

STEWARDSHIP REPORT

2024/25

SCOTTISH BORDERS COUNCIL

PENSION FUND

(The Fund)

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SECTION 1 -PURPOSE AND GOVERNANCE

PURPOSE, STRATEGY AND CULTURE

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

PURPOSE

The primary purpose of the Scottish Borders Council Pension Fund, is: *"To provide for members' pension and lump sum benefits on their retirement or for their dependents' benefits on death before or after retirement, on a defined benefits basis."*

The Local Government Pension Scheme (LGPS) is a statutory scheme, established by an Act of Parliament and governed by the Public Services Pensions Act 2013 (PSPA 2013), the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 and Local Government Pension Scheme (Scotland) Regulations 2018. It is a contributory, defined benefit scheme to provide pensions and other related benefits for all eligible employees of Local Government and other participating employers. Under the statutory provision of the LGPS, Scottish Borders Council is designated as an "Administering Authority" and is required to operate and maintain a Pension Fund – the Scottish Borders Council Pension Fund ("the Fund").

The Fund is a multi-employer scheme which is open to new membership. The purpose of the Fund is to pay Scottish Borders Council LGPS members' pensions securely, affordably and sustainably over the short, medium and long term. The LGPS operates on a 'funded' basis, this means that contributions from employees and employers are paid into a fund which is invested, and from which pensions are paid. To do this, the Fund seeks to achieve sustainable, risk-adjusted performance of its investments over the long-term. Fund officers, Pension Fund Committee and Board members 'live' stewardship values day-to-day, including training, reporting, and communications

The Fund operates under the regulations of the LGPS, which is a public-sector pension arrangement and membership is made up of active, deferred and pensioner members. To be able to join the scheme, a person must be employed by a relevant employer and not eligible to join another public-sector pension scheme. Teachers are not included as they have a separate national pension scheme.

At 31 March 2025, Scottish Borders Pension Fund had 13,166 members and paid pensions totaling £38.8m during 2024/25 with contributions received from employers totaling £28.7m. The Fund had investments of £958.8m across a diversified portfolio of asset classes. The Fund's investments delivered a return of 2.9% against a benchmark of 5.9% for the year to 31 March 2025. Overall, the Fund's assets increased by £22m from 31 March 2024.

The positive absolute performance over the past 12 months was driven by the majority of the Fund's equity mandates, which benefitted from the wider equity market rally over the period as a result of strong corporate earnings growth and a rally in AI and technology stocks. The Long Lease Property and Diversified Credit mandates with BlackRock and M&G were also notable contributors to the Fund's absolute return. The majority of the Fund's assets underperformed their performance objectives over the 12-month period, with the largest detractor to relative performance being the Fund's equity mandates with Baillie Gifford, due to their significant weighting within the strategy relative to the Fund's other mandates. Other notable detractors to relative performance include the Fund's infrastructure equity mandate, which is invested in conjunction with Lothian, and the Junior Infrastructure Debt mandate with Macquarie. Our investment consultants reported the Fund's funding position improved, as the value of the

Fund's assets increased, whilst the value placed on the Fund's liabilities fell marginally as real gilt yields fell over the period.

Professional Pensions UK Pensions Awards 2025

The Fund is delighted to report that we were shortlisted for the Professional Pensions UK Pensions Awards Pension Fund of the Year Annual Award 2025. Now in their 28th year, these awards are among the most prestigious in the pensions industry, celebrating excellence across advisers, providers, and pension schemes. Whilst the Fund was unsuccessful on the night it is testament to the quality of the Fund to be shortlisted in this category.

Local Authority Pension Fund Awards 2025

The Fund is delighted to report that we have been shortlisted for the Local Authority Pension Fund of the Year (Assets under £2.5 billion) Annual Award 2025. This is the second consecutive shortlisting for this award. Over the years this award has come to be recognised as a mark of excellence in the field of pensions provision in the LGPS. Whilst the Fund was unsuccessful on the night it is testament to the quality of the Fund to be shortlisted in this category.

Local Government Chronicle Investment Awards 2025

The Fund is delighted to report that we have been shortlisted for the LGC Investment Award 2025 - LGPS Pension Fund of the Year (Assets under £5 billion). The Fund was the winner of this award in 2024. The winner of this award will be announced on 28th November 2025.

STRATEGY

Funding Strategy

The funding objective is to ensure sufficient resources to pay all members' pensions both now and in the future. The Funding Strategy Statement and report on the 2023 Actuarial Valuation are available at [Funding Strategy Statement - 2023 | Scottish Borders Council](#)

The Fund's next Actuarial Valuation is due to take place as at 31 March 2026.

Investment Strategy

The investment objective is to support the funding strategy by adopting an investment strategy and structure which incorporates an appropriate balance between risk and return. A full review of the Investment Strategy was carried out following the results of the 31 March 2023 Actuarial Valuation. Subsequent updates were reflected in the revised Investment Strategy which was approved by the joint Pension Fund Committee and Board on 2 September 2024.

As a key part of its strategy, the Fund also recognises its responsibility to undertake investment in a socially responsible way, taking account of Environmental, Social and Governance (ESG) factors. The investment strategy, which contains the Statement of Investment Principles, is reviewed and updated annually. Details of the investment strategy are available at:

[Statement of Investment Principles 2025](#)

The overall strategy remains appropriate for the Fund's objectives, and the changes agreed as part of the review were to evolve the portfolio rather than to make any wholesale changes. Notable changes include the introduction of a formal allocation to impact assets (equivalent to 5% of Fund assets). The Fund had previously invested in two impact assets (Timberland and Renewable Infrastructure) which were temporarily housed within the infrastructure portfolio, before being scaled up and formally categorised as "Impact" as part of the recent review.

The Committee and Officers agreed that a formal allocation to impact investing was appropriate as it aims to combine the delivery of strong financial returns for members whilst making a positive

impact on the world around us. The Committee and Officers are considering suitable opportunities to build out the remaining impact allocation and expect to introduce a third mandate to the portfolio over the next reporting period. This is expected to be focused on driving community regeneration and a transition to a greener economy within the UK. In addition to the impact allocation, the strategy review resulted in several refinements to the portfolio, including the termination of the Diversified Alternatives portfolio, a reduction in the allocation to commercial property and an increase in the liquid credit portfolio, namely the index-linked gilt and diversified credit mandates.

Investment Structure

The Fund pursues a policy of lowering risk through diversification of both investments and investment managers. To achieve this, it has delegated the day-to-day investment decision-making to external professional investment managers. In addition, the strategic asset allocation is reviewed on a regular basis, with the latest Investment Strategy review being approved by Pension Fund Committee in September 2024. Following the 2023 Actuarial Valuation the required investment return (based on a probability level of 80%) was agreed by the Actuary at 5.2% for the next 20-year period. This means, for past service liabilities, the Actuary requires the Fund's assets to deliver at least 5.2% p.a. to continue to support the current strong funding position. Given the methodology used to set contributions the investment return needs to be higher than this. The gap between the investment return target and the discount rate is driven by the extent the Council wish to continue to target funding improvements and risk appetite.

The Fund's investment returns have averaged 6.3% over the last 5 years, underperforming the composite objective by 3.4%. The best estimate expected return for the Fund's current investment strategy was 7.7% p.a. as at 31 March 2023. The difference between the expected return of 7.7% p.a. and the required return of 5.2% p.a. reflects an element of prudence in the Actuarial funding assumptions, which is to be expected. The Fund's funding position is expected to have improved further post the valuation which could allow for further de-risking to take place. This will be explored as part of the triennial strategy review due to take place next year.

CULTURE & INVESTMENT BELIEFS

The Fund has an overriding obligation to act in the best interests of the scheme beneficiaries; responsible asset ownership is seen as an integral part of this. The Fund believes that it is in the best interests of its beneficiaries to integrate Environmental, Social and Governance (ESG) considerations into investment thinking, take ownership of the Fund's stewardship by monitoring investment managers activities and holding them to account in relation to substantial ESG risks, and to manage overall risk whilst targeting an appropriate level of expected return.

This over-arching view is set out in the Statement of Investment Principles (SIP), articulating the Fund's approach and beliefs to investment, also in line with the United Nations backed Principles of Responsible Investing (UN-PRI).

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

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

decision-making.

The Fund actively investigates opportunities to increase investment in sustainable funds. Following the implementation of allocations to a Timberland Fund and a Renewable Energy Infrastructure Fund focused in the UK, the Fund has been exploring opportunities to further build out its “impact” allocation. The Fund has committed to the second vintage of the UK focused Renewable Energy Infrastructure Fund and is in the final stages of agreeing an investment in a mandate focused on driving community regeneration and a transition to a greener economy within the UK.

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

The three main aims are:

- Holding the increase in the global average temperature to well below 2°C above preindustrial levels and to pursue efforts to limit the temperature increase to 1.5°C above preindustrial levels, recognising that this would significantly reduce the risks and impacts of climate change.
- Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development in a manner that does not threaten food production; and
- Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

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

In the past, we established policies and procedures to create a framework for handling this risk and capitalising on opportunities as the Fund progresses towards its long-term objectives. The primary focus regarding climate-related matters was to gain a comprehensive understanding of the Fund’s current position and determine what can be accomplished in the future. As part of this effort, we conducted an analysis of all the relevant asset classes invested in by the Fund. The Committee has prioritised reviewing the investment strategy of the Fund. This included implementing several mandates with greater focus on ESG considerations. Given the public sector and transparent nature of the Fund’s employers, climate change and its associated effects are key considerations for the Fund. The potential impact of climate change on Fund’s demographics, particularly life expectancy, and the resulting financial effects have also been considered by the Fund’s Actuary. The Committee has continued to work hard on understanding and mitigating climate risks and considering opportunities and continues to progress the Fund’s position in this respect.

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

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

with those of the Fund.

Key principles underlying the investment approach are:

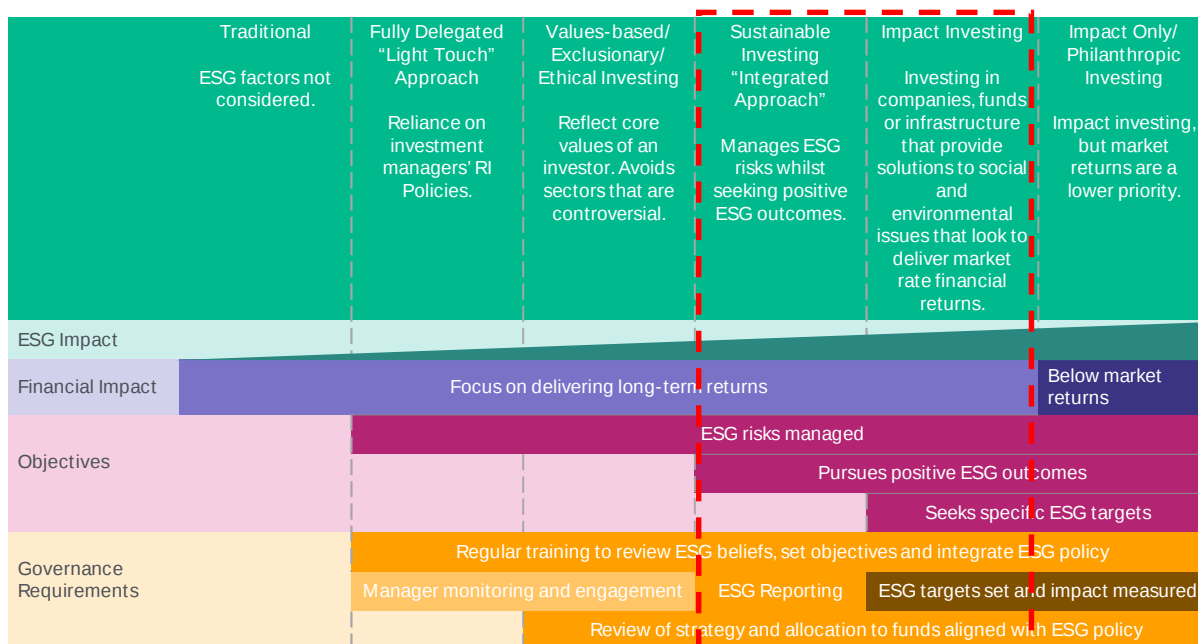
- Long-term perspective – by the nature of the Fund's liabilities and employers, the Fund is able to take a long-term view and position its Investment Strategy on this basis.
- Diversification – the Fund seeks to diversify its investments in order to benefit from a variety of return patterns and to manage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

An updated Statement of Investment Principles was approved in March 2025. This review ensured the document remained fit for purpose and reinforced the Fund's commitment to ESG.

