

SCOTTISH BORDERS COUNCIL PENSION FUND ESCALATION POLICY

Finance
Pension Fund
Version 2024 1.0
Presented: Joint Pension Fund Committee and Pension Board
12 December 2024

Escalation Policy

This policy provides a clear, structured approach to escalating ESG-related concerns, ensuring the fund can act decisively and transparently when faced with underperforming investments.

The Power of our Investments

The investments that we make have an important role to play in driving improvement and global action on ESG issues. The decisions that we make to invest more sustainably can have a significant impact and add to the momentum we see behind the push to more sustainable approaches.

There is an increasing amount of policy and regulation introduced in this area and we are continuously required to abide by any new legislation due to the responsibilities that come with our roles as fiduciaries and the impact our investments have on financial markets and by extension on our living environment.

Our Purpose

We recognise the importance of our role and responsibility in driving change within the industry and to engage and support our Sustainable Investment journey. We are privileged to be in a position where we can have a positive impact on our planet and society via the investment choices we make whilst sustaining our objective to deliver financial benefits to our beneficiaries.

We believe that through the identification of sustainable opportunities and the management of ESG risks, enhanced risk-adjusted returns can be achieved over the longer term.

Sustainable Investment-related considerations should be fully integrated and at the heart of investment decision making.

Climate change poses a significant investment risk that will become incrementally more severe over time, whilst the transition to a lower carbon economy presents us with substantial investment opportunities. Sustainability issues are inextricably linked, and we cannot address the climate crisis without consideration of biodiversity issues and rising global inequalities.

We believe that proactive and targeted engagement with companies and the wider industry is more effective to drive change than an exclusionary approach. However, effective engagement requires

accompanying escalation processes, which may result in selective divestment from companies unresponsive to engagement. We actively and regularly monitor the approach of our investment managers to ESG issues, and their portfolio activity in response to managing ESG risks.

We engage with our investee companies on material ESG issues. We use all methods at our disposal, including direct letters, open letters, company calls, company meetings, speaking at shareholder meetings, filing/co-filing of shareholder resolutions and proposing board members.

We do this directly, through collaborative partners / service providers or alongside them.

We'll seek appropriate disclosure on ESG issues by the entities in which we invest.

Investee companies: we encourage the companies, whose shares the Fund owns, to report on relevant ESG metrics. These include the reporting of greenhouse gas emissions in line with the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD).

Investment Managers: we encourage the Fund's investment managers to provide transparency by reporting relevant and accessible ESG-related information. This includes their commitments to and alignment with the UK Stewardship Code 2020, the TCFD, the PRI and GRESB, where appropriate.

Escalation Process

This policy outlines the approach and procedures Scottish Borders Council Pension Fund follows to manage and escalate ESG-related issues in its investment portfolio. The policy reflects the commitment of the fund to responsible investment principles and the expectation that investee companies align with these principles.

1. Objectives

- Ensure that the fund's investments align with its responsible investment goals, considering ESG factors.
- Encourage companies to improve their ESG performance through active engagement and dialogue.
- Establish clear procedures for escalating issues when engagement does not result in satisfactory outcomes.

- Provide transparency and accountability to stakeholders regarding the fund's responsible investment practices.

2. Scope

This policy applies to all investments made by Scottish Borders Council Pension Fund, including equities, fixed income, private equity, infrastructure, real estate, and other asset classes where ESG considerations are relevant.

3. Responsible Investment Strategy

Scottish Borders Council Pension Fund is committed to:

- **Integration of ESG Factors:** ESG factors are integrated into investment decision-making, including screening for potential risks and opportunities.
- **Active Ownership:** The fund exercises its ownership rights, including voting and engagement with companies, to promote responsible business practices.
- **Monitoring and Reporting:** Continuous monitoring of ESG performance of investee companies, and reporting to stakeholders on the outcomes of engagement and actions taken.

Where there is concern around reputational damage associated with any investments, the investment in question will be added to a watchlist. This will be monitored by Officers and the Investment Consultants. If improvements are not noted, the Investment Consultants would be asked to engage with the investment manager in question to investigate their process for managing the position and remain abreast of any updates to the evolving situation.

The Committee need to be notified of any potential risk associated with investment. The Committee should be comfortable that the Investment Manager is proactive in managing the situation and are acting in the best interests of the Fund as they manage the position. The Committee should understand the options available to them with regards to actions which they can take directly (e.g. disinvestment). Managing the risk of loss to the Fund is the key concern when engaging with the manager. The Committee should also understand the sensitive nature of any investment, given the significant media attention associated with Climate sensitive issues.

