internal	Internally Managed Cash & Investments	49,432	4.9
958,785				1,000,681	

Investments representing more than 5% of Net Assets

The value of the following investments exceeds 5% of the total value of the net assets of the Fund at 31 March 2026. Each of the investments comprises units in a managed fund.

	31 March 2025		31 March 2026	
	£000	% of Fund	£000	% of Fund
Baillie Gifford Global Alpha	118,090	12.3	131,326	13.1
LGIM - Future World Global Equity	107,716	11.2	126,474	12.6
Transition Account	0	0	112,766	11.3
LGIM Index Linked	0	0	100,445	10.1
M&G Alpha Opportunities	94,256	9.8	98,175	9.8
Partners	33,827	3.5	66,044	6.6
BlackRock	95,298	9.9	62,334	6.2

Fund Performance

The total Fund return for the year was 5.7% with a relative return under benchmark of -6.5%. Over three years the Fund has generated an annualised return of 5.9% per annum, with a relative return under benchmark of -4.2% per annum. Further information on this is contained in Section 6 - Investments.

14(c) Stock Lending

The Fund may participate in the stock lending programme managed by its Global Custodian, Northern Trust. All loans are fully collateralised. As at 31 March 2026 stock with a market value of £6.3m (£2.1m 31 March 2025) was on loan.

14(d) Property Holdings

The Fund's investment in its property portfolio comprises of pooled investments with BlackRock and CBRE. There are no directly owned properties.

15 ANALYSIS OF DERIVATIVES

There were no derivatives held at 31 March 2026 or 31 March 2025.

16 FAIR VALUE BASIS OF VALUATION

Assets and liability valuations are classified into three levels according to quality and reliability of information used to determine fair values.

- Level 1** - are those where fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as Level 1 comprise quoted equities and unit trusts. Prices are quoted at bid prices.
- Level 2** - are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.
- Level 3** - are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

16(a) Fair Value Hierarchy

Values at 31 March 2026	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets at fair value through profit & loss				
Equities	278,726		199	278,925
Pooled investments		325,093	109,012	434,105
Pooled Property Investments			83,233	83,233
Private Equity/Infrastructure			150,213	150,213
Net Investment Assets	278,726	325,093	342,657	946,476

Values at 31 March 2025	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets at fair value through profit & loss				
Equities	153,777	0	0	153,777
Pooled investments	118,267	329,405	70,448	518,120
Pooled Property Investments	0	4,310	116,075	120,385
Private Equity/Infrastructure	0	0	151,987	151,987
Net Investment Assets	272,044	333,715	338,510	944,269

16(b) Transfers between Levels 1 and 2

There have been no funds transferred from level 1 to level 2 during the year

16(c) Reconciliation of Fair Value Measurements within level 3.

	Market value 31 March 2025	Transfer (n/(out) Level 3	Purchases during year & derivative payments	Sales during the year and derivative receipts	Unrealised gains/ losses)	Realised gains/ losses)	Market value 31 March 2026
	£000	£000	£000	£000	£000	£000	£000
Overseas venture capital	41,536	0	924	(1,573)	(2,172)	555	39,270
Overseas Equity Funds	0	0	212	0	(13)	0	199
Private Equity Funds	70,448	0	48,035	(11,747)	2,149	127	109,012
UK Property	116,075	0	0	(33,367)	525	0	83,233
UK Venture Capital	110,451	0	2,220	(6,143)	4,410	5	110,943
Total	338,510	0	51,391	(52,830)	4,899	687	342,657

	Market value 31 March 2024	Transfer in/(out) Level 3	Purchases during year & derivative payments	Sales during the year and derivative receipts	Unrealised gains/ losses)	Realised gains/ losses)	Market Value 31 March 2025
	£000	£000	£000	£000	£000	£000	£000
Overseas venture capital	32,892	0	10,532	(2,566)	(79)	757	41,536
Overseas Equity Funds	0	0	0	0	0	0	0
Private Equity Funds	77,439	0	9,939	(14,568)	(2,362)	0	70,448
UK Property	92,265	0	22,000	0	1,810	0	116,075
UK Venture Capital	113,300	0	5,435	(8,748)	(1,455)	1,919	110,451
Total	315,896	0	47,906	(25,882)	(2,086)	2,676	338,510

Purchases and sales during the year reflect the implementation of the revised Investment Strategy. Unrealised and realised gains and losses are recognised in the changes in value of investments line of the Fund Account.

Sensitivity of Assets Valued at Level 3

Having considered historical data and current market trends, and consulted with independent advisors, the Fund has determined the valuation methods described above are likely to be accurate within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2026.

	Assessed valuation range (+/-) %	Value 31 March 2026 £000	Value on increase £000	Value on decrease £000
Overseas Equities	19	199	237	161
UK Property Funds	8.0	83,233	89,892	76,574
Private Credit	10.5	109,012	120,458	97,566
Overseas Venture Capital	15.0	39,270	45,161	33,380
UK Venture Capital	12.3	110,943	124,589	97,297
Total		342,657	380,337	304,978

	Assessed valuation range (+/-) %	Value 31 March 2025 £000	Value on increase £000	Value on decrease £000
UK Property Funds	8.0	116,075	125,361	106,789
Private Equity	11.0	70,448	78,197	62,699
Overseas Venture Capital	14.3	41,536	47,476	35,596
UK Venture Capital	12.2	110,451	123,926	96,976
Total		338,510	374,960	302,060

17 CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amount of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

31 March 2025				31 March 2026		
Fair value through profit & loss £000	Financial Assets at amortised cost £000	Financial Liabilities at amortised cost £000		Fair value through profit & loss £000	Financial Assets at amortised cost £000	Financial Liabilities at amortised cost £000
			Financial Assets			
153,777	0	0	Equities	278,925	0	0
518,120	0	0	Pooled Investments	434,105	0	0
120,385	0	0	Pooled Property	83,233	0	0
151,987	0	0	Infrastructure	150,213	0	0
0	14,429	0	Cash	0	53,312	0
0	461	0	Other Investment	0	825	0
0	340	0	Debtors	0	539	0
944,269	15,230					
			Financial Liabilities			
0	0	(714)	Creditors			(471)
944,269	15,230	(714)	Total	946,476	54,676	(471)
	958,785		Grand Total		1,000,681	

17(a) Net Gains and Losses on Financial Instruments

31 March 2025 £000		31 March 2026 £000
	Financial Assets	
14,739	Designated at fair value through Profit & Loss	41,026
1	Amortised cost - unrealised gains	41
	Financial Liabilities	(13)
(5)	Fair value through Profit & Loss	(1)
(76)	Amortised cost - unrealised losses	
14,659	Total	41,052

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

18 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Responsibility for managing the Fund's risk rests with the Pension Fund Committee. A Risk Register for the Fund has been established to identify and analyse the risks that the Fund faces and the key messages from this process are covered in the Risk Management Statement. The Market Risk, Credit Risk and Liquidity Risk aspects below are considered within the Investment risk category in the Risk Register. In addition, the Funding Strategy Statement and Statement of Investment Principles address risk management considerations as they apply to the particular objectives of each document.

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its Investment Consultants undertake appropriate monitoring of market conditions and benchmark analysis.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk, arising from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund's Investment Strategy.

Other Price Risk – Sensitivity Analysis

In consultation with the Fund's independent provider of performance and analytical data it has been determined that the following movements in market price risk are reasonably possible for this reporting period.