The Fund's approach to Stewardship is summarised in the Responsible Investment Policy which is included in the Statement of Investment Principles. [Statement of Investment Principles 2025 | Scottish Borders Council](#)

The Fund is fully invested with external investment managers and delegates the day-to-day management of assets to these managers. The Fund encourages all managers to be PRI registered and as part of its evolving stewardship strategy, the Fund is exploring the potential requirement for managers to be signatories to the Stewardship Code. In appointing and reviewing the Fund's investment managers, the Committee, with the assistance of the Fund's appointed advisors Isio, considers the manager's expertise, track record and stated policies and frameworks with respect to ESG related issues. Going forward, as part of the initial and ongoing due diligence of the Fund's investment managers, the Committee will assess and monitor their considerations of ESG factors and how these are incorporated into their investment decision making.

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



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

The Committee requires the Fund's investment managers to adhere to these standards in all their investments activities and plans to monitor how these standards are upheld for the following set of overarching principles.

Overarching Principles

Environmental

- The Fund will seek via its investment activities to minimise its impact on the environment. It will seek to ensure investments minimise any impact on pollution or climate change at a global and local level.
- Where investment activities do have a material impact on the environment, The Fund will encourage managers to work with companies to ensure they are acting in a responsible and sustainable way and are fully committed to ESG principles.

Social Responsibility

- The Fund wishes to ensure that managers invest in companies who adhere to all applicable laws and standards. The Fund wish to invest in companies who have good relations with the communities they are based and ensure that these companies uphold principles of non-discrimination, fairness and avoidance of human risks violations.
- In relation to employee relations, the Fund through its fund managers wishes to ensure that none of its investments use forced or direct child labour, that the highest safety standards are upheld for employees, and where applicable employees are able to join trade unions and engage in collective bargaining.
- The Fund will make every effort to comply with relevant regulations governing the protection of human rights, health and safety, the environment, and the labour and business practices of the jurisdictions in which it conducts business and consider these issues in the context of the Committee's Fiduciary duty to protect members' retirement benefits. The Fund will seek annual assurance from its managers that the Fund's assets

are invested in a way which has met these standards.

- When companies are involved in certain controversial activities, the Fund may refrain from investment in those companies. For example, deciding to exclude companies which are involved in the direct production of controversial weapons.

Corporate Governance

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

The Committee's ESG beliefs

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

Risk Management

- i. ESG factors (including Climate Change) are important for risk management (including reputational risk) and can be financially material. Managing these risks forms part of the fiduciary duty of the Committee.
- ii. The Committee believes that ESG integration, and managing ESG factors such as climate change risks, is likely to lead to better risk-adjusted outcomes and that ESG factors should be considered in the investment strategy where it is believed they can add value.
- iii. The Committee will consider Council and other employer policies and values in the Fund's ESG policy.

Approach/Framework

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

Voting & Engagement

- i. ESG factors are relevant to all asset classes, whether liquid or illiquid investments, and managers have a responsibility to engage with companies on ESG factors.
- ii. The Committee wants to understand the impact and effectiveness of voting & engagement activity within their investment mandates.

- iii. The Committee believes that engaging with managers is a more effective way to initiate change than by divesting and so will seek to communicate key ESG actions to its managers in the first instance. Divestment will however be considered on a pragmatic basis in the event that the engagement with the investment manager has not produced positive results.

Reporting & Monitoring

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

Collaboration

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

GOVERNANCE, RESOURCES AND INCENTIVES

Signatories' governance, resources and incentives support stewardship.

SCHEME GOVERNANCE

The Fund believes that effective internal governance arrangements are fundamental to ensuring the Fund is managed effectively, transparently and in compliance with regulations, as well as effective stewardship. The Fund is required to report on its Governance in the Annual Report and Accounts, which includes the Governance Policy and Compliance Statement (as amended on 24 June 2025) which is available on the Scottish Borders Council Pension Fund website: [Governance Policy and Compliance Statement 2025 | Scottish Borders Council](#)

Annual due diligence on all fund managers has been completed, including a comprehensive review of operational, compliance, and investment processes. As part of this process, any qualified opinions or exceptions identified in internal control reports (for example ISAE 3402 or SOC1) were carefully evaluated. Alinda and Macquarie (MSIG) asset managers had qualified controls reports and KKR and Infrared do not provide controls reports. Follow-up actions were taken to assess the potential impact and ensure appropriate remediation steps were implemented by the managers. Ongoing monitoring procedures have been updated accordingly to mitigate identified risks and maintain oversight.

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

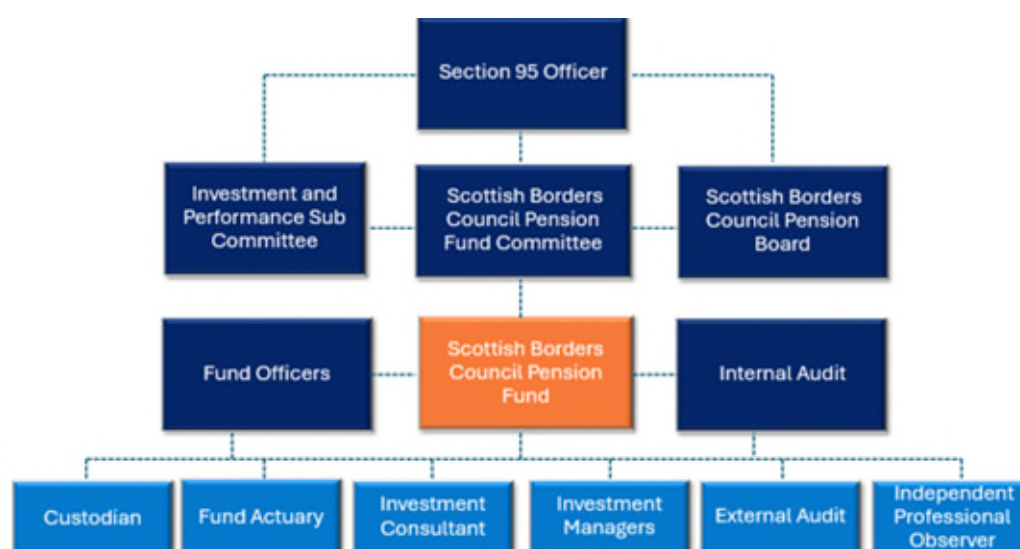
Investment of Funds) (Scotland) Regulations 2016 and Local Government Pension Scheme (Governance) (Scotland) Regulations 2015. As such, the governance structures and processes for the Fund are designed to comply with relevant regulatory requirements whilst also seeking to deliver effective oversight and accountability, and ultimately, effective stewardship.

Following the introduction of the LGPS General Code March 2024, a full compliance review was completed. It is positive to report that Scottish Borders Council Pension Fund demonstrates good Governance and follows best practice guidelines set out in the new code. Initial observations prompted the introduction of 3 new policies for the Pension Fund; Conflicts of Interest Policy, Escalation Policy and Breaches Policy which were approved by the Pension Fund Committee in December 2024. In addition, Internal Disputes Resolution Procedure Policy was introduced and approved in March 2025, and Cessation Policy was introduced and approved in June 2025. The Best Practice items already adopted will remain in place with regular review through the General Code Compliance Tracker to ensure the Pension Fund continues to maintain high standards of governance. An action plan has been created to address any areas of non-compliance and to ensure compliance is maintained in all currently compliant areas. Progress on General Code March 2024 compliance is presented to and approved by the Pension Fund Committee on a quarterly basis and is publicly available on our website: [Browse meetings - Pension Fund Committee and Pension Board - Scottish Borders Council](#)

The Governance structure of the Fund can be seen below including the roles each of the parties undertakes. In December 2024, The Pension Fund Committee approved the appointment of an Independent Professional Observer to strengthen governance and provide independent observations to the Pension Fund Committee and Board. The Pension Fund Independent Professional Observer was appointed in April 2025.

The Pension Fund Committee and Pension Board meet jointly four times a year, with papers and minutes being available one week prior to the meeting. The Pension Board meets 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.

Scottish Borders Council Pension Fund Governance



Pension Fund Committee – is the main decision-making body for the Fund and is comprised of seven members of the Council. The Scheme of Administration previously provided that the Constitution of the Pension Fund Committee shall be: “Seven Members of the Council comprising – one member of the Executive, three other Members of the Administration, two members from the Opposition and one other Elected Member “.

It was considered that it would be beneficial to amend the Scheme to make the Constitution less prescriptive and to provide maximum flexibility. It was proposed to amend the Scheme to provide that the Constitution of the Committee shall simply be “Seven Members of the Council.” This proposal was approved by Scottish Borders Council on 28th November 2024.

Pension Board – assists the Committee in securing compliance with the regulations, other legislation and requirements of the Pensions Regulator. The Board consists of four employer representatives and four employee Union representatives.

Pension Fund Investment & Performance Sub-Committee – develops investment strategy and monitors investment performance. It consists of the Pension Fund Committee Members, one employer and one employee representative from the Pension Board.

Independent Professional Observer – appointment approved by Pension Fund Committee to strengthen 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.

Fund Actuary – provides advice on funding. This role is currently undertaken by Hyman Robertson.

Custodian – Record keeping/custody of the Fund’s assets, settlement of subscriptions/capital draws/redemptions/distributions, investment accounting quarterly and annually to LGPS/IFRS regulations and ONS reporting. This role is currently undertaken by Northern Trust.

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

Investment Managers – manage the investment portfolios.

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

Fund Officers - Pension fund officers are responsible for managing, administering, and safeguarding the Fund to ensure financial security for members. Their roles span strategic oversight, regulatory compliance, investment management, and member support.

RESOURCES

Stewardship activity is carried out by:

- A requirement that the Fund’s investment managers exercise the Fund’s voting rights, incorporate analysis of ESG issues into their investment analysis and decisions, taken on behalf of the Fund, and actively engage on these issues with the companies in which

they invest.

- The Pension Fund Investment and Performance Sub-Committee meets every manager on an annual basis to scrutinise both investment performance and adherence to the Fund's ESG policy and beliefs. Detailed quarterly reports on performance are also submitted to the Sub-Committee by the Investment Consultant.

Pension Fund Committee

The membership of the Pensions Committee comprises of seven members of Scottish Borders Council. Equal weight is given to each member's vote. Further details can be found at: [Committee details - Pension Fund Committee and Pension Board \(moderngov.co.uk\)](https://moderngov.co.uk/committees/pension-fund-committee)

The Chairman of the Pension Fund Committee, Councillor David Parker is also Chair of the Scottish Local Government Pension Scheme Advisory Board (SAB). One other member of the Committee is also a side member of SAB. The SAB exists to provide the Scottish Ministers with advice, on request, about the desirability of changes to the Scottish LGPS, which must necessarily include policy issues and changes to scheme regulations. These appointments are a significant achievement and testament to the knowledge and experience of our Pension Fund Committee which is a notable benefit in the oversight of our Pension Fund.

Pension Board

The membership of the Board comprises of 4 representatives from employer organisations (1 Scottish Borders Council, 1 Borders College, 1 Live Borders and 1 South of Scotland Enterprise) and 4 employee representatives from Unison, Unite and GMB unions. The Board's role is to assist the Committee to fulfil its functions in relation to all aspects of governance and administration of the Pension Fund. The Board is constituted under the Public Service Pension Act 2013 and the Local Government Pension Scheme (Scotland) Regulations 2015 and has no remit as a decision-making body. Where the Board is of the opinion that due consideration has not been given to matters of non-compliance the Board may refer the matter back to the Committee for further consideration and then the difference in view between the Pension Board and the Pension Fund Committee will be published in the form of a joint secretarial report from the Pension Board on the Pension Fund website and included in the Pension Fund's Annual Report.

There have been no incidents of this nature during the period covered by this report.