4. Engagement Process

Engagement with companies will be conducted to encourage improvement in ESG performance. This process includes:

- **Initial Engagement:** Direct engagement with company management on ESG-related issues, such as climate change, labour practices, board diversity, human rights, or corruption.
- **Collaboration:** Engaging with other institutional investors, ESG advisory firms, and industry groups to amplify the impact of engagement efforts.
- **Public Advocacy:** Where appropriate, joining public calls or campaigns to influence change in industry practices or regulations.

Engagement is a key part of our responsible investment strategy. By engaging with the companies in which we own shares and exercising our voting rights, we strive to improve the sustainability of corporate strategy for the benefit of shareholders, our stakeholders and wider society.

Engagement with company management routinely includes discussion of how they'll align their businesses with the aims of the Paris Agreement, which aims to limit global warming to well below 2°C and encourages actions to be taken to limit the global temperature increase to 1.5°C.

We believe that accurate measurement and disclosure of corporate emissions and clarity of strategic direction are key to accurately assessing the climate risk and potential for financial returns from our investments.

5. Escalation Framework

If engagement does not lead to satisfactory improvements, the Pension Fund Officers will escalate the issue according to the following steps:

Step 1: Ongoing Engagement

- **Description:** Continued dialogue with the company's management, requesting specific improvements or actions. This may involve formal letters, meetings, or participation in shareholder proposals.
- **Timeframe:** Ongoing over a period of 6–12 months, with regular reviews.

Step 2: Written Warning

- **Description:** If there is no progress following ongoing engagement, the Pension Fund Officers will send a formal written warning to the company. This letter will outline the specific concerns, any

progress (or lack thereof) from the company's side, and the Pension Fund Officers expectations for corrective action.

- Timeframe 1–3 months for the company to respond and implement actions.

Step 3: Public Disclosure

- Description: If the company fails to address the issues or demonstrate a commitment to improvement, the Pension Fund Officers may disclose the issue publicly. This could include issuing a press release or making a statement at shareholder meetings, expressing the fund's concerns and the failure of engagement efforts.
- Timeframe: At least 3–6 months after the written warning has been issued.

Step 4: Voting Against Management

- Description: The Pension Fund Officers will consider voting against company resolutions, such as re-election of board members or approval of remuneration packages, where there has been inadequate response to ESG concerns.
- Timeframe: At the next Annual General Meeting (AGM) or Extraordinary General Meeting (EGM).

Step 5: Divestment

- Description: As a last resort, Scottish Borders Council Pension Fund Officers may choose to divest from the company if all previous steps have been exhausted and no material improvements have been made in response to engagement. Divestment will be considered in accordance with the fund's investment strategy, and in consultation with the relevant asset managers.
- Timeframe: Dependent on the specific investment holdings but may take place after a 12–18-month engagement period.

6. Monitoring and Reporting

- Internal Monitoring: The fund's responsible investment team will monitor progress at each stage of the escalation process and ensure that the appropriate actions are being taken.
- Reporting to Stakeholders: Regular updates on ESG issues and the escalation process will be provided to the pension fund trustees and other relevant stakeholders. Annual reporting on engagement outcomes, voting activity, and divestment decisions will be included in the fund's Responsible Investment Report.

7. Considerations for Escalation

- **Materiality of the Issue:** Only issues that are deemed material to the long-term financial performance and/or social responsibility of the company will be escalated.
- **Alignment with the Fund's Values:** ESG concerns that conflict with the values and objectives of the Pension Fund, such as serious human rights violations, environmental harm, or governance failures, will be prioritized for escalation.
- **Legal and Fiduciary Considerations:** The escalation process will be carried out in a manner that is consistent with the Pension Funds fiduciary duties and legal obligations.

8. Governance and Oversight

- The escalation process will be overseen by the Investment Consultants and Pension Fund Officers which will ensure compliance with this policy and provide strategic direction for engagement efforts.
- Trustees will receive regular updates on the effectiveness of the engagement and escalation actions, including outcomes from voting, divestment decisions, and any broader impact on the fund's overall strategy.

9. Review and Updates

This policy will be reviewed annually to ensure it remains aligned with best practices in responsible investment, any changes in relevant regulations, and the strategic goals of the Scottish Borders Council Pension Fund.

VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2024 1.0	Creation of Pension Escalation Policy	28 November 2024	Jill Murray

You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Jill Murray can also give information on other language translations as well as providing additional copies.

Contact us at Jill Murray, Pensions Investment & Accounts Manager, Scottish Borders Council Head Quarters, Newtown St Boswells, Melrose, TD6 0SA
01835 822830, Jill.Murray@scotborders.gov.uk