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price could have been as follows:

Asset Type	Value as at 31 March 2026 £000	+/-% Change	Potential Market Value on Increase £000	Potential Market Value on Decrease £000
UK Equities	39,605	19.0	47,130	32,080
Global Equities	370,566	12.9	418,369	322,763
UK Bonds	100,445	9.4	109,887	91,003
Property	83,233	9.3	90,974	75,492
Alternatives	357,400	11.9	399,931	314,869
Cash	49,432	2.0	50,421	48,443
Total Assets	1,000,681		1,116,712	884,650

**The percentage change for total assets includes the impact of correlation across asset classes.*

Asset Type	Value as at 31 March 2025 £000	+/-% Change	Potential Market Value on increase £000	Potential Market Value on Decrease £000
UK Equities	35,687	21.0	43,181	28,193
Global Equities	344,073	20.5	414,608	273,538
UK Bonds	83,466	9.3	91,228	75,704
Property	120,385	9.0	131,220	109,550
Alternatives	360,658	13.0	407,544	313,772
Cash	14,516	2.0	14,806	14,226
Total Assets	958,785		1,102,587	814,983

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its Investment Consultants, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2025 and 31 March 2026 is set out below and includes investment and operational cash balances. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	As at 31 March 2025 £000	As at 31 March 2026 £000
Cash and Cash Equivalents	16,694	55,830

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 Basis Points (BPS) change in interest rates:

		Effect on Asset Values	
Asset Type	Value as at 31 March 2026 £000	Favourable Rate Move + 100 BPS £000	Unfavourable Rate Move -100 BPs £000
Cash and Cash Equivalents	55,830	558	(558)

		Effect on Asset Values	
Asset Type	Value as at 31 March 2025 £000	Favourable Rate Move + 100 BPS £000	Unfavourable Rate Move -100 BPs £000
Cash and Cash Equivalents	16,694	167	(167)

Currency Risk

Currency risk represents the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund is invested in equities overseas that are denominated in currencies other than £UK.

Currency risk – sensitivity analysis

Asset Type	Value as at 31 March 2026 £000	+/-% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	233,738	9.4	255,709	211,767
Overseas Equity Funds	126,474	6.8	135,074	117,874
Overseas Venture Capital	39,270	9.1	42,844	35,696
Total Assets	399,482		433,627	365,337

Asset Type	Value as at 31 March 2025 £000 (restated)	+/-% Change	Value on Increase £000 (restated)	Value on Decrease £000 (restated)
Overseas Equities	117,540	9.5	128,706	106,374
Overseas Fixed Income	0*	8.1	0*	0*
Overseas Equity Funds	269,950	9.4	295,325	244,575
Overseas Venture Capital	41,536	9.2	45,357	37,715
Total Assets	429,026		469,388	388,664

*2025 numbers restated as MG Alpha Opportunities is GBP share class with no currency exposure. This restatement had no impact on core financial statements.

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The selection of high-quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Fund is separately addressed within the Council's Annual Treasury Strategy and this document sets out the Fund's approach to credit risk for internally managed funds. Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution.

The Fund believes it has managed its exposure to credit risk, and the Fund has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its internal treasury management arrangements at 31 March 2026, including current account cash, was £2.5m (31 March 2025: £2.2m). This was held with the following institutions:

	Rating	Balance at 31 March 2025	Balance at 31 March 2026
Bank Current Accounts			
Royal Bank of Scotland	A+	2,178	2,518
Northern Trust	AA	14,516	53,312
Total		16,694	55,830

Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments.

The Council has immediate access to its internally managed Pension Fund cash holdings through use of instant access accounts or money market funds.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2026, the Fund's illiquid assets under this definition are some of the Property fund of funds holdings and the infrastructure holdings.

19 FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme (Scotland) Regulations 2018, the Fund's Actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The Actuarial Valuation assesses the health of the fund and provides a check that the Funding Strategy and assumptions used are appropriate.

The Fund's funding policy is designed to ensure that pension liabilities are met over the long term in a manner that is both affordable and sustainable for employers and taxpayers. The key aims are to achieve and maintain a stable funding level, manage contribution rate volatility, and ensure the solvency of the Fund. The policy seeks to balance prudence with flexibility by adopting actuarial assumptions that reflect long-term expectations, while also considering the financial capacity of participating employers. The Fund works closely with its actuary to monitor funding levels and adjust strategies as needed, with a focus on intergenerational fairness, risk management, and transparency in decision-making. See more details on the Funding Strategy in Section 5.

2023 Actuarial Valuation

The 2023 Actuarial Valuation was undertaken for the Fund as at 31 March 2023 (full report available on the Fund's website) [Scottish Borders Council Pension Fund Actuarial valuation report - 2023](#). As the valuation is carried out every three years, the 2023 valuation remains the Fund's current valuation and covers the period to 31 March 2026. The Actuarial Valuation was completed during the financial year 2023/24 by the Fund's actuaries, Hymans Robertson. It has been undertaken in accordance with Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018.

The funding level of the Fund as at the 31 March 2023 was 134%, compared to the 31 March 2020 valuation of 110% and this corresponded to a surplus of £217m. The following table summarises the funding position:

Valuation Date as at 31 March	2020 £m	2023 £m
Value of the Scheme Liabilities	(650)	(649)
Smoothed Asset Value	713	866
Surplus/(Deficit)	63	217
Funding Level	110%	134%

The value of the scheme liabilities is an estimate of the assets required to pay pensions over the coming years.

The smoothed asset value is the contributions received from employers and members as well as investment returns. The surplus or deficit on the Fund is the difference between the two. The detailed Actuarial Valuation has been carried out for the Fund as at 31 March 2023.

Valuation Assumptions

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement, or withdrawal from service.

Financial Assumptions

The principal assumptions used in the last triennial valuation (to March 2023) are:

Valuation Date as at 31 March	2020 Valuation % p.a	2023 Valuation % p.a
Investment Returns	3.8	5.2
Pay Increases Long Term	2.6	3.0
Pension Increases	1.9	2.3
Discount Rate	3.8	5.2

Demographic Assumptions

The mortality assumptions used and applied to all members are bespoke set of Vita Curves tailored to fit the membership profile of the Fund. The assumptions are shown below.

Life Expectancy after age 65		31 March 2020	31 March 2023
Pensioners	Male	20.9	20.6
	Female	23.5	23.3
Non-Pensioners	Male	21.9	21.2
	Female	25.4	24.9

Commutation Assumption

It is assumed that future retirees will commute pension to provide a lump sum of 65% of the maximum allowed under HMRC rules.

50:50 option.

It is assumed that 0% of active members will take up the 50:50 option in the LGPS 2014 scheme.

20 ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the Actuarial Valuation, the Fund's Actuary also undertakes a valuation of pension fund liabilities (actuarial present value of promised retirement benefits) at the accounting date as required by International Accounting Standard (IAS) 26 and calculated in line with IAS 19 assumptions.

This uses the same base data as the Actuarial Valuation rolled forward to the current financial year, taking account of changes in membership numbers, and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund employer contribution rates and the Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future.

The actuarial present values, calculated in line with IAS 19, are set out in the table below.

	31 March 2024 £m	31 March 2025 £m	31 March 2026 £m
Present Value of the defined benefit	(793)	(706)	(733)
Fair Value of Fund Assets (bid value)	937	959	1,001
Net Asset/(Liability)	144	253	268

Virgin Media Case

No additional allowance has been made for this case as this applies only to the above named private sector pension scheme. Further the government confirmed that it will introduce legislation that would allow retrospective section 37 certificates to be produced to validate historic changes and that "scheme obligations will otherwise be unaffected". Legislation permitting to this issue was included in the government's Pension Scheme Bill (Amendments) tabled on 1 September 2025.