The Chairman of the Pension Board, David Bell is also Vice Chair of the Scottish Local Government Pension Scheme Advisory Board (SAB) and 2 other Board are side members of SAB. These appointments are a significant achievement and testament to the knowledge and experience of our Board members which is a notable benefit to oversight of our Pension Fund.

Pension Fund Investment & Performance Sub-Committee.

The membership of the Sub-Committee comprises 8 members. The 6 members of the Pension Fund Committee and 2 non-voting members nominated by the Pension Board. The 2 Pension Board members are represented by one employer and one employee representative. The Sub-Committee meets every manager at least once a year to review performance. Stewardship and responsible investment are key areas each manager is required to provide updates on.

Internal Staffing Resource

The Section 95 Officer, the Director of Finance, is responsible for the financial Administration of the Council, including the Scottish Borders Council Pension Fund.

The provision of strategic and day-to-day Pension activities and management is provided by two

separate teams of LGPS Fund Officers, providing pension and investment, and pension administration services respectively.

Senior Managers of each team, the Pension Investment and Accounts Manager and the HR Shared Services Manager work closely together. This ensures a comprehensive and cohesive service for pension members, employers and members of the Fund's Committee and Board structure. This joint working includes producing the annual business plan and budget, close collaboration on producing the Fund's Annual Report and Accounts, the Fund's Risk Register, Pension Fund Committee and Board member training events, input to the triennial valuations, annual employer presentations and some member communications.

The experience, qualifications and structure of the teams of officers supporting the Council in carrying out its functions as Administering Authority for the Fund is as follows:

Experience	
< 1 year experience	0%
1-5 years' experience	29%
6-10 years' experience	0%
11-15 years' experience	0%
>15 years' experience	71%

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

Formal Qualifications

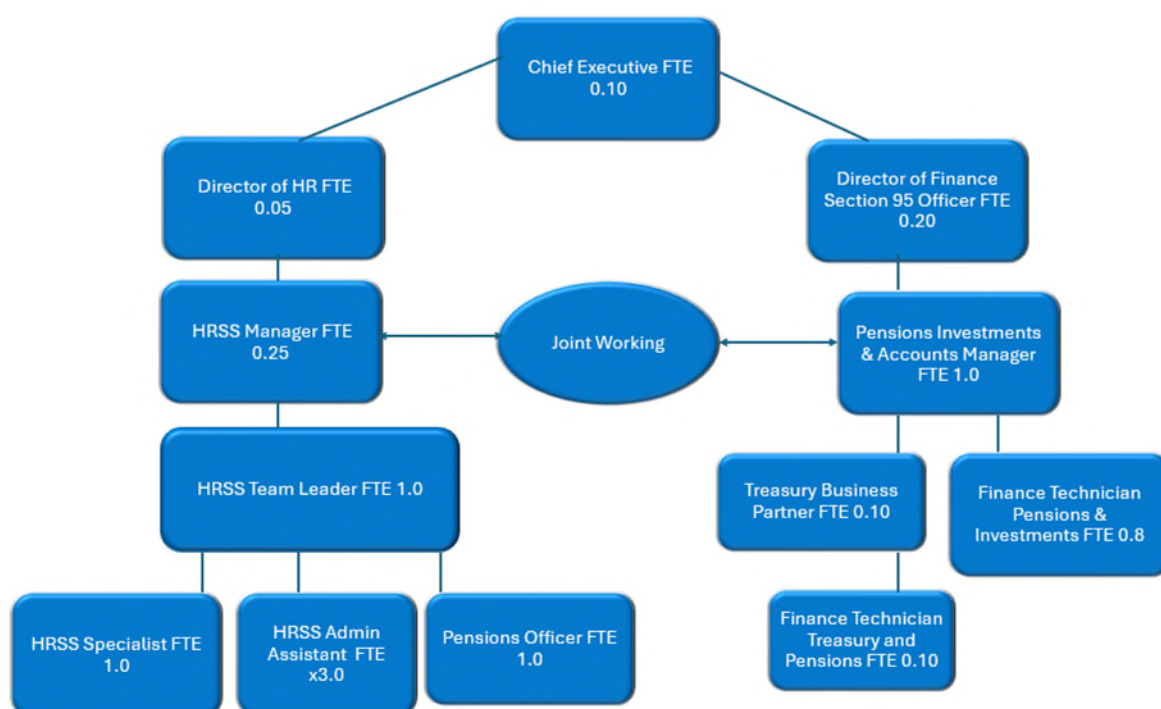
Extensive service experience and a wide range of formal qualifications are held by all senior Pension Officers. Formal qualifications include PhD, ICAS, CIPFA, Masters Degree in HR management, Diploma in Payroll and Administration, MIPPDip Pensions and Administration Management and Business Management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

Diversity and Inclusion

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

Female	Male
43%	57%

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



During this reporting period, staffing remained unchanged, ensuring continuity and stability within the Pension Fund team. This consistency has enhanced the overall experience and strengthened the knowledge base available to the Fund. The Pensions, Investment and Accounts Manager successfully completed the Pension Fund Annual Report and Accounts for the year ending 31 March 2025. Audit Scotland provided an unqualified independent audit opinion and noted the Pension Fund has comprehensive reporting of administration and investment performance. It was also noted the Pension Fund has effective and appropriate governance arrangements for ensuring compliance with the General Code of Practice from the Pensions Regulator are effective.

Fund Advisors

Specialism	Company	Key services provided during the year 2024/25
Actuary	Hymans Robertson	Actuarial Statement 2024/25 and IAS26 report for 31 March 2025. Input into Pension Fund Cessation Policy.
External Auditor	Audit Scotland	Annual statutory audit of the Funds Annual report and financial statements and governance of the Fund.
Bank	Royal Bank of Scotland	Banking services
Custodian	Northern Trust	Record keeping/custody of the Pension Fund's assets, settlement of subscriptions/capital draws/redemptions/distributions, investment accounting quarterly and annually to LGPS/IFRS regulations and ONS reporting

Investment Consultant	Isio	Provision of quarterly performance reports. Led on update of 2024/25 review of responsible investment policy, agreement of key goals and improvements to the monitoring regime of the policy Continued to advise Fund on implementing asset re-allocation. Led on setting ESG objectives & metrics, as well as preparation and project planning for TCFD obligations and reporting.
Independent Professional Observer	Andy Todd	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.

Skills & Knowledge

The Pension Fund training policy requires all members to undertake an annual skills assessment and to attend a minimum of 2 training events a year. This is monitored on a quarterly basis to ensure the members of the Pension Fund Committee and Pension Board have the required level of skills and knowledge to fulfil their functions. The Pension Regulator Trustee Toolkit must be completed within 6 months of joining the Pension Fund Committee or Board. During the 2024/25 period, Fund officers introduced a formal induction pack designed to support the learning and development of new Pension Fund Committee and Board members. The pack provides essential information on fund governance, investment strategy, key responsibilities, and operational procedures, helping new members quickly build confidence and understanding in their role.

The outcome of the annual assessment and training attendance is reported on an annual basis to the Joint Pension Fund Committee and Pension Board. The outcome of the assessment is used to formulate the training plan for the year. Training and meeting attendance is reviewed on a quarterly basis to ensure all members are on track for annual compliance. Any members in danger of non-compliance will be notified and requested to take immediate action. If members fail to fulfil their training or attendance requirements a formal letter is sent, and the member could potentially be removed from the Committee or Board. No training nor attendance breaches were noted in the year.

2024/25 Skills assessment for members was completed in March 2025, Fund Officers used the results of the assessment to formalise the agenda of the Pension Fund Committee and Board training day in November 2025. Our Risk and Compliance team, Pension Administration Team, ISIO and Hymans-Robertsons will present at the training day.

Isio will provide the following updates: an overview of LGPS, including governance structure, roles and responsibilities of the different parties and advisers, the Fund's objectives; current market overview and the building blocks for the Fund's current strategy; decisions made to date and the current investment strategy; peer group comparison vs wider LGPS universe. Risk budgets, including consideration of currency risk in line with recent volatility in global FX markets. Hymans-Robertsons will give an update on Triennial Valuations assumption and resultant reporting requirements. In addition, we will cover key developments in Pension Administration and provide an update on Global Internal Audit Standards in the UK Public Sector and how this will impact the role of the Pension Fund Committee and Pension Board.

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

This year members attended many conferences and training events including: Shroders Investment Conference, DG publishing event, Baillie Gifford Training Event, LGC Investment Seminar, Good Governance Seminar, PLSA Conference and Climate Sustainability event. In addition, members had the opportunity to attend a synchronised condenser site and were given an overview of renewable energy sources and power hubs for renewable energy sources.

Succession planning and dedicated resourcing ensure continuity in stewardship activities, enabling the Fund to maintain consistent oversight and engagement practices despite changes in personnel or committee composition

INCENTIVES

As previously noted, the Fund does not directly invest the assets itself and delegates responsibility for this to its investment managers to act on its behalf. As such, the Fund seeks to incentivise the integration of stewardship into investment decision-making both internally (i.e. when setting its Investment Strategy) and externally (i.e. when appointing specialist advisors and investment managers to assist its governance processes and deliver its investment requirements).

Internal incentives

The key mechanism for motivating the integration of stewardship into investment decision-making internally is the Fund's governance structure. In particular, the setting of a clear Investment Strategy and investment beliefs and the ongoing monitoring of the performance of the Fund from the granular level (such as the performance of individual investments and the ESG activities of the investment managers), through to the strategic level (such as the triennial actuarial valuation and undertaking in-depth Investment Strategy reviews).

The key activities undertaken in relation to this during the year ended 31st March 2025 are described in the following table:

Activities	Details
Review of Investment strategy	Reviewed the Fund's existing investment strategy, quantified the inherent risks and considered the options for the evolution of the strategy including review of ESG objectives and metrics. Investment Strategy to be reviewed following the results of the 2026 Triennial Valuation.
Responsible Investment Metrics and Targets Report	Responsible Investment Metrics and Targets Report produced November 2024. Responsible Investment Metrics and Targets Report 2024 Scottish Borders Council The Fund is currently in the process of producing the 2025 report.
Formal annual review of fund policies	This is considered in detail in Principle 5
Overseeing performance of the Funds Investment Managers	This includes voting and engagement activities and is undertaken throughout the year with formal reporting to the Committee and Pension Fund Investment and Performance Sub-Committee taking place quarterly throughout the year.
Production of the Pension Funds	The Annual Report and Accounts for the year ended 31 March 2025 were published in accordance with statutory timescales, with the draft accounts being open to public inspection. The final audited accounts can be found at Audited Annual Accounts 2024 2025 Scottish Borders Council

Activities	Details
Annual Report and Accounts	
Risk Monitoring	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. This is in line with the schedule of risk review activity set out in the Risk Management Strategy 2024-2026 which was approved for 2024-2026 on 4 March 2024. This be reviewed in March 2026 when a new 3-year framework will be set. The quarterly Pension Fund Risk Register Update Reports can be found on Modern.gov. https://scottishborders.moderngov.co.uk/ieListMeetings.aspx?CId=172&Year=0
Training on relevant matter	Training is provided in key areas identified by members of the Pension Fund Committee and Pension Board. This includes The Pension Regulator Toolkit and an induction pack for new members. A formal Training Day was held in November 2024 which covered Pension Fund Risk Management, The General Code, Financial Markets and Investment Products, Benchmarks & Performance and Investment – understanding Responsible Investments Pension and Pension Fund Administration. Other learning activities included attendance at Pension & Lifetime Savings Association (PLSA) conference, with sessions on UK's macroeconomic landscape, election forecasts, biodiversity, megatrends and shaping our future. In addition, many members have attended site visits supported by our Investment Managers to understand more our existing Investment mandates.

External incentives

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

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

The contract for the Pensions Administration system was renewed for a further 5-year period, with the introduction of Mortality Screening to enhance the checks already in place and contracts signed for the upcoming Pensions Dashboard requirements. The contract for the Fund Actuary was reviewed and tendered using the Norfolk Framework; Hymans-Robertson were successful in retaining their appointment on a 5 plus 5-year contract basis.

In line with our commitment to robust governance and transparency, the appointment of the Independent Professional Observer to the Pension Fund Committee and Board followed a structured and merit-based process. The vacancy was publicly advertised via MyJobScotland and LinkedIn, inviting candidates to submit a 1,000-word personal statement outlining their potential contribution to the governance and oversight of the Fund, alongside a detailed CV. A total of 10 applications were received. Initial review was undertaken by a panel comprising the HR Shared Service Manager, Pensions, Investments and Accounting Manager, Director of Finance, Chair of the Pension Fund Committee, and Chair of the Pension Board. This panel assessed applications against pre-agreed criteria to ensure alignment with the Fund's strategic objectives and fiduciary responsibilities. A shortlist of five candidates was selected for interview. Interviews were conducted using a consistent set of structured questions to ensure fairness, transparency, and comparability. Following the interviews, the panel reconvened to evaluate performance and reach a consensus on the preferred candidate. The successful applicant was formally appointed in April 2025, bringing independent insight and professional expertise to support the Fund's ongoing commitment to high standards of governance, accountability, and effective stewardship.

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

CONFLICTS OF INTEREST

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

Following the introduction of The Pension Regulator General Code, a Conflicts of Interest Policy was 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. The Conflicts of Interest Policy was updated in September 2025 to reflect the requirement for members of the Pension Fund Committee to act solely in the best interests of the fund's beneficiaries and stakeholders. Decisions must be made based on sound financial, fiduciary, and legal principles, and must not be influenced by personal political beliefs, party affiliations, or external political pressures. The Conflicts of Interest Policy dictates that Councillors and Officers follow separate Code of Conduct policies defined below:

Conflicts of interest policies – Councillors

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

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

The code is designed to promote and maintain high standards of conduct by elected members of

the Pension Fund Committee and Board Fund across all activities including the stewardship of the Fund's assets.

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

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

It is a mandatory requirement of that Code that Councillors identify any item of business in which they have a Conflict of Interest, and that they then declare that Interest and remove themselves from any discussion on that item. Failure to report a conflict of interest may potentially result in a referral to the Standards Commission.

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

Conflicts of interest policies – Employees

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

[Scottish Borders Council employees code of conduct](#)

The policy requires all employees to register via the Authority's online system any private interests which could influence their decisions. Employees are required to maintain their register as circumstances change. Employees must declare an interest with their line manager if there is a conflict and should be removed from involvement in work where required and not attend any relevant meetings.

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

In line with the Fund's commitment to the Stewardship Code, the Chair of the Pension Fund Committee asks all members at the start of each meeting to declare any conflicts of interest relating to the agenda. If a conflict is identified, the member is asked to leave the relevant section of the meeting to ensure impartiality and uphold governance standards. This process is a standing item on the agenda and forms part of the Fund's broader stewardship framework. No conflicts were declared or required management during the 2024/25 financial year.

Investment Managers and Service Providers

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

annual audit report produced by each of the manager's independent service auditors.

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

Identification and Management of Conflicts of Interest

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

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

Other key steps: the table below sets out the key steps employed by the Fund in the identification and management of actual and potential conflicts of interest relating to the stewardship of the Fund's assets.

Identification	Management
Members of the Pensions Committee and Pension Board ('Members'): The Code of Conduct requires that all Members must declare any pecuniary or other registerable interests.	Details of the declared interests of Council Members are maintained and monitored on a Register of Interests. These are published on the Council's website under each Member's name and updated on a regular basis e.g. the Chair of the Pensions Committee: These can be found via the link below: Councillors – Scottish Borders Council (scotborders.gov.uk)
The Code of Conduct requires that Members consider whether they have an interest connection in with any matter on the agenda for a meeting and if so whether it amounts to an interest which there is a need to disclose such an interest.	Full details of the process for the management of declarations of interests at meetings are set out in Section 5 stage 3 of the Standards Commision Code of Conduct for Councillors Codes of Conduct The Standards Commission for Scotland (standardscommissionscotland.org.uk)
All formal meetings of the Committee and Board have 'disclorures of interest' as a standing item on the agenda. At that point each Member formally considers conflicts of interest they may have in any item on the agenda or during discussions throughout the meeting and the outcome is declared in the public minutes.	Unless a dispensation has been granted, they must then leave the meeting and may not participate in any discussion, vote on, or discharge any function related to the matter.
Advisors to the Fund: upon appointment Independent Advisors are required to sign a declaration statement outlining any potential conflicts they may have. Once appointed they must immediately report any	Post appointment: where a matter arises which presents a potential or actual conflict of interest, then the action taken to manage the conflict is considered by the Chair of the Committee in consultation with Fund Officers. Examples may include requiring the Advisor to not participate in the relevant discussion or

Identification	Management
changes of circumstance directly to the Chair of the Committee for their consideration and further action should this be necessary.	to leave the meeting during the consideration of the matter.
Officers of the Fund ('Officers'): The Employees' Code of Conduct requires that Officers make a formal declaration about any financial or nonfinancial interests which could bring about a potential or actual conflict of interest. Such declarations should be discussed with their line manager and submitted using the Council's online reporting tool.	Where a potential or actual conflict of interest is identified then the Officer is removed from the relevant work stream. In line with the Officers Code of Conduct the interactions of officers with Investment Managers is subject to the requirement for any gifts or hospitality to be declared and captured by the Fund.
Investment Managers: The Fund expects the asset managers it employs to have effective stewardship policies including conflicts of interest and voting & engagement, and that these are all publicly available on their respective websites. These are considered as part of due diligence work undertaken prior to the appointment of a manager and manager policies are informally considered as part of the annual review process.	All managers are required to maintain a conflicts of interest policy and are required under the annual due diligence review to confirm it is place and is adhered to.
Political Interests and beliefs: The primary mechanism for the identification of potential and actual conflicts relating to political matters is for Members of the Committee, Board and Officers to the Fund consider all matters from a neutral position focused on what serves the best interests of clients and beneficiaries of the Fund.	The Scheme of Administration requires all major political parties to be represented on the Committee. Induction training to the Pension Fund Committee and Board highlights their fiduciary duties to the Fund before any personal or political objective. The Committee makes decisions on a politically neutral basis to deliver the overriding objective of the Fund (i.e. to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due).

Outcome

As a testament to existing policies and processes embedded and governance of these processes, there have been no instances of conflicts of interest in 2024/25.

PROMOTING WELL FUNCTIONING MARKETS

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

Risk Management Policy

The Pension Fund is committed to the application of appropriate and effective risk management practices. These support the primary aim of the Pension Fund, which is to provide for members, pension and lump sum benefits on their retirement or for their dependents, benefits on death before or after retirement, on a defined benefits basis.

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

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

Risk Management Overview

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 dependants, benefits on death before or after retirement, on a defined benefits basis'.

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

The Pension Fund recognises that risk management should be aligned with its objectives and will therefore be 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 purposefully seeks to promote an environment that is risk 'aware'. This means that the Pension Fund can take an effective approach to managing risk in a way that both addresses significant challenges and enables positive outcomes. It will increase success in the achievement of objectives and targets set in the associated SBC Pension Fund Business Plan and Strategies.

The Pension Fund will continue 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.

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.

Risk Management Framework

The Pension Fund's Risk Management Policy and Strategy 2024-2026 were approved by the Pension Fund Committee at its joint meeting with the 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. 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's Risk Management Policy and Strategy will be reviewed in March 2026 and a new 3 year framework will be set.

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/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 into consideration, the chances are that direction will be lost should any of these risks materialise. 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.

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.

The quarterly Pension Fund Risk Register Update Reports can be found on Modern.gov.
<https://scottishborders.moderngov.co.uk/ieListMeetings.aspx?CId=172&Year=0>

Within the five categories of Risk, there are 17 Principal Risks recorded on the Pension Fund Risk Register (none of which are red rated, as at March 2025). Each risk has a suite of specific internal controls to mitigate/minimise the risk. During the formal Risk Review cycle, the effectiveness of internal controls are assessed, any new mitigations are identified, and a forward look is considered relating to future risks and uncertainties.

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

Furthermore, to support the implementation of the new Pension Fund Risk Management Policy and Strategy, the SBC Chief Officer Audit & Risk and the SBC Corporate Risk Officer prepared and delivered a Risk Management Development Session for the Members of the Committee and Board, and Officers, as part of a Development Day on 27 November 2024. This was designed to ensure clarity of roles and responsibilities, processes, oversight and monitoring.

In conclusion, the Pension Fund believes that appropriate application of good risk management practices will assist in the prevention or mitigation/minimisation of negative impacts and will increase success in the achievement of objectives and targets set in the associated SBC

Pension Fund Business Plan and Strategies, ensuring that decision-makers are risk aware.

Identification of Systemic & Market Wide Risks

The identification of, and response to, systemic and market wide risks is a key tool in the approach to addressing barriers to effective stewardship of the Pension Fund. Risk management is an iterative process which means that risks surrounding the Pension Fund's past, present and future activities are systematically identified and reviewed, including those risks which are systemic and market wide. Risk management practices are embedded throughout the business of the Pension Fund and is enhanced through liaison with investment managers, other administering authorities and regional and national groups, including the Scottish SAB, CIPFA, and various investor collaborations and initiatives.

Once identified, strategic risks are documented on the Pension Fund's Risk Register, which is the primary control document for the subsequent analysis and classification, control and monitoring of those risks. The Risk Register includes risks to the Pension Fund's investments from issues such as market fluctuations, interest rates, currency etc., and any failures by its investment managers or other service providers, as represented in the Investment category risks (Target Investment Returns; Market / Economic Conditions; Failure to Manage Liquidity). The risk to investments due to ESG factors (such as climate change), that could materially affect long-term investment returns, is represented in the National Policy / Regulations category risk (Fiduciary Duties and ESG Responsibilities). The incorporation of ESG considerations into investment decisions can help improve long-term value by minimising the risk of, for example, stranded assets and the impact of regulatory changes.

The Fund's strongest mitigation against market-wide and systemic risk is through a well-diversified investment portfolio and Fund Officers actively work with its Investment Consultants and managers to achieve and maintain this. This diversification reduces the possible effect on the performance of the Fund from any one asset class. The full effect of the COVID market drop, the global economic impacts of the Russian/Ukraine conflict, and escalating trade tensions following President Trump's "liberation day" announcement, were successfully mitigated, by this diversification, to an acceptable degree.

ESG as Material Risk

The Fund's Responsible Investment Policy and Statement of Investment Principles describe ESG as a material risk. These documents detail how the Fund's Responsible Investment Policy is implemented, whilst also outlining the Committee's ESG Beliefs and the stewardship activity undertaken by the managers over the previous 12 months.

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

Areas for engagement

Environmental, Social Responsibility, Corporate Governance factors and the exercising of rights and engagement activity

Method for monitoring and engagement

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

- The Committee will incorporate ESG Criteria as part of new manager selection exercises, with explicit consideration of ESG factors for any segregated mandates. This includes an initial screening process to ensure all new managers adhere to and report on the United Nations PRI Code, GRESB and the UK Stewardship Code.
- The Committee will undertake annual reviews of the investment managers' approach to integrating ESG factors and identify where investment managers are misaligned with the Committee's ESG beliefs. ISIO will engage with each manager on the Committee's behalf to remedy these issues where possible.
- The investment managers' stewardship and engagement activities will be monitored on an ongoing basis and the Committee will seek to understand the effectiveness of these activities.
- The Committee has also agreed to specifically monitor the following responsible investment and metrics:
 - o Carbon emissions (Scope 1 & 2)
 - o Carbon footprint (Scope 1 & 2)
 - o Implied Temperature Rise (ITR)
 - o Number of climate-related Engagements
 - o

Circumstances for additional monitoring and engagement

- The investment manager has not acted in accordance with their policies and frameworks.
- The investment managers' ability to abide by the Committee's Responsible Investment Policy ceases due to a change in the manager's own ESG policies.

The Fund delegates certain roles and responsibilities but maintains overall ownership and management of the Fund. The Fund has a strong relationship with its investment managers and advisers to help identify and respond to market-wide and systemic risks, and to keep the Investment & Performance Sub-Committee well informed. Over this financial year the focus has been on understanding what exposure the Fund's exposure to investments associated with Israel and the occupied territories. Further details on this case study are provided below, alongside an example from a prior year.

Case Study 1: Understanding the Fund's exposure to investments associated with Israel and the occupied territories

Amid the ongoing Israel-Gaza conflict, the Committee engaged with the Fund's investment managers to understand what exposure the Fund had associated with Israel and the occupied territories. This decision was taken to ensure adherence with the Fund's Responsible Investment Policy, and following engagement from the activist group "Time to Divest", and Fund members.