GMP equalisation / indexation treatment (Lloyds' ruling)

The actuary allowed for the impact of full GMP indexation in the calculation of the latest funding valuation results. The Fund's funding valuation results are used as the starting point for the accounting roll forward calculations and therefore an allowance for full GMP indexation has already been included in the accounting disclosure.

GMP equalisation – historical transfers (Further Lloyd's ruling)

This further ruling is unlikely to have a significant impact on the pension obligations of a typical employer, and the historic individual member data we would need to assess the impact is not readily available. As a result, the actuary has not made any allowance for this within their calculations at the Accounting Date.

McCloud/Sargeant treatment

The actuary allowed for the McCloud judgement in the calculation of the latest funding valuation results. The Fund's funding valuation results are used as the starting point for the accounting roll forward calculations and therefore an allowance is included in the accounting disclosure.

Goodwin treatment

The actuary previously carried out some approximate analysis across their LGPS clients to understand the potential impact of implementing a solution to correct the past underpayment of spouses' benefits. The remedy is still uncertain but the actuary estimates the potential impact of this to be very small for a typical Fund (c0.1% of obligations). They therefore do not believe it is necessary or appropriate to make an adjustment to account for this at the moment, given the level of additional work and fees that would be involved for the Fund (and indeed the highly approximate nature of applying an unknown remedy).

The allowances included in the obligations is used for statutory accounting purposes by the Fund and complies with the requirements of IAS 26. The assumptions underlying the figure are detailed below:

	At 31 March 2024	At 31 March 2025	At 31 March 2026
	% p.a	% p.a	% p.a
Discount Rate	4.85	5.80	6.20
Pay Increases-Long Term	3.45	3.45	3.70
Pension Increase	2.75	2.75	3.00

As noted above, as required by IAS 26, liabilities are calculated in line with IAS 19 assumptions and therefore will differ from the results of the 2023 Actuarial Valuation (see Note 19) because IAS 19 stipulates a discount rate, rather than a rate that reflects the market rate for investment returns on the Fund's assets.

21 CURRENT ASSETS

Current Assets	At 31 March 2025 £000	At 31 March 2026 £000
Short-term debtors		
Contributions Due Employers	50	214
	50	214
Sundry Debtors	3	50
Prepayments	140	162
Total	193	426
Cash Balances	2,178	2,518
Total	2,371	2,944

22 CURRENT LIABILITIES

Current Liabilities	At 31 March 2025 £000	At 31 March 2026 £000
Transfer value payable (leavers)	438	459
Sundry Creditors	1,667	1,958
Benefits payable	680	837
Total	2,785	3,254

23 ADDITIONAL VOLUNTARY CONTRIBUTIONS ('AVCs')

AVCs are invested separately from the main Fund, securing additional benefits on a money purchase basis for those members that have elected to contribute. All AVCs are managed by Standard Life and the value at 31 March 2026 was £4.723m (2025 £3.571m). During the year contributions totalled £1.418m, while payments out of the AVC fund totalled £0.607m. In accordance with regulation 4(2)(b) of the Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (SI 2010/233), AVCs are not included in the Pension Fund balance sheet.

24 AGENCY SERVICES

As is typical within the Local Government Pension Schemes (LGPS), arrangements exist whereby additional teachers' pensions and employee pensions are paid with the payment of funded pensions. In order that such are not regarded as "unauthorised payments" by HMRC, these pension payments are met by the administering authority through a general fund bank account and recharged to the body or service which granted the benefit. As "unfunded payments" are discretionary benefits, they are not relevant to the sums disclosed in the Fund accounts. As such, Scottish Borders Council Pension Fund provides payment and billing services to certain employers on a no charge agency agreement basis.

25 RELATED PARTY TRANSACTIONS

Pension receipts and payments are transacted using the Scottish Borders Council financial systems and the Funds banking arrangements. Throughout the year, the Fund maintains a cash balance for this purpose which is listed as cash balances within Note 21 Current Assets. During the year, the Fund had an average balance of £1.2m (2025: £1.1m) of cash administered by Scottish Borders Council within separate external banking arrangements. Contributions of £23.4m were paid by Scottish Borders Council to the Fund during 2025/26 as set out in Note 7 (£22.3m in 2024/25). The Council charged the Pension Fund £0.027m (2025 £0.026m) in respect of internal audit, risk management and democratic service costs incurred in administering the Fund. There are no additional related party transactions that require to be disclosed. The Fund balance due to Scottish Borders Council by the Fund at the balance sheet date and disclosed in the net assets statement was as follows:

As at 31 March	2025 £000	2026 £000
Due (to)/from Scottish Borders Council	(469)	(500)

Governance

Five members of the Pension Fund Committee were active members of the Pension Fund as at 31 March 2026. Two members of the Pension Fund Committee were in receipt of pension benefits from the Fund.

26 KEY MANAGEMENT PERSONNEL

The key management personnel of the Fund during 2025/26 were Scottish Borders Council's Chief Executive, Director of Finance, and Director of People Performance and Change. Total remuneration payable is set out in the following table.

As the Fund does not employ any staff directly a full remuneration report is not required.

31 March 2025 £000 (restated)		31 March 2026 £000
363	Short-term benefits	380
18	Other long-term benefits	23
381	Total	403

*2025 figure restated to include remuneration of Chief Executive and Director of People Performance and Change.

The figures above reflect the full remuneration as reported in Scottish Borders Council Accounts. The Fund is recharged 10% of the Chief Executive, 20% of Director of Finance and 5% Director of People Performance and Change.

27 CONTINGENT ASSETS

Two of the admitted body employers (Amey and CGI) within the Fund hold an insurance bond to guard against the possibility of being unable to meet their pension obligations. This bond is drawn in favour of the Fund and payment will only be triggered in the event of employer default. This is still the case for these two employers.

28 CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Goodwin

The Goodwin tribunal relates to a recent employment tribunal that changes the pension entitlement of male survivors in opposite sex marriages to take into account the female member's service from 6 April 1978. Previously, the male spouse survivor's entitlement was based on service accrued from 6 April 1988. The change is backdated to 5 December 2005. This discrimination was addressed through The Local Government Pension Scheme (Scotland) (Miscellaneous Amendments) Regulations 2022. The Fund are reviewing member records to identify anyone who may be affected by this change in Regulations.

Investments

£30m capital commitment was made to M&G UK Social Investment Fund and £20m capital commitment made to IFM Infrastructure Fund. Capital will be called in Q3 2026/27, at 31 March 2026 £50m remains as a capital commitment to these two investments.

PENSION FUND ANNUAL REPORT AND ACCOUNTS 2025-2026

SECTION 4 - ADMINISTRATION

ADMINISTRATION STRATEGY

The Pension Administration Strategy approved March 2024 sets out the procedures and performance standards required by both Scottish Borders Council, as Administering Authority and the employers with the Fund. The procedures and performance standards are agreed to ensure the efficient and effective administration of the pension scheme.

The strategy aims to ensure that:

- A high-quality pension service is delivered to all scheme members.
- Pension benefits are paid accurately and on time.
- Successful partnership working develops between the Fund and its employers.
- Performance standards are understood, achieved and reported; and
- Performance and service delivery comply with the Local Government Pension Scheme (LGPS) regulations, other related legislation and the Pensions Regulator's Codes of Practice.

ADMINISTRATION PERFORMANCE

The Pension Administration Strategy also sets out the statutory responsibilities of Scottish Borders Council as the Administering Authority. Service standards and key performance measures are agreed. The performance against these agreed standards and measures are reported annually to the Pension Fund Committee and Pension Fund Board.