The Committee instructed their investment advisor, Isio, to assess the Fund's exposure to 1) Israel (based on companies which are based / head quartered in Israel) and 2) companies involved in the sale and manufacturing of weapons, and provide advice on what action, if any, is required.

Based on the Fund's holdings, as at 31 December 2024, it was identified that the Fund's direct regional exposure to Israel was less than 0.1% of the Fund's total assets, whilst exposure to companies involved in the sale or manufacture of weapons was less than 0.3% of the Fund's total assets. These exposures were concentrated in three mandates within the Fund's portfolio - the M&G Alpha Opportunities mandate (a pooled investment fund), Baillie Gifford UK Equity Portfolio and Baillie Gifford Global Alpha Paris-Aligned Portfolio (both

segregated public equity portfolios).

Given the M&G Alpha Opportunities mandate was invested in a pooled fund, it was noted that excluding specific securities would not be possible. In contrast, given the segregated nature of the Baillie Gifford mandates, it would be possible for the Committee to exclude specific stocks if there was a wish to do so.

The Committee discussed the position at the June 2025 Committee meeting, the options available, and the Fund's stance, and agreed to take no further action (the Fund will continue to engage with the managers to initiate change rather than divesting). However, it was agreed that the Committee will continue to monitor the Fund's exposures and any developments to the conflict and address public concerns on an ongoing basis as and when they arise.

Case Study 2: Engagement in relation to the Russia/Ukraine Conflict

Following the outbreak of the conflict between Russia and Ukraine the Committee's attention was drawn to the Fund's holdings in Russia when it became likely financial sanctions would be imposed on Russia. To assess the extent of the Fund's exposure the Committee instructed their investment advisor, Isio, to reach out to all relevant investment managers to confirm their Russian exposure and what action was being taken for these holdings. At the time the conflict started the Fund's exposure to Russia was less than 0.1% of total Fund assets.

The Fund's exposure to Russia was focused in two mandates – LGT Crown Multi-Alternatives Segregated Portfolio (a pooled alternatives fund) and Baillie Gifford Global Alpha Paris-Aligned Portfolio (a segregated public equities portfolio). LGT advised that they were managing the positions within the pooled fund (private equity and emerging market debt) accordingly, however, due to the illiquidity of the private equity holdings limited immediate action would be possible. Baillie Gifford advised that they had sold a portion of the two direct Russian holdings they held on behalf of the Fund ahead of the closing of markets and, in a prudent step, had subsequently marked the holdings to zero in the portfolio. The Director of Finance and Corporate Governance gave a formal update on the position of the Fund's investments to the Committee at the March 2022 Pension Fund Committee and Pension Board meeting to make them aware of the evolving situation. The Committee responded positively to this update, noting that, should they receive any questions regarding the Fund's Russian allocations, they could confidently say that any holdings were not held directly by the Council, and that allocations held indirectly were minimal with moves were being made to reduce them to zero.

The Committee also requested the investment managers make no new investments into Russian entities or financial instruments. The Fund's investment managers agreed to manage the funds, accordingly, facilitate an orderly exit of positions where needed, and to avoid any new investments in this area going forward.

Over the reporting year, the Committee removed the Fund's allocation from LGT as part of its transition to the new strategy, which subsequently reduces the Fund's exposure to the ongoing conflict. The Committee will continue to monitor the situation closely and address any further concerns when they arise.

Investment Managers

The Fund ensures that its investment managers fully integrate ESG-related risks into their decision-making processes and that these are reflected in their responsible investment policies. Managers are encouraged, via an annual due diligence process, to become signatories to the Stewardship Code, Climate Action 100 and TCFD. The Fund requires all its managers to be either signatories, or to demonstrate they are actively working towards becoming signatories of the Stewardship Code and has incorporated this as a mandatory requirement for any new appointments process to run one or more of the Fund's mandates.

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

The above is a regulatory requirement for corporate Defined Benefit Pension Schemes, and while it is not yet a regulatory requirement for the Local Government Pension Schemes ("LGPS"), the Ministry of Housing, Communities and Local Government (formally the Department of Levelling Up, Communities, and Housing ("DLUCH")) are considering following a similar path in terms of guidance, albeit in a slightly different manner to that proposed by DLUCH.

The DLUCH requirements for LGPS Statement of Investment Principles ("SIP") changed in 2016, requiring Schemes to document how ESG considerations are considered in investment strategy decisions. The LGPS Scheme Advisory Board ("SAB") have similarly advised Funds to take into account ESG considerations, with a similar emphasis to the regulatory requirements noted above.

The Ministry of Housing, Communities and Local Government are also considering the LGPS for their role in local growth and impact (i.e. the consolidation of pools in England, private markets investments, etc.).

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

Promotion of Well-Functioning Financial Systems

Due to the relatively small size of the Fund in LGPS terms and the limited resources the Fund cannot actively participate in many initiatives. The Fund, however, is a signatory to Climate Action 100, Institutional Investors Group on Climate Change and encourages its managers to be. The Fund also actively encourages all Managers to engage in relevant industry initiatives, in line with the expectations outlined in its Investment Strategy and now detailed in the contracts.

Procurement

All investment managers and advisors are appointed following public procurement regulations, including the use of the Norfolk Framework and the associated standards of transparency. Contracts with managers are regularly reviewed to ensure they continue to meet the requirements and the objectives of the asset allocation strategy. Where they do not, mandates are terminated and re-tendered.

The contract for the Pensions Administration system was renewed for a further 5-year period, with the introduction of Mortality Screening to enhance the checks already in place and contracts signed for the upcoming Pensions Dashboard requirements.

The contract for the Fund Actuary was reviewed and tendered using the Norfolk Framework; Hymans-Robertson were successful in retaining their appointment on a 5 plus 5-year contract basis.

REVIEW AND ASSURANCE

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

Sources of assurance

Policies

The Fund reviews its key policies on a regular basis as part of its annual governance and compliance statement. The key policies reviewed every June are the Funding Strategy Statement and the Statement of Investment Principle's. Other policies are reviewed at a minimum every 3 years. The Fund identifies the cycle of review according to The Pension Regulator's Single Code. As referenced within the Governance section, Fund Officers have completed a full compliance review of the General Code March 2024. It is positive to report that Scottish Borders Council Pension Fund demonstrates good Governance and follows best practice guidelines set out in the new code. Initial observations prompted the introduction of 3 new policies for the Pension Fund; Conflicts of Interest Policy, Escalation Policy and Breaches Policy which were approved by the Pension Fund Committee in December 2024. In addition, Internal Disputes Resolution Procedure Policy was introduced and approved in March 2025, and Cessation Policy was introduced and approved in June 2025. Progress on General Code March 2024 compliance is presented to and approved by the Pension Fund Committee on a quarterly basis and is publicly available on our website: [Browse meetings - Pension Fund Committee and Pension Board - Scottish Borders Council](#)

Financial Regulations

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

[Scottish Borders Council Financial Regulations](#)

Pension Board

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

Internal Audit

Internal controls are in place to ensure procedures and policies are followed. Internal Audit undertake an independent audit of the control environment in line with agreed public sector standards for Internal Audit, to provide an annual opinion of the effectiveness of systems of governance, risk management and internal controls in operation within the Fund that can be used by the Fund to inform its annual governance statement.

Part of the Pension Fund Committee's remit is to gain assurance on the adequacy and effectiveness of internal controls, corporate governance and risk management arrangements of the SBC Pension Fund and to consider annual assurance reports. This includes receiving Internal Audit reports and overseeing progress on actions taken on audit recommendations. Increased collaboration with the Internal Audit team has been facilitated by the new Pensions, Investments and Accounts Manager. Monthly reviews now in place to further strengthen Governance and Risk oversight. The Internal Audit Annual Assurance Report 2024/25 for the SBC Pension Fund was presented on 24 June 2025.

Summary of conclusions from the Internal Audit Annual Assurance Report 2024/25 include:

- The SBC Pension Fund generally operates under good public sector practice governance arrangements under the SBC Scheme of Administration, the SBC Pension Fund Governance Policy and Compliance Statement as well as through the joint

meetings of the Committee and Board that support scrutiny and transparency of decisions made. SBC Pension Fund demonstrates a high degree of compliance with the new General Code and action is being taken to ensure full compliance.

- Robust risk management arrangements are in place. The Pension Fund Risk Register provides clear focus on the most significant risks. The Risk Management Policy and Strategy for the SBC Pension Fund will ensure there is a relevant risk management framework aligned to the SBC Pension Fund's objectives, governance and administration.
- Comprehensive business planning arrangements are in place to demonstrate clarity of required developments and improvements. Processes have been modified to accommodate the introduction of the Pensions Regulator's General Code of Practice.
- Effective Administration practices are in place to provide a high-quality pension service to both members and employers and particularly to ensure members receive their correct pension benefit entitlement.

ESG Stewardship is considered by Internal Audit during the Investment Assurance reviews. The Internal Audit plan for 2025/26 includes specific activity to assess the performance requirements of the Investment Managers to implement the agreed ESG Policy to drive ESG improvements and monitoring information to Committee and Board and wider stakeholders.

External Audit

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

The 2025 review found the Fund has appropriate arrangements in place to support governance and accountability. The audit opinions on the annual report and accounts are unqualified and free from material misstatement. The year-end review noted improved cash management, improved reconciliations and reporting, improved Due Diligence and improved Pension Administration reporting platforms. They included follow up recommendations for clearer segregation of duties on reconciliations and further enhancements to the Due Diligence review. Fund officers highlighted segregation of duties as a challenge during the financial reporting period. This observation was mirrored by Audit Scotland. Fund Officers will introduce use of Northern Trust's custom General Ledger reporting to support preparation of Annual Report and Accounts in 2025/26. This service will support capacity within the team, ensure segregation of duties and strengthen financial reporting integrity. The Conflicts of Interest Policy provides guidance regarding declarations of personal financial interests, relationships with providers (e.g. fund managers, actuary) and gifts and hospitality. Audit Scotland recommended there should be regular training for members in this area. Fund officers plan to cover this during the 2025/26 training day in November 2025.

ESG stewardship is reviewed as part of our annual Due Diligence of Investment Managers. These Due Diligence reviews are covered by Audit Scotland's review remit.

Annual Governance Statement

As Part of the Local Government Pension Scheme (LGPS) the Fund is administered in accordance with the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance)(Scotland) Regulations 2014. It is a requirement of the LGPS Regulations that the Pension Fund maintains a Governance Policy and Compliance Statement. The statement is reviewed on an annual basis as part of the annual compliance review and subject to External Audit as part of the annual audit process. The 2025 Governance Policy and Compliance statement was fully compliant with published best practice guidance. [Governance Policy and Compliance Statement 2025 | Scottish Borders Council](#)

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

Full compliance review was completed and highlighted Scottish Borders Council Pension Fund demonstrates good Governance and follows best practice guidelines set out in the new code. The Best Practice items already adopted will remain in place with regular review through the General Code Compliance Tracker to ensure the Pension Fund continues to maintain high standards of governance.

Actuary

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

Independent Advisors

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

Reporting

The Fund seeks to ensure its stewardship is fair, balanced and understandable.

In addition to the sources of assurance set out above the Fund also undertakes the following:

- Sets and monitors General Code Compliance which identifies areas of improvements and timetables regular review of key assurance policies and procedures.
- Sets an annual budget which is monitored on a quarterly basis via formal reports to the Joint Pension Fund Committee and Pension Board

All reports to the Joint Pension Fund Committee and Pension Board undergo a formal internal consultation process involving key senior officers of the Council. The agendas and reports are published via the Council's website one week prior to the meeting date.

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

SECTION 2 INVESTMENT APPROACH

CLIENT AND BENEFICIARY NEEDS

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

Beneficiaries

The Fund comprises of 17 employer organisations with Scottish Borders Council representing 90.86% of members. The table below details the size and profile of membership as at 31 March 2025.

	Active Members	Deferred Members	Pensioners	Total Beneficiaries
People	4,859	3,162	5,145	13,166
Percentage	36.9%	24.0%	39.1%	100%

As stated earlier, the Fund's primary aim is: *"To provide for members' pension and lump sum benefits on their retirement or for their dependents' benefits on death before or after retirement, on a defined benefit basis"*.

To meet this overriding objective, the Fund will act in the best financial interests of its members. Instead of solely pursuing the highest possible return, the Fund will consider all financial risks within its investment strategy, including ESG risks and considerations. The Fund believes that a positive approach to ESG issues can positively affect the financial performance of investments, whereas a failure to address these considerations can have a detrimental effect. In accordance with this fiduciary duty, the Committee believe it is imperative to act "prudently, responsibly and honestly" and therefore consider both short term and long-term risks when making investment decisions.

In addition, in terms of communication, Pension Committee and Board meetings are open to Fund members to attend and the dates and agendas of these meetings are publicised ahead of time. Members are able to communicate with the Fund and any enquiries are considered and responded to in a timely manner. Information relating to the Fund's activities are published in the Pension Fund annual report and in communications to members. Responsible investment topics and manager stewardship activity are also presented to the Committee on a regular basis. Any instance where further information, engagement or scrutiny is required is directed to the investment managers.

The Fund has a fiduciary duty to ensure the needs of members are met, which includes ensuring that funds are available to pay benefits and having the required funding level to maintain fund stability and solvency.

Activities to achieve both the ultimate investment time horizon and maintain the funding level are described in the Fund's published Funding Strategy Statement and its Statement of Investment Principles which are reviewed on an annual basis and published on the Funds dedicated website. These documents can be accessed via the link below:

[Resources | Scottish Borders Council \(scottishborderscouncilpensionfund.org\)](https://scottishborderscouncilpensionfund.org)

Investment Time Horizon

The Fund is an LGPS, located in the Scottish Borders, with over £950m of assets under management.

As is customary for many LGPS schemes, the Fund remains open to new members and the future accrual of benefits and therefore has a very long-term investment horizon for operating

as a going concern pension scheme, As a maturing fund the Fund must also consider cash flow to ensure it has the funds available to pay pension to beneficiaries as they become due.

For the purposes of investment modelling and strategy and based on the liability profile of the Fund provided by the Fund Actuary, the estimated duration of the ongoing liabilities is c.20 years (as at the 2023 Actuarial Valuation). This long-term position is considered as part of the investment strategy decisions and in setting objectives of the Fund. (the overriding objective of the Fund is to achieve and maintain a 100% solvency level; the last assessment, carried out in the 2023 triennial valuation is 134%).

Similarly, when performing climate scenario analysis on the Fund's investment strategy, as part of the work completed for TCFD requirements, the Fund considers the impacts over a long-term horizon of c.20 years (broadly in line with the duration of the liabilities).

Breakdown of Assets

The Fund, as at 31 March 2025, held assets valued at £959m. The Strategic Asset Allocation contained in the Statement of Investment Principles sets the investment classes. The Fund has a diversified portfolio which spreads the risk and allows the Fund to meet its objectives, at the same time ensuring cash is in place to meet all cashflow commitments. A full listing of Funds assets is shown in the table:

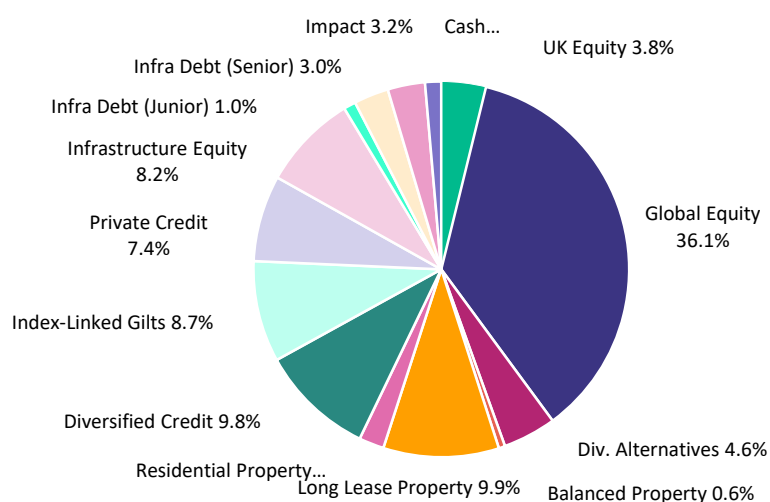
		31-March-2025 £'000
Baillie Gifford	UK Equities	35,687
Baillie Gifford	Global Equities	118,090
Morgan Stanley	Pooled Fund-Global Equities	118,267
LGIM	Pooled Fund-Passive Global Equities	107,716
M&G Alpha Opps	Pooled Fund-Diversified Income	94,256
M&G Index Linked	Pooled Fund-Bonds	83,466
CBRE	Pooled Fund-Property	20,777
UBS	Pooled Fund-Property	4,310
Blackrock	Pooled Fund-Property	95,298
LGT	Pooled Fund-Alternatives	43,967
Partners Group	Pooled Fund-Private Credit	33,827
Permira	Pooled Fund-Private Credit	36,621
Macquarie	Pooled Fund-Infrastructure Debt	38,747
IFM	Pooled Fund-Infrastructure Debt	34,944
Nuveen	Pooled Fund-Infrastructure Debt	19,847
Quinbrook	Pooled Fund-Infrastructure Debt	14,406
Macquarie	Infrastructure Equity	4,783
KKR	Infrastructure Equity	3,388
Dalmore	Infrastructure Equity	18,117
Gresham House	Infrastructure Equity	1,312
Equitix	Infrastructure Equity	5,170
Gaia	Infrastructure Equity	3,141
Waterloo Place	Infrastructure Equity	1,135
UK Gas Distribution Sidecar	Infrastructure Equity	3,634
Alinda	Infrastructure Equity	3,016
Brookfield	Infrastructure Equity	347
Internal	Internally Managed Cash & Investments	14,516
		958,785

The following graphs show the current and strategic asset allocations as at 31 March 2025.

Strategic Asset Allocation at 31 March 2025

Asset class	Current	Strategic	Relative
UK Equity	3.8%	3.5%	+0.3%
Global Equity	36.1%	36.5%	-0.4%
Diversified Alternatives	4.6%	0.0%	+4.6%
Balanced Property	0.6%	0.0%	+0.6%
Long Lease Property	9.9%	5.0%	+4.9%
Residential Property	2.2%	2.5%	-0.3%
Diversified Credit	9.8%	12.0%	-2.2%
Index Linked Gilts	8.7%	10.0%	-1.3%
Private Credit	7.4%	10.0%	-2.6%
Infrastructure Equity	8.2%	10.0%	-1.8%
Infrastructure Debt (Junior)	1.0%	2.0%	-1.0%
Infrastructure Debt (Senior)	3.0%	3.5%	-0.5%
Impact	3.2%	5.0%	-1.8%
Cash	1.4%	0.0%	+1.4%

Current Asset Allocation at 31 March 2025



Communications with Beneficiaries

The Joint Pensions Fund Committee & Pension Board reviewed and approved the current Communications Policy in September 2025. The overall aim of the Communications Policy is to provide communication in an efficient manner to all stakeholders, ensuring that it is:

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

The objective of this policy is to ensure that:

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

The communication methods utilised are:

- Fund website to provide information to as many stakeholders as possible at a time that suits them. Provide access to the following:
 - Scheme policies
 - Scheme benefits
 - Contact details.
 - Links to other useful sites
- The Fund has deployed a secure portal for all active and deferred members of the LGPS, which provides direct access for scheme members to view personalised pension data and further enhances the communications with active and deferred scheme members in a modern digital manner. The portal also allows members to carry out the following:
 - View all the details they need about their LGPS Pension in real time.
 - Carry out pension quotes on demand without needing to contact The Pensions Team
 - Annual Benefit Statements available to view
 - Check and update nominations of beneficiary.
 - Upload any documents that the Pensions Team request.
 - Use the contact facility to raise any questions in an electronic manner.
 - Provide feedback on the MSS application.

Information is also provided, sent with regular mail-outs (e.g. with Annual Benefit Statements), to keep members informed of any relevant legislative changes, or keep them apprised of facilities available via the 'self-service' portal. In addition, members receive bulletins via the internal staff communication channel 'Viva Engage'. Using this facility, eye-catching 'poster-style' bulletins can be sent to all members to alert them to changes, or signpost them to useful information or events. A recent example included informing members of Pension Awareness Week and an invitation to a pension webinar. Other bulletins have included an introduction to member 'self-service', and reminders on the release of Annual Benefit Statements and review AVC arrangements etc.

In addition to the above noted communication methods, the Funds second annual newsletter was distributed to all members in March 2025. This was well received and will now be delivered on an annual basis.

Pension Committee and Board meetings are open for members to attend, and responsible investment topics and manager stewardship activity are presented to the Committee on a regular basis. The dates and agendas of these meetings are publicised ahead of time. Members can communicate with the Fund on any points of interest/enquiries, and these are considered and responded to in a timely manner.

The Fund also communicates with its members through a variety of publicly available documents on its strategy and performance. Information relating to the Fund's activities is published in the Pension Fund Annual Report and Accounts, which details the activities of the Fund and disclosure requirements as set out in the CIPFA Code of Practice. The Annual report also describes the Fund's governance activities for the year.

The ultimate beneficiaries of the Fund are the scheme members. However, as scheme member benefits are determined by regulations rather than performance of the Fund's assets (benefits payable are guaranteed by statute and thereby the pensions promise is secure for members), the Fund recognises that employers in the Fund (a significant proportion of which are funded by local taxpayers) are also key beneficiaries. This is because from an investment stewardship perspective, employers bear most of the financial risk and reward.

As such, the Fund also maintains regular contact with employers, who also receive pension updates (e.g. legislative changes, rate changes etc.) as necessary, whilst the annual Employer Liaison Meeting keeps employers updated and informed. These meetings provide updates and presentations on a range of matters, such as annual accounting or reporting requirements, policy or procedural changes and an overview of the investment strategy, fund performance and any changes to the investment portfolio. The Employer meeting for 2025 included information on current investment portfolio, Environmental, Social and Governance considerations, Triennial Valuation, Pension Administration Strategy, Member Self-Service, GMP Reconciliation, McCloud Remedy, Goodwin, I Connect and the Pensions Dashboard including how this supports the Fund, Members and Employers.

Formal and informal consultations with employers are also included.

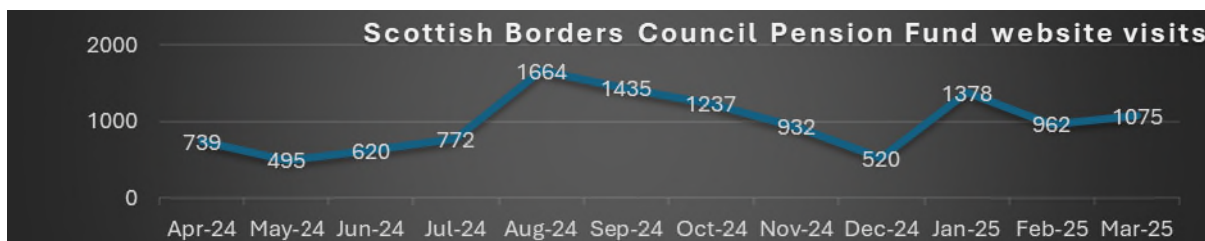
- Where proposing material changes to its Administration Strategy
- Where proposing material changes to its Funding Strategy Statement and Statement of Investment Principles
- Before and during the triennial valuation process

Communication on ESG and Stewardship

Information on the Fund's ESG journey and progress is provided to members and employers through the variety of means outlined above and through attendance at Pension Committee and Board meetings (or accessing the publicly available agendas and minutes), which include ESG-related agenda items. The latest TCFD report was presented to the Pension Fund Committee and Board at the June 2025 meeting. The Fund welcomes this transparency - not only for members and employers, but the wider general public are also free to attend these meetings.

Examples of Engagement Activity with Beneficiaries

The Pension Fund website allows members to access information and documents. The graph below details the number of visits to the site during the reporting period. The scheme website can also be accessed at www.scottishborderscouncilpensionfund.org



Member and employer feedback is captured through portal analytics, newsletter surveys, and employer liaison meetings, with insights used to inform service improvements and policy development.