The performance for the year to 31 March 2026 is set out below.

Employer Performance Measures Service Standards

Standard - target completion 90%	Volume	% age Met
New starts notification – within 20 working days	674	99.01%
Change notification – within 20 days	861	99.42%
Retirement information – at least 20 working days	378	100.00%
Early leaver notification – within 20 working days	462	100.00%
Death in Service within 10 working days	5	100.00%

Contribution Payments

The following tables compare the date contribution payments received against the target date, of 19th of the month, for each of the Scheduled and Active Admitted Bodies.

Employer Body	By Target Date	Late	% On Time
Scottish Borders Council	12	-	100%
Borders College	12	-	100%
Scottish Borders Housing Association	12	-	100%
Live Borders	12	-	100%
Amey Community Limited	12	-	100%
CGI	12	-	100%
South of Scotland Enterprise	13	-	100%

There were no late payments during the year.

Administering Authority Performance Measures Service Standards

Standard	Volume	Target	% Met
Transfer in – Completed	42	20 days	41%
Transfer out – Completed	32	20 days	69%
Estimate – All Other	1,681	10 days	

Performance has remained at a high standard throughout the reporting year. This is testament to the continued dedication of the staff within the team, having coped with the continued hybrid working and predominance of working from home, coupled with integrating a replacement team member during the year. The Employers within the Fund are continuing to provide information in the expected timely manner with information on Starters, Leavers and Changes being received on a monthly basis. There was a further shift to queries coming through in a digital manner via email and Members Self Service, which is reflected in the table below.

Type of Query	Volume	Target	% Met
Phone Calls to team	2,481	Not measured	–
Emails to pensions@scotborders.gov.uk mailbox	7,267	Not measured	–
Emails to team members directly	4,421	Not measured	–
Correspondence via Altair	17,717	Not measured	–
Total	31,886		

Other Measures

Area	Measure	Completed
Employer Liaison Meetings	1 per annum	19 March 2026
Benefit Statements	By end of August	Issued by 26 August 2025

The eleventh liaison meeting, held virtually, with all Admitted and Scheduled Bodies was held during 2025/26 and afforded the employers the chance to ask questions to the Pensions Team. Going forward we will continue to hold the liaison meeting towards the end of the financial year where we will discuss up-coming legislative changes and requirements for the year end processing.

The Annual Benefit Statements for Active and Deferred were loaded into the Member Self Service (MSS) portal. Communications are issued via the scheme employers to alert scheme members that this was now available. All Deferred Members have been invited to sign up for MSS and were advised that they will be published online going forward. There are regular reminders issued to those not yet signed up and requests made via employers to encourage their scheme members to sign up, this will be an ongoing exercise. Bulk emails are issued to members to let them know that their Benefit Statements are on the portal.

Key Administration Tasks

Task	Total received
New entrants	645
Early leavers	462
Retirements	378
Death in service	5
Deaths in deferment	5
Deaths in retirement	142
New Widow(ers), Child Pensions	65
Estimates	1,681
Pension credit members	0
Pay all Pensioners on 15th of the month or prior working day when 15th is a non-banking day	100% achieved

FUND MEMBERSHIP

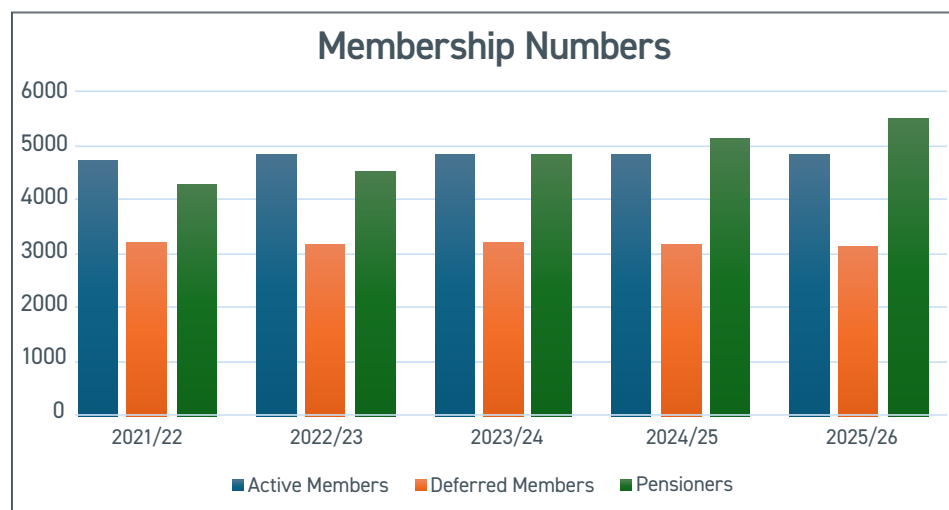
Member Self Service Statistics

Task	Total Active	Target	% Completed in target
Active Members	4,839	100%	24.15%
Deferred Members	3,140	100%	
Benefit calculations run	See Below		

There is currently no option to obtain statistics on the number of calculations run within the new version of Member Self Service, an enhancement request has been raised with Heywood.

Teachers are not included as they are enrolled as members of schemes managed and administered by the Scottish Public Pension Agency. The current membership of the Fund is 13,466 of which 4,839 are actively contributing and 5,487 are in receipt of their benefits.

The table below provides a summary of the trending membership:



There are 17 employer organisations with the Fund including the Council itself. Membership by employer is analysed in the table below.

Membership Details as at 31 March 2026	Number of Contributors	Pensioners	Deferred Members	Total
Scheduled Bodies				
Scottish Borders Council	4,404	5,010	2,832	12,246
Borders College	167	147	120	434
	4,571	5,157	2,952	12,680
Scottish Borders Housing Association	43	136	62	241
Live Borders	66	108	82	256
Jedburgh Leisure Facilities Trust	0	3	1	4
Amey Community Limited (TUPEE Staff)	1	13	0	14
CGI (TUPEE Staff only)	21	13	9	43
South of Scotland Enterprise	137	9	17	163
	268	282	171	721
Gala Youth Project		1		1
Scottish Borders Careers		3	1	4
L&B Community Justice Authority		20	10	30
BC Consultant		19	2	21
Others		5	4	9
	0	48	17	65
Total	4,839	5,487	3,140	13,466

COMMUNICATIONS POLICY AND PERFORMANCE

Communications Policy

The Fund approved the current Communications Policy on 23 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, 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.

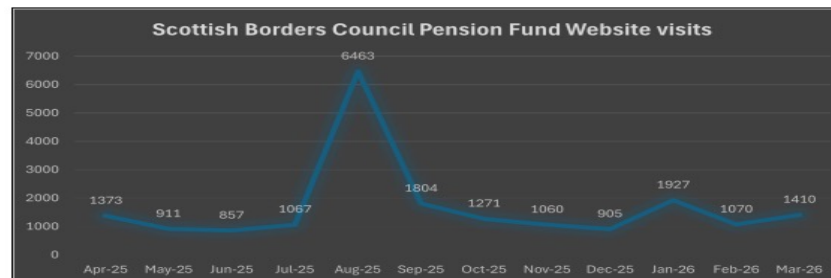
- The portal also allows members to carry out the following:
 - View all the details they need about their LGPS Pension in real time.
 - Carry out pension quotes on demand without needing to contact The Pensions Team
 - Annual Benefit Statements available to view.
 - Check and update nominations of beneficiary.
 - 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 applications

Pension Committee and Pension Board agendas and minutes can be found on the main Council website [Scottish Borders Council -\(scotborders.gov.uk\)-Pension Fund Committee and Pension Board](https://scotborders.gov.uk/Pension-Fund-Committee-and-Pension-Board)

The Fund uses both surface and e-mail to send and receive general correspondence. Roadshows and presentations are available to employer workplaces and attendance at 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 tables below detail the number of visits to the site over the past 12 months up to end of March 2026. The scheme website can be found at www.scottishborderscouncilpensionfund.org.