Communication Performance

The following communications took place during 2024/25

- 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.
- Issuing the second edition of our Pension Fund Newsletter in March 2025
- 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.
- Annual Benefit Statements were issued in hard copy format to all deferred members including information on how to sign up for the Member Self Service portal and newsletter.
- 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:
 - o Notice that we were unable to issue payslips and guidance on how to sign up for online access to payslips
 - o Information regarding Pensions Increase
 - o Details of Shared Cost AVC

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

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

[Communication Policy 2024 | Scottish Borders Council](#)

The Pension Fund Committee and Pension Board consider members' views when managing the Fund assets. This is primarily achieved through employer and member (via trade unions) representation on the Pensions Board.

Action taken as a result:

Investment Performance (at Fund and manager level)

Quarterly

Detailed written reports provided to the Joint Pension Fund Committee and Board and to Performance & Investment Sub-Committee. Reports provided by the Fund investment advisors, Isio. Reports are presented at meetings, followed by detailed questions from members.

Key actions and outcomes in 2024/25 included:

- Following preliminary results of the recent actuarial valuation, the Committee agreed to implement several key changes to the Fund. This was done to further refine its alignment to the Fund's objectives and integrating ESG considerations more effectively throughout the portfolio. The list below outlines key changes that were made to Fund's investment strategy:
- Termination of its diversified alternative mandate (completed over the period).
- Reduction to the strategic allocation (from 12% to 5%) in Long Lease Property
- Increased allocations to credit (diversified credit: 12% and index-linked gilts:10%) and infrastructure equity (10%)
- Maintaining existing strategic allocation to direct lending
- Implementation of a formal impact mandate (5%)
-

Manager

- Isio undertook a due diligence review of one of the Fund's equity manager and retained their "Meets Criteria" rating. Whilst the formal rating of the strategy was not changed, there had been changes to Isio's views on the underlying criteria which fed into the overall score. These changes related to the wider strength of the manager's business, their recent performance, and the process enhancements which have been implemented as a result. Concerns were also noted on the manager's decision to withdraw from ClimateAction100+ and Net Zero Asset Managers Initiative.
- Following significant due diligence undertaken by Isio over 2024, the Fund's long lease property fund was downgraded to "significantly fails to meet criteria" in December 2024. This reflected Isio's view that they believe clients should consider a partial or full redemption from the strategy. The Committee had previously agreed to redeem half of their allocation to the mandate in line with the revised strategy agreed as part of the 2024 investment strategy review. However, the downgrade resulted in the Committee agreeing to fully redeem the fund's holdings. The Committee subsequently agreed to appoint a replacement long lease property manager for the Fund's mandate given the ongoing strategic allocation to the asset class.

Responsible Investment Training

TCFD Strategy & Risk Management

June 2025

Detailed written report provided to the Joint Pension Fund Committee and Board by the Fund's investment advisors, Isio. Report provided detailed analysis to allow the Fund to align with the requirements of TCFD and consider the climate-related risks and opportunities for the Fund. The climate scenario analysis included within the paper remained unchanged from what had been included in the previous report (in line with the regulator's guidance which recommends the analysis be refreshed every 3 years or if a significant change in strategy had been implemented). The initial analysis was done in June 2023 and it was deemed unnecessary to repeat this activity this reporting period given the strategy model remains relevant and the key takeaways outlined below appropriate.

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

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

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

Responsible Investment Metrics and Targets Report

November 2024

Detailed written report provided to the Joint Pension Fund Committee and Board by the Fund’s investment advisors, Isio. The report documented each manager’s ability to report on the Committee’s agreed metrics and the portfolio’s current position.

The Fund’s metrics were identified:

- Total Greenhouse Gas Emissions for the portfolio: 25,317 metric tonnes (*marking a decrease of 30,975 metric tonnes from the 2023 analysis*).
- Carbon Footprint for the portfolio: 40.6 metric tonnes per £1million investment (*marking a decrease of 61.6 metric tonnes per £1m investment*).
- Implied Temperature Rise provided by managers ranged from a 1.5°C to 2.7°C temperature rise by the end of the century (normalised implied temperature rise across the managers that were able to report was 2.1°C). *This was consistent with what was reported in the prior year.*
- Climate Engagements: 1,552 individual engagements with companies within the portfolio where managers were able to report (*marking an increase of 1,143 from the 2023 analysis*).

This report was the third annual assessment for the Fund and allowed the Committee to measure improvement and assess progress against the metrics reported in the second annual assessment, in line with the Committee’s “relative improvement” target. The report showed a decrease in the total greenhouse gas emissions and carbon footprint, and an increase in number of engagements, for the portfolio relative to the previous year. This was mainly driven by the Committee’s proactive approach to engage with the managers, which has improved the ESG metrics of the Fund’s assets.

Despite seeing improvements from the previous year, the Fund will continue to engage with the individual managers to continuously improve their metrics, data availability and reporting quality going forward. The 2025 version of the report, with data as at 30 June 2025, is currently in the process of being produced and will be presented to the Joint Pension Fund Committee and Board at the December Committee meeting.

Sustainability Integration Assessment

February 2025

Detailed written report provided to the Joint Pension Fund Committee and Board by the Fund’s investment advisors, Isio. The report outlined the ESG and Climate score for each manager and identified actions to engage with the investment managers on, as well as providing an update on the managers’ progress against previously identified actions.

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

There have been no incidents where managers have not followed their stewardship and investment policies in the reporting period.

STEWARDSHIP, INVESTMENT & ESG INTEGRATION

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

Integration

The Fund's investment beliefs and approach to assessing investments are set out in its Investment Strategy Statement. This includes beliefs, as long-term investors, which integrating ESG considerations into the investment management process improves risk adjusted returns. The Fund seeks to integrate stewardship and ESG into all its investment decisions and requires its Investment Managers to adhere to these standards in all their investments activities and monitors how these standards are upheld against the Policy's overarching principles.

Issues prioritised within investments.

The Fund, with support from their investment consultant, assesses new and existing investments (or asset classes) and respective managers against a wide range of evaluation criteria including business and operations, investment approach or philosophy, risk management, investment team, as well as ESG issues and considerations (including climate change).

Prior to investing in any asset class, the Fund seeks a thorough understanding of the asset class, and to assess the suitability of the investment, from an investment process/philosophy and risk management perspective, both on a standalone basis and in the context of the Fund's wider portfolio.

The Statement of Investment Principles and Responsible Investment Policy sets out what the Committee expects from all investment managers and covers all elements and risks, including ESG factors, which need to be considered in the investment decision making process. The highest standards are expected across all managers, and these are not diluted for particular geographies or asset classes. Compliance with a variety of ESG factors are included and assessed in every mandate awarded. There is no specific time limits set in relation to these but ongoing and continual improvements, over the investment period, are required and this is regularly monitored.

ESG issues as a priority within investments

The Fund is committed to being a long-term steward of the assets it invests in, and considers all financial risks, including ESG considerations. The Joint Pension Committee and Board believe this approach will protect and enhance the value of the Fund over the long term, in the best financial interests of its members. The Committee has a fiduciary responsibility for the Fund and its members for the determination and oversight of investment policies and the implementation of those policies. The Fund regularly appraises, with the assistance of its investment consultant, the ESG credentials and performance of its investment managers to ensure that its ESG policies are properly reflected within the investment portfolio and the managers are continuing to improve and enhance their ESG capabilities. The Fund expects its investment managers to integrate material ESG factors within its investment analysis and decision making.

In cases where the Fund believes a manager does not meet the requirements of the Fund, the ongoing suitability of the investment would be reviewed and a more appropriate investment manager sought.

Responsible investment considerations, including climate risks and opportunities, are addressed in investment manager and other service provider appointments and included in the Investment Manager Agreements (where relevant). These are legal contracts in place between the Fund and its respective investment managers governing the mandate specific and approach taken.

The Fund believes that the companies that manage assets on their behalf should at least be signatories to common codes such as UNPRI, GRESB, TCFD and the UK Stewardship Code. Existing investment managers who operate outside of these frameworks need a valid reason for doing so (for example they are signed up to other relevant bodies for their industry or specific asset class or region). Where this occurs, the Committee will continue to encourage the managers to sign up to the common codes, in line with their requirements for new mandates. New investments will not be made in managers who are not signatories to UNPRI, GRESB, TCFD, the UK Stewardship Code, or equivalent regional or asset class bodies, without valid reason. The Fund requires all managers to demonstrate their continued active commitment by providing an annual UNPRI report, these are reviewed as part of the annual good governance review of all managers.

The annual review of the managers for 2025 reported that all of the Fund's investment managers were signatories of the UNPRI.

The Committee and Pension Board members have received and will continue to receive training and education on ESG matters including climate change, governance and other risks, to keep up to date on the latest sustainable investment regulations and opportunities. Training will be recorded in a training log and reviewed under regular training needs and analysis assessments. Key ESG issues will be considered and included in the Fund's Risk Register, where they are material.

Responsible investment approach: Investment Managers

Responsible investment activity is undertaken through various methods within the Fund's investment strategy.

- 1) The Fund's investment managers who are required to exercise the Fund's voting rights, in line with the Fund's RI Policy, are also required to incorporate analysis of ESG issues into their investment analysis and are expected to engage on an ongoing basis on these issues with the companies in which they invest. The Committee asks the manager to present an overview of these issues when they meet each of the managers for a governance update (at least once a year).
- 2) The assessment of each investment manager in relation to their capabilities and consideration of their overall ESG approach and management of ESG related risks, including climate change, has been completed with the support from the Fund's investment advisor. Each fund is rated on its ESG integration credentials across five criteria: investment approach, risk management, stewardship, reporting and collaboration, as well as an overall ESG and climate specific rating. The Committee assesses the managers against the five criteria on an annual basis, and measures changes versus the previous year's score. This assessment process also provides proposed actions, communicated to each investment manager, to drive improvements within the Fund and the broader industry. Each manager's progress against actions identified in the previous year's report is also noted, to allow the Committee to see what progress is being made.
- 3) For new manager selection exercises, a thorough due diligence process is followed, against an agreed evaluation criterion, across investment and stewardship, including the integration of material ESG issues.
- 4) The Fund continues to be a supporter of the TCFD framework and is committed to reporting in line with the recommendations in the near term, irrespective of the timeline of regulatory requirements. The Fund published its TCFD report for 2024 in November 2024, in which the Committee set out its response and key actions across the four TCFD pillars: Governance, Strategy, Risk Management, and Metrics and Targets.

Manager selection, retention and engagement

The Committee continues to undertake both direct engagement with its investment managers (through regular reports and, at least, annual meetings with each manager), and indirect engagement, through their investment consultant (providing quarterly reports). This stewardship activity covers the whole spectrum of ESG issues and risks.

The Fund has also developed bespoke ESG beliefs, included in the latest Responsible Investment Policy. [Responsible Investment Policy](#)

ESG metrics and targets

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

- SDG 13 – Climate Change
- SDG 7 – Affordable & Clean Energy
- SDG 1 – No Poverty
- SDG 2 – Zero Hunger
- SDG 3 – Good Health & Well-being
- SDG 10 – Reduce Inequalities

These were left unchanged throughout 2024/25. Work has commenced in the assessment and collection of data to allow reporting and monitoring of SDG 13 Climate Change and SDG 7 Affordable & Clean Energy. Climate change remains the current priority for the Committee given the current environment and given the view that there is a lack of agreed metrics and robust methodology for monitoring the remaining objectives. This position continues to be reviewed on a regular basis as data collection improves.

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

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

The Fund actively investigates opportunities to increase investment in sustainable funds. The Fund had previously invested in a Global Timberland Fund and a Renewable Energy Infrastructure Fund focused in the UK. Over the reporting period, the Fund committed to the second vintage of the UK focused Renewable Energy Infrastructure Fund and is in the final stages of agreeing an investment in a mandate focused on driving community regeneration and a transition to a greener economy within the UK.

Outcomes

As previously mentioned, the Fund agreed to a set of specific ESG beliefs and objectives which underpin the Fund's Responsible Investment Policy. In addition, the Fund maintains separate governance, risk management (including a regularly updated Risk Register) and conflict of interest policies.

Given the ESG beliefs and objectives (aligned with the prioritised SDGs), the Committee has started proactively integrating ESG considerations and opportunities into the Fund's investment strategy and over the last couple of years have made several strategic changes to drive improvement in the above metrics. The various actions taken to date include:

- Replacing the existing passive UK equity mandate in favour of a global sustainable strategy. This was achieved by allocating it to the LGIM Global Future World Index Fund.
- Switching the Fund's existing allocation to Morgan Stanley (Global Brands Fund) to their Global Quality Select Fund.
- Switching the Fund's existing Global Alpha mandate with Baillie Gifford to their Paris-Aligned strategy.
- Introducing an allocation to Social Housing via CBRE's UK Affordable Housing Fund. The Fund's commitment to this mandate was called in full in May 2024.
- Introducing a standalone allocation to Natural Capital within the strategy via Nuveen's Global Timberland Fund.
- Introducing a specific renewable infrastructure mandate via Quinbrook's Renewables Impact Fund. The Committee also agreed to commit further capital into the mandate's follow-up vintage.
- As part of the investment strategy review carried out in Q3 2024, the Committee agreed to implement a formal "impact" allocation within the portfolio. This new allocation has been seeded from the existing investments with Quinbrook and Nuveen. A decision in principle was subsequently made to complete the "impact" allocation via an investment in the M&G UK Social Investment Fund.

MONITORING MANAGERS AND SERVICE PROVIDERS

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

The Fund employs a range of service providers and advisors who assist with its stewardship activities (listed earlier in the report) and its investment managers. The Fund conducts public procurement re-tenders as necessary for all services, to ensure consistently high-quality advice and a fair selection process.

The Responsible Investment Policy requires the Fund to review and report on an annual basis, the performance of Managers and the Pension Fund Investment & Performance Sub-Committee meets every manager at least once a year to discuss performance against agreed benchmarks.

Investment managers are assessed on their investment capabilities relevant to the specific mandate and asset class they have been selected for. This includes an assessment of how ESG considerations and risk, including climate change, are accounted for within the portfolio. This is done through the Fund's investment consultant, Isio, via an annual Sustainability Integration Assessment report of all its investment managers. This includes a progress update which outlines the progress every manager has made against the previously proposed ESG actions.

In December 2022, the Investment & Performance Sub-Committee, with Isio's support, undertook its first Sustainability Integration Assessment (this activity has since been undertaken on an annual basis). This was an assessment of the ESG capabilities of each investment manager the Fund invests in. Each manager was rated, by ISIO, as follows: 0-1 (significantly fails to meet criteria), 1-2 (practically meets criteria), 2-3 (meets traditional criteria), 3-4 (meets additional sustainability criteria) and 4-5 (meets additional impact criteria). Ratings were given against a number of questions, across five ESG criteria, (namely Investment Approach; Risk Management; Voting & Engagement; Reporting; Collaboration), using a quantitative scorecard.

The assessment also provides an overall ESG score and a climate score for each investment manager.

As part of this assessment, proposed actions are outlined for each manager, with the intention that managers' progress against these actions, which are monitored to ensure improvements are achieved, in each manager's ESG approach. These actions focus on the priority areas, thought to make the most significant improvements from an ESG perspective.

Each annual assessment provides a progress update on how the Fund's managers are progressing against their recommended actions.

In February 2025, the Committee undertook its third annual ESG Sustainability Integration Assessment. The assessment measured the Fund's investment managers against the five ESG criteria as before. In addition, the assessment measured progress against the proposed actions highlighted in the previous assessment and recommended further actions for each manager to consider.

Examples of progress on actions suggested in the previous year for one investment manager in 2025 include: consider tracking social metrics as part of the mandate's ESG reporting.

Examples of further actions suggested for one investment manager in 2025 include: enhance reporting by offering temperature pathway alignment and ESG ratings for the assets within the mandate.

In addition to the annual assessment, every investment manager is required to complete a due diligence questionnaire and to provide key documents. A summary of the responses are reported to the Joint Pension Committee & Pension Board meetings and also reviewed by Audit Scotland, to demonstrate a governance review of each manager.

The Fund complies with the requirements set under the Competition and Market Authorities' (CMA) Investment Consultancy and Fiduciary Management Market Investigation Order 2019. With effect from December 2019, the Fund has set strategic objectives for ISIO as their investment consultant/advisor. The strategic objectives were prepared with reference to TPR's guidance, combining a mixture of quantitative and qualitative measures.

In line with the regulatory requirements, the Committee has confirmed the Fund's compliance with the CMA Order and will continue to do so on an annual basis. The Committee assess their investment consultant and their other advisors on a regular basis and in relation to the services received and consider a re-tender process on a rolling basis. For a number of service providers, services are provided on a contract basis and KPIs are reported and monitored.

Whilst climate considerations feed into the assessment process of both advisers and investment managers, these are likely to be formalised further as part of anticipated incoming TCFD regulations for LGPS schemes. The Pension Committee and Pension Board have actively considered the upcoming TCFD regulations and agreed to proceed with preparations to ensure compliance once the regulations are formally agreed. The Committee has indicated it may seek to comply with requirements ahead of the regulations being formalised.

To facilitate this, a formal TCFD project plan was developed in June 2022, setting out the requirements of TCFD, and proposed timings for covering each element (initial training, agreeing appropriate metrics and targets, strategy and risk management (including climate scenario analysis)).

The annual review of the agreed metrics and targets was carried out in November 2024, where the Committee measured the managers against the agreed "Relative Improvement" target. Climate scenario analysis modelling for the Fund was undertaken in June 2023 which highlighted climate risks and opportunities for the Fund. In June 2025, the Committee published its second TCFD Report for the Fund on a voluntary basis, as regulatory timescales for

publishing the report are still to be confirmed.

Examples of Investment Manager Annual Assessments, including an executive summary, specific manager ESG assessments, including proposed actions for engagement, is shown below. The Fund assesses this information for every manager they invest in.

Executive Summary and Manager Overview

Overview

Meets Additional Impact Criteria 4 < Score <= 5
Meets Additional Sustainable Criteria 3 < Score <= 4
Meets Traditional Criteria 2 < Score <= 3
Partially Meets Criteria 1 < Score <= 2
Significantly Fails to Meet Criteria 0 <= Score <= 1

	2023	2024
ESG Score	2.3	2.3
Investment Approach	2.5	2.4
Risk Management	2.5	2.4
Stewardship	2.3	2.1
Reporting	1.5	1.8
Collaboration	2.8	2.8
Climate Score	2.6	2.5

The Fund continues to **meet traditional ESG criteria on both ESG and Climate grounds** at an overall level, meaning that it has scored strongly on most of the ESG/climate assessed criteria and is in line with best practice in terms of ESG and climate integration.

The Fund continues to score strongly across all five categories meaning good practice approaches in all of these areas. The marginal worsening of underlying scores is largely driven by the increased stringency of Isio's scoring criteria to keep pace with best practice and market developments, rather than an absolute worsening in the Fund managers' ESG capabilities. The climate score continues to be higher than the overall ESG score driven by market wide improvements we have seen in this area, and the continued allocation of the Fund to climate focused managers.

The key reasons for the scores are set out below:

- **Investment Approach** – a number of the Fund's managers have ESG policies in place and have shown examples of buy/sell decisions based on ESG factors, along with establishing explicit climate or ESG related objectives. Additionally, several of the Fund's managers have established a net zero commitment and interim decarbonisation targets.
- **Risk management** – a number of the Fund's managers have established dedicated ESG teams and training and utilise an ESG scorecard. Additionally, climate scenario analysis is carried out by a number of the Fund's managers.
- **Stewardship** – a number of the Fund's managers have set and are able to report on both firm-wide and fund-level stewardship priorities.
- **Reporting** – while a number of the Fund's managers are able to report on ESG-metrics, regular reporting remains low, with most managers only providing on an ad-hoc basis and not as part of regular investment reporting. The score has improved since 2023 however this remains the lowest score.
- **Collaboration** – the majority of managers are party to several ESG and climate-related collaborative initiatives.

No individual manager achieved less than "partially meets criteria" at an overall level.

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

Meets Additional Impact Criteria 4 < Score <= 5
Meets Additional Sustainable Criteria 3 < Score <= 4
Meets Traditional Criteria 2 < Score <= 3
Partially Meets Criteria 1 < Score <= 2
Significantly Fails to Meet Criteria 0 <= Score <= 1

↑ Category rating has improved
↓ Category rating has deteriorated

	ESG Score 2024	Investment Approach	Risk Management	Stewardship	Reporting	Collaboration	Climate Score 2024
Manager X	2.3	2.2	2.4	2.6	1.9	2.3	1.8
Manager X	2.6	3.0	3.1	2.6	1.4	2.8	3.4
Manager X	2.6	2.5	2.9	2.1	2.8	2.5	2.6
Manager X	3.3	3.7	2.7	3.4	2.8	3.8	3.7
Manager X	1.4	1.2	1.9	1.2	1.1	2.4	1.7
Manager X	2.5	2.6	2.9	2.4	2.2	2.6	2.5
Manager X	2.9	2.8	3.2	3.2	2.0	3.0	3.5
Manager X	3.1	4.0	2.9	2.0	3.3	3.3	3.9
Manager X	3.0	4.2	2.7	1.4	2.8	4.3	2.4

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Manager Proposed Actions and Progress Update

Proposed Actions

- ✓ Action completed
- 🕒 Action in progress
- ✗ Action not yet started

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

Manager X

- Meets Additional Impact Criteria 4 < Score <= 5
- Meets Additional Sustainable Criteria 3 < Score <= 4
- Meets Traditional Criteria 2 < Score <= 3
- Partially Meets Criteria 1 < Score <= 2
- Significantly Fails to Meet Criteria 0 <= Score <= 1
- ↑ Category rating has improved
- ↓ Category rating has deteriorated

Criteria	Fund
Overall	3.3
Investment Approach	3.7
Risk Management	2.7
Stewardship	3.4
Reporting	2.8
Collaboration	3.8
Climate	3.7

Manager X as a firm

Key findings

- Strong firm-level policies, (e.g. net zero strategy adoption)
- A self-standing ESG/SI team
- EDI policy in place which includes targets monitored against
- Strong approach to Stewardship

Potential areas for improvement

- Aim to make sustainability training compulsory for the investment teams
- Consider developing connections with leading academic institutions to develop robust risk management frameworks

Fund X

Key findings

- There are clear forward looking ESG objectives within the fund
- The fund has a set of exclusions, tilts towards companies that prioritise ESG factors, and utilises a scorecard in decision making

Potential areas for improvement

- Have their ESG metrics and data independently verified
- Consider reducing the exclusion threshold for revenue from coal
- Incorporate social, nature & biodiversity objectives, and related metrics into the process

Proposed Actions (2)

- ✓ Action completed
- ⏸ Action in progress
- ✗ Action not yet started

Mandate	Proposed Action Category	Progress	Manager Progress Against Action
Manager X	Risk Management	✓	Consider enhancing their Fund-level ESG assessments by explicitly incorporating climate, social, and nature risks. <i>Manager X has incorporated a broad range of ESG considerations into their stock-level research – including but not limited to climate, social and nature risks. The manager has also carried out pre-buy due diligence for all holdings assessing E, S and G factors that may pose a risk to the investment.</i> <i>At the Fund level, regular ESG audits are conducted on topics including remuneration, tax, and board composition.</i>
	Investment Approach	✓	Consider establishing quantifiable ESG, climate, and social objectives tailored to the Fund. <i>Manager X considers E, S and G factors within each holding's investment case. The Fund also has an explicit climate focus, which requires the manager to pay particular attention to how they invest in line with the Paris Agreement.</i> <i>Aligning with the Paris Agreement, the Fund also commits to a carbon footprint lower than that of the MSCI EU Paris-Aligned Requirements Index; and commit to 90% of scope 1, 2 and 3 portfolio emissions being attributed to businesses with climate strategies that we believe to be Net Zero aligned by 2030 and to 100% of the portfolio being Net Zero aligned by 2040.</i>
	Stewardship	✓	Consider improving the stewardship score by providing engagement examples corresponding to environmental, social, and governance factors. <i>Manager X provides engagement examples every quarter corresponding to environmental, social and governance factors.</i>

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SECTION 3 ENGAGEMENT

ENGAGEMENT

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

Scottish Borders Council Pension Fund is a relatively small fund and doesn't have the dedicated