COMMUNICATIONS PERFORMANCE

The following communications took place during 2025/26

- The Employer Liaison meeting was held 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 year's payroll.
- The third edition of our Pension Fund Newsletter is planned for issue in August 2026
- Continued promotion of Member Self Service to promote the benefits of the system to all active and deferred members through various communication channels with all Admitted Bodies, enabling access to the Annual Benefit Statement.
- Deferred members were sent emails informing them that their Annual Benefit Statement was available on the Member Self Service (MSS) portal, along with a link to register.
- Information on the Pensions Increase issued to all those pensioners that we hold an email address for.
- 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



PENSION FUND ANNUAL REPORT AND ACCOUNTS 2025-2026

SECTION 5 - FUNDING

FUNDING STRATEGY STATEMENT

The Funding Strategy Statement (FSS) sets out its purpose and objectives as:

- To ensure the long-term solvency of the Fund, using a prudent long-term view.
- To ensure that employer contribution rates are reasonably stable where appropriate.
- To minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return.
- To reflect the different characteristics of different employers in determining contribution rates.
- To use reasonable measures to reduce the risk to other employers and ultimately to the Council Taxpayer from an employer defaulting on its pension obligations.
- The aims and purpose reflect those of the Fund.

These objectives are desirable individually but may be mutually conflicting. The Statement sets out how the administering authority balances the potentially conflicting aims of affordability and stability of contributions, transparency of processes, and prudence in the funding basis.

The FSS states the Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa. Therefore, the funding and investment strategies are inextricably linked.

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence and are therefore also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the Government. In the short term – such as the assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long-term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability. The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

The latest FSS was approved following the most recent triennial valuation by the Pension Fund Committee on 4 March 2024. It is effective from 1 April 2024 and a copy of this document can be found on the Pension Fund website:

[Funding Strategy Statement - 2023](#)

Scottish Borders Council Pension Fund (“the Fund”) Actuarial Statement for 2025/26

02 June 2026

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2024.

In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the overall Fund
- to ensure the solvency of each individual employers' share of the Fund based on their expected term of participation in the Fund
- to maximise the returns from investments within reasonable and considered risk parameters, and hence minimise the cost to the employer
- to minimise the degree of short-term change in employer contribution rates
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment
- to help employers manage their pension liabilities
- where practical and cost effective, to make allowance for the different characteristics of different employers and groups of employers

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 80% likelihood that the Fund will achieve the funding target over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2023. This valuation revealed that the Fund's assets, which at 31 March 2023 were valued at £866 million, were sufficient to meet 134% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2023 valuation was £218 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and likelihood measure as per the FSS. Individual employers' contributions for the period 1 April 2024 to 31 March 2027 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2023 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date; and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2023 valuation were as follows:

Financial assumptions	31 March 2023
Discount rate	5.2%
Salary increase assumption	3.0%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2022 model, with a 25% weighting of 2022 data, a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	20.6 years	23.3 years
Future Pensioners*	21.2 years	24.9 years

*Aged 45 at the 2023 Valuation.

Copies of the 2023 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund and on the Fund's website.



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Experience over the period since 31 March 2023

Markets were disrupted by the ongoing war in Ukraine and inflationary pressures in 2023, impacting on investment returns achieved by the Fund's assets. Asset performance improved in 2024 and early 2025; however increasing uncertainty in the geo-political environment (eg US tariffs, Middle East conflict) have caused significant short-term market volatility. Overall, the Fund's investment returns since March 2023 have been positive.

Despite ongoing higher levels of inflation in the UK (compared to recent experience) resulting in cumulative LGPS benefit increases of 12.6% since 2023 (6.7% in April 2024, 1.7% in 2025 and 3.8% in April 2026) and a slight increase in the Fund's liabilities, the funding position is likely to be stronger than at the previous formal valuation at 31 March 2023.

The next actuarial valuation will be carried out as at 31 March 2026, and will be finalised by 31 March 2027. The Funding Strategy Statement will also be reviewed during the valuation, and a revised version will come into effect from 1 April 2027.

Prepared by:

Jamie Baxter FFA C.Act

2 June 2026

For and on behalf of Hymans Robertson LLP



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Actuarial Valuation 2023

The Local Government Pension Scheme regulations require each Administering Authority to obtain an Actuarial Valuation of the assets and liabilities of the Fund every three years. The latest triennial valuation was at 31 March 2023, with the previous valuation at 31 March 2020. The regulations require each Administering Authority, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written statement setting out their Funding Strategy. In completing the Actuarial Valuation, the Actuary must have regard to the current version of the administering authority's Funding Strategy Statement.

The Actuarial Valuation is essentially a measurement of the Fund's liabilities and assets. The Funding Strategy Statement deals with how the liabilities will be managed. In practice, review of the Funding Strategy Statement and completion of the Actuarial Valuation are carried out in tandem to ensure that measurement and management processes are cohesive.

The Actuarial Valuation as at the 31 March 2023 was undertaken during 2023. The Actuarial Valuation was undertaken in accordance with Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018. A copy of the report is available via the Council's Pension Fund website [Actuarial valuation report - 2023](#)

The outcome of the 2023 Actuarial Valuation was a funding level of 134% an increase in the position assessed at 2020 of 110%. The funding position equates to a surplus of £217m.

Note 19 to the Statement of Accounts contains details of the outcome and assumptions used in the 2023 Valuation.

A major contributing factor to the improvement in the funding level has been the investment performance that the Fund has achieved over the past three years.

Employer Contribution Rates

As part of the 2023 Actuarial Valuation, the Actuary certified the primary rate at 21.8% from 1 April 2024 to 31 March 2027. In agreement with the Actuary a secondary rate of 4.8% will be deducted to allow the common rate of contribution as 17% of payroll for the for financial years 2024/25 to 2026/27. The secondary rate will reduce the surplus of the fund of £217m over 50 years.

Individual and pooled employers' rates vary from the common contribution rate (17%) depending on the demographic and actuarial factors particular to each employer. The table below highlights the key employer contribution rates (i.e., the rate which employers in the Fund pay):

Employers Contribution Grouping	Employers Contribution Rate	
	2024/25	2025/26
Scottish Borders Council Common Pool	17%	17%
Scottish Borders Housing Association - Individual	0.0%	0.0%
CGI	21.3% plus £21,000	21.3% plus £21,000
South of Scotland Enterprise	19.4%	19.4%

Valuation for Statutory Accounts at 31 March 2026

Note 20 to the Financial Statement contains the present Actuarial Valuation for the Fund as required by the International Accounting Standard (IAS) 26. This shows an increased net asset position of £268m (£253m 31 March 2025). The present value of the defined benefit obligations increased from £706m to £733m.

However, the liabilities for this figure are calculated on an IAS 19 basis and therefore will differ from the results of the 2023 Actuarial Valuation because IAS 19 stipulates a specific discount rate to enable comparability rather than a rate that reflects the market rate for investment returns on the Fund's assets. It is therefore not appropriate to use this as a measure for setting employer contribution rates or assessing the overall long term funding health of the Fund. The full version of the Actuary report and the current Funding Strategy Statement is available via the Pension Fund website: [Scottish Borders Council Pension Fund](#)

PENSION FUND ANNUAL REPORT AND ACCOUNTS 2025-2026

SECTION 6 - INVESTMENT

STATEMENT OF INVESTMENT PRINCIPLES

Following the 2023 Actuarial Valuation which reported a funding position of 134% and expected investment return of 7.7%, the Fund undertook a review of its Statement of Investment Principles and its target asset allocation.

The Statement of Investment Principles ('SIP') is reviewed regularly to reflect any changes agreed by the Pension Fund Committee and Pension Fund Board. The SIP for 2025/2026 was approved on 6 March 2025, and can be found on our website: [statement-of-investment-principles-2025](#)

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 as amended, require administering authorities to prepare, maintain and publish a SIP which includes the policy on:

- The types of investment to be held
- The balance between different types of investment
- The risk considerations, including the ways in which risks are to be measured and managed

- The expected return on investments
- Realising of investments
- Taking account of social, environmental or ethical considerations in investments
- Exercising the rights (including voting rights) attaching to investments
- Stock Lending.

The Pension Fund Committee is responsible for making decision in relation to the SIP and approving any decisions in relation to any changes to fund managers, investment advisers and custodian. The Pension Fund Investment and Performance Sub-Committee ('Sub-Committee') reviews the SIP and monitors the performance of managers. The Sub-Committee makes recommendations to the Pension Fund Committee in relation to these areas.

The primary objective of the Fund which frames key considerations when agreeing the SIP 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 objective is reflected in the underlying investment principles, which are considered in the development and agreement of the Fund's Investment Strategy. The key principles are shown below:

- **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

INVESTMENT STRATEGY

The Pension Fund Committee and Pension Fund Board sets an Investment Strategy for the Fund, taking into account the funding status and liabilities. The strategy is subject to regular review and as appropriate, asset liability modelling techniques are used to assist in these reviews.

This 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 build up the required assets in a way that produces stable employer contributions to the Fund.

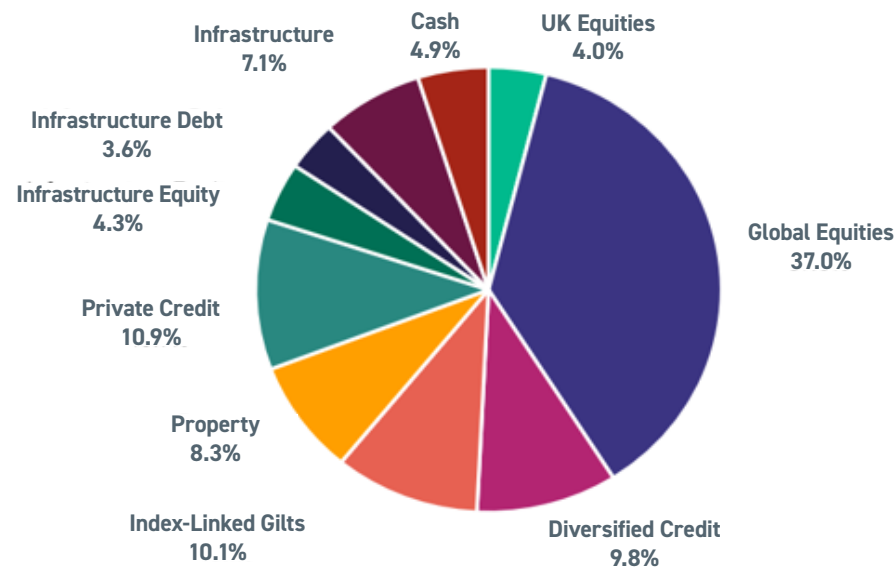
The Pension Fund Committee will, as far as is practicable and as an aid to long term stability, seek to maintain a positive ratio of assets to liabilities at each Actuarial Valuation.

The Fund is now cashflow negative, as there are less actively contributing members compared to members receiving pensions. It, however, also has deferred members who are presently neither contributing to nor receiving benefits from the Fund.

The Fund is categorised as a maturing fund, and this is reflected in the Investment Strategy with a move towards a greater focus on income producing assets. The main focus of the Fund, however, is to continue to seek capital growth to meet future liabilities.

The Investment Strategy, which forms part of the SIP, has been developed with the support of external investment consultants who support the Pension Fund Committee in their decision-making process. The approved Investment Strategy is presented as a strategic asset allocation which sets benchmark percentage allocations across the various asset classes. The revised strategy was approved by the joint Pension Fund Committee and Board on 23 September 2024.

The Fund's asset allocation as at 31 March 2026 is shown:



The approved strategic asset allocation is an evolution of the previous strategy which seeks to improve the Fund's inflation-linkage and liquidity as well as the ESG integration of the portfolio.

Over the reporting period, the Fund has continued to move more closely in line with the revised investment strategy. The Fund has aligned the Private Credit and Index-Linked Gilts allocations with the revised strategic allocations, which were funded via a reduction in the significantly overweight Cash allocation. The Fund will continue to take action to align the remaining illiquid allocations with their strategic targets gradually over time.

The Long Lease Property allocation remains strategically overweight as the Fund waits for the redemption proceeds to be returned from BlackRock. The Fund received partial redemption proceeds over the reporting period, with the remaining proceeds expected to be received no later than July 2027. The Fund has agreed in principle to invest in the M&G Secured Property Income Fund as a replacement for the outgoing BlackRock mandate. The exact timings for any commitment to this mandate will be determined by the expected timescales for receiving the remaining funds back from BlackRock.

The strategic asset allocation diversifies the risk exposure in its use of managers. The Fund currently has 11 firms of Investment Managers with 18 mandates (excludes the managers used through the collaboration with the Lothian Pension Fund ('LPF') and the Northern Trust Transition Account). This number includes the Long Lease Property mandate with BlackRock which is currently being wound down. Additionally, this does not include the new impact allocation in M&G UK Social Investment Fund as the Fund's commitment is yet to be drawn down.

Shown below are the current investment managers for the Fund:



The Fund's infrastructure investment is split over a pooled fund investment with IFM, and a portfolio of investments developed in collaboration with the Lothian Pension Fund. The investment managers for these are shown below:



The implementation of the Investment Strategy commenced in November 2024. This included introducing a formal allocation to Impact assets within the portfolio, which included the existing Nuveen Timberland and Quinbrook Renewable Infrastructure mandates, removing the diversified alternatives mandate and rebalancing a number of the existing asset allocations.

Over the previous 12 months the Fund has continued the implementation of the revised investment strategy by increasing the allocations to index-linked gilts and private credit. These increases have been funded via a reduction in the cash allocation.

The table shows the position as at 31 March 2026 against the strategic allocation:

Asset Class	Asset Allocation at 31 March 2025 %	Asset Allocation at 31 March 2026 %	Strategic Benchmark %
UK Equity	3.8	3.9	3.5
Global Equity	36.1	36.9	36.5
Bonds	18.6	19.8	22.0
Alternatives	24.3	22.7	22.5
Property	12.6	8.3	7.5
Impact	3.2	3.4	5.0
Cash	1.3	5.1	0.0
Total	100.0	100.0	100.0

Investment Manager Allocation

Each external investment manager is appointed to manage a specified % allocation of the Fund's total investment assets. The breakdown of the Fund's assets by investment manager, mandate type and asset class at 31 March 2025 and 31 March 2026 are shown in the table below (this summarises the managers used through the collaboration with the Lothian Pension Fund (LPF)).

Manager	Mandate Type	31 March 2025 (%)	31 March 2026 (%)
Baillie Gifford	UK Equities	3.7	4.0
Baillie Gifford	Global Equities	12.3	13.1
Morgan Stanley	Pooled Fund - Global Equities	12.3	-
LGIM	Pooled Fund - Global Passive Equities	11.2	12.6
LGIM*	Pooled Fund - Bonds	0.0	10.1
M&G	Pooled Fund - Diversified Income	9.8	9.8
M&G	Pooled Fund - Bonds	8.7	-
UBS	Pooled Fund - Property	0.5	0.0
BlackRock	Pooled Fund - Property	9.9	6.2
CBRE	Pooled Fund - Property	2.2	2.1
LGT	Pooled Fund - Alternatives	4.6	-
Partners Group	Pooled Fund - Private Credit	3.5	6.6
Permira	Pooled Fund - Private Credit	3.8	4.3
LPF	Infrastructure Equity	4.6	4.3
IFM	Infrastructure	3.7	3.7
Macquarie	Pooled Fund - Infrastructure Debt	4.1	3.6
Quinbrook	Pooled Fund - Renewable Infrastructure	1.5	1.5
Nuveen	Pooled Fund - Timberland	2.1	1.9
Northern Trust*	Transition Fund - Global Equities	0.0	11.3
Cash	Internally Managed Cash & Investments	1.5	4.9

*LGIM Index Linked-Gilts Fund and Northern Trust Global Equities were invested over the 12 month period to 31 March 2026

Holdings

The table below shows the top 20 direct holdings at 31 March 2026. All holdings are held within Northern Trust Transition Account, Baillie Gifford Global and UK equities' portfolios.

Company	Market Value of Holding £m	Company	Market Value of Holding £m
NVIDIA	14.5	Samsung Electronics	3.1
Alphabet Inc	9.6	Royalty Pharma	3.1
Microsoft	8.8	CATL 'A'	3.0
Amazon.com	7.6	Service Corp Intl	3.0
TSMC	6.7	Netflix Inc	2.6
Apple	6.1	Broadcom Inc	2.5
Meta Platforms Inc	5.8	B3 S.A.	2.5
Mastercard	3.5	HSBC	2.3
Tencent	3.4	The Ensign Group	2.3
AstraZeneca	3.2	Rio Tinto	2.2

INVESTMENT PERFORMANCE

Market Context

The 12-month period to 31 March 2026 was characterised by a transition from broadly supportive market conditions through calendar year 2025 to a more volatile environment in early 2026, driven by geopolitical developments, energy price shocks, and a reassessment of inflation risks.

Over 2025, moderating inflation, resilient growth and interest rate cuts from major central banks supported broad-based asset returns. However, this backdrop weakened in Q1 2026 as geopolitical tensions, particularly in the Middle East, drove a sharp rise in energy prices and renewed uncertainty over inflation and monetary policy. Against this backdrop, equity and credit markets delivered positive returns over the period as a whole, although dispersion across regions and asset classes increased materially towards the end of the period.

Equity markets

Equity markets experienced mixed conditions over the 12 months to 31 March 2026, with strong gains in 2025 followed by increased volatility in early 2026.

In 2025, global equities rallied on the back of easing inflation, declining real yields, and resilient corporate earnings, supporting a broadly positive risk environment. Emerging markets outperformed developed markets, aided by more attractive valuations, improving growth expectations, and a weaker US dollar.

Global equities returned 20.9% (FTSE World, GBP Hedged) in local currency terms over the year, where unhedged equities returned 19.4% (FTSE World, unhedged). Against this background, US equities delivered a return of 18.1% (FTSE North America, GBP hedged). The UK also delivered positive returns, outperforming its global counterparts as it benefitted from its significant exposure to mining, defence and energy stocks which performed strongly amid the backdrop of elevated commodity prices and geopolitical risks. The UK posted a gain of 21.5% (FTSE

All Share) for the year. Emerging markets also delivered strong positive returns, with a gain of 31.4% (MSCI EM, GBP Hedged), supported by strong returns from technology-heavy markets and benefitting from energy exporters as oil prices surged at the tail-end of the period.

Bonds

Fixed income markets delivered positive returns over the period. Returns were driven by easing inflation and the continuation of the rate cutting cycle, with credit spreads remaining tight for most of the year. This trend reversed to some extent in the beginning of 2026, with credit spreads beginning to widen against the backdrop of increased geopolitical tensions and investor risk appetite reducing. However, this shift was temporary in nature with credit spreads subsequently moving tighter.

Gilt performance was modest overall, with returns positive for much of the year as inflation moderated and markets increasingly anticipated a gradual easing in monetary policy. These gains were largely reversed in Q1 2026 as higher energy prices and geopolitical uncertainty led to inflationary concerns and pushed nominal gilt yields higher. Over the year, index linked gilts outperformed nominal gilts due to higher inflation expectations.

UK Investment Grade Credit ended the year posting a positive return of 3.9% (Global IG Corporate Bonds (ICE) GBP Hedged). Global High Yield Credit also delivered a positive return of 6.1% (Global High Yield Corporate Bonds (ICE) GBP Hedged). Fixed interest gilts (FTSE Gilts Over 15 years) and index-linked gilts (FTSE Index Linked Gilts Over 5 Years) returned 0.4% and 3.8% over the period, respectively, as both nominal and real gilt yields decreased.

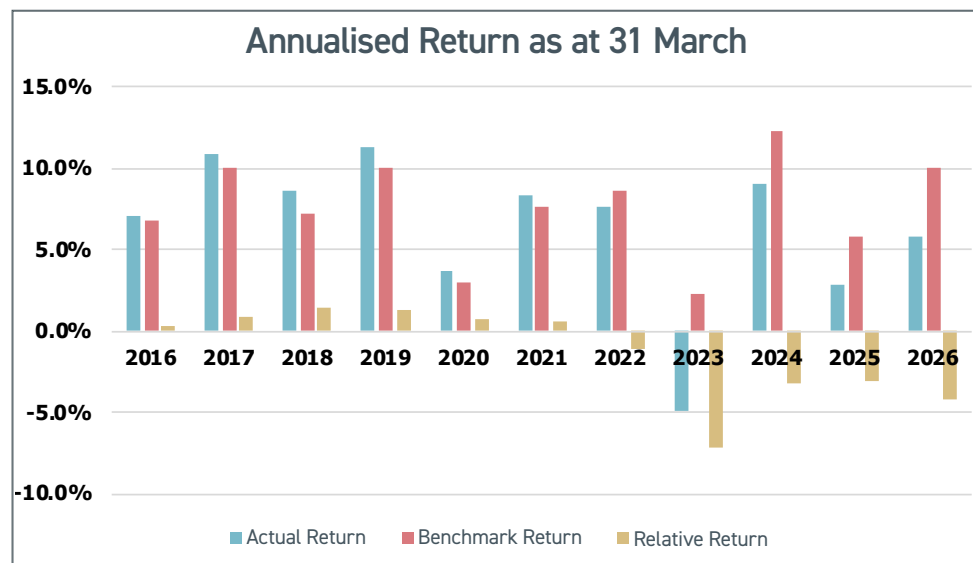
Property

UK property has delivered a positive return of 6.5% (UK Property – IPD Index) over the period as the UK property market stabilised over the year, with improving transaction activity and resilient income returns.

Fund Performance

The Fund's investment returns delivered a return of 5.7% (2.9% 2024/25) against a benchmark of 12.3% (5.9% 2024/25) for the year to 31 March 2026. Overall, the Fund's assets increased by £44m from 31 March 2025.

Positive absolute performance continues to be driven by the Fund's equity and real assets mandates. The passive equity mandate with L&G was the key contributor to absolute performance as it benefitted strong corporate earnings and continued enthusiasm for AI. Relative underperformance continues to be driven by the Fund's active equity mandates, Baillie Gifford UK Equity and Global Alpha Paris Aligned, which materially lagged their benchmarks over the 12 month period due to their growth style bias and stock selection in a higher interest rate environment. Despite this relative underperformance, both mandates continued to contribute positively to the Fund's absolute return.



Each quarter, the Investment Consultants, ISIQ, reported on the Fund's quarterly performance by individual investment manager and mandate to the Joint Pension Fund Committee and Pension Fund Board. The Investment and Performance Sub-Committee met most of the investment managers (with the exclusion of those investments held via Lothian Pension Fund) during the year giving the Pension Fund Committee an opportunity to gain a deeper understanding of the investments, their decision-making processes and their performance.

The table below provides an analysis of how the Fund's investments performed against the Fund's benchmark.

Return on Investment as at 31 March 2026	1-year rolling return		3-year rolling return (p.a.)	
	Fund %	Benchmark %	Fund	Benchmark %
Total Fund	5.7	12.2	5.9	10.1
Global Equities	7.0	18.7	9.2	15.2
UK Equities	7.4	22.5	6.9	14.3
Bonds	4.6	6.3	3.7	3.6
Alternatives	3.9	7.1	4.2	8.2
Property	5.3	6.0	3.0	6.0
Cash	-	-	-	-

The majority of the Fund's mandates contributed to the Fund's positive absolute performance over the last 12 months, continuing to demonstrate the resilience of growth markets amid uncertain economic forecasts and elevated interest rates. The notable exceptions were the Fund's property, index-linked gilt, direct lending 2016 vintage, timberland and junior infrastructure debt mandates which detracted in absolute terms. The relative performance of the Fund over the past 12 months was negative, as many of its underlying mandates trailed their respective performance objectives.

The key driver of equity underperformance can be largely attributed to the sustained underperformance of the Fund's Baillie Gifford mandates as their growth-style investment approach continued to underperform in the elevated interest rate environment. In addition, the increasingly concentrated nature of the wider global index has made it challenging for Baillie Gifford to add value in their global equity mandate. This is due to Baillie Gifford's underweight exposure to the "Magnificent Seven" mega-cap technology stocks which have become an increasing part of the overall index, and which have driven overall index returns over the reporting period.

The direct lending 2016 vintage and junior infrastructure debt mandate also notably underperformed over the period. The underperformance of these mandates were driven by specific factors which impacted investments within the portfolios, rather than wider market trends. The index-linked gilts mandate detracted from absolute returns as a result of the rising gilt yields in response to ongoing interest rate and inflationary pressures. The performance of this mandate is in line with expectation, with the rationale for the investment being to broadly track the Fund's liabilities and help to protect the funding level.



RESPONSIBLE INVESTMENT

The Fund's overriding obligation is to act in the best interests of the Fund's beneficiaries. In this fiduciary role, the Fund believes that a positive approach to Environmental, Social and Corporate Governance (ESG) issues can positively affect the financial performance of investments whereas a failure to address these considerations can have a detrimental effect. In accordance with its fiduciary duty, it is imperative that the Pension Fund Committee acts 'prudently, responsibly and honestly' and therefore considers both short term and long-term risks when making investment decisions.

The Fund approved a revised Statement of Responsible Investment Policy (the 'Policy') on 17 March 2022 setting out the approach to responsible investment and arrangements to monitor manager performance against the principles of the policy on an annual basis. The key principles within the Policy are:

- All new investment managers adhere to and report on the United Nations Principles for Responsible Investment (UNPRI) Code & the UK Stewardship Code.
- Investment 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 approved Policy also approved 6 key priorities when it comes to responsible investment.

These are:



Work has commenced in the assessment and collection of data to allow reporting and monitoring of Sustainable Development Goal 13 Climate change and Sustainable Development Goal 7 Affordable & clean energy. Due to the current lack of robust measurement criteria or data the remaining objectives will be reviewed regularly as data collection is developed.

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

The Fund actively investigates opportunities to increase investment in sustainable funds. Clear examples of this were the recent allocations to a Social Housing Fund, a Timberland Fund and a Renewable Energy Infrastructure Fund focused in the UK, and the upcoming investment in a UK Social Investment Fund.



Climate Change is a global challenge, which will have a significant impact on the global economy, corporations and society as a whole. The Paris Agreement of the United Nations Framework Convention on Climate Change sets three main aims:

- 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 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 over 600 investors with assets of \$68 trillion under management. The Fund became a signatory to this in March 2020.

As a signatory the Fund gives its support to the Climate Action 100+ in its engagement with boards and senior management of companies to:

- Implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risks and opportunities.
- Take action to reduce greenhouse gas emissions across the value chain, consistent with the Paris Agreement's goals of limiting global average temperature increase to well below 2°C above pre-industrial levels.
- Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) to enable investors to assess the robustness of companies' business plans against a range of climate and improve investment decision making. As part of this the Fund became a supporter of TCFD in Q2 2023/24.

PENSION FUND ANNUAL REPORT AND ACCOUNTS 2025-2026

SECTION 7 - INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of Scottish Borders Council as administering authority for Scottish Borders Council Pension Fund and the Accounts Commission

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of Scottish Borders Council Pension Fund (the fund) for the year ended 31 March 2026 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2025/26 (the 2025/26 Code).

In my opinion the accompanying financial statements:

- give a true and fair view of the financial transactions of the fund during the year ended 31 March 2026 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2025/26 Code; and
- have been 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.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Accounts Commission on 2 December 2022. My period of appointment is five years, covering 2022/23 to 2026/27. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council as administering authority for the fund. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the fund's current or future financial sustainability. However, I report on the fund's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

Risks of material misstatement

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Director of Finance and Scottish Borders Council for the financial statements

As explained more fully in the Statement of Responsibilities, the Director of Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the fund's operations.

Scottish Borders Council is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using my understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003, and The Local Government Pension Scheme (Scotland) Regulations 2018 as amended are significant in the context of the fund;
- inquiring of the Director of Finance as to other laws or regulations that may be expected to have a fundamental effect on the operations of the fund;
- inquiring of the Director of Finance concerning the fund's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and

- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the fund's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Reporting on other requirements

Other information

The Director of Finance is responsible for the other information in the annual report. The other information comprises the Management Commentary, Annual Governance Statement, Governance Compliance Statement, Statement of Responsibilities and other reports included in the annual report other than the financial statements and my auditor's report thereon.

My responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on the Management Commentary, Annual Governance Statement and Governance Compliance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary, Annual Governance Statement and Governance Compliance Statement

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;

- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016): and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual report, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.



John Boyd FCPFA

Audit Director

Audit Scotland
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24 September 2026

CONTACTS

For further information and advice on administration, benefits and scheme membership please contact:

Pensions Team: Telephone 01835 826577 or 01835 825205

E-mail: pensions@scotborders.gov.uk

Scheme members should have a copy of the “Employees’ Guide to the Local Government Pension Scheme Administered by the Scottish Borders Council” and can obtain their own copy of an Annual Report on request.

or visit Scottish Borders Council Pension Fund website at:

www.scottishborderscouncilpensionfund.org

For further information on the Fund’s investments, please contact:

Suzanne Douglas Telephone 01835 – 827699



You can get this document on audio CD, in large print, and various other formats by contacting us at the address below. In addition, contact the address below for information on language translations, additional copies, or to arrange for an officer to meet with you to explain any areas of the publication that you would like clarified.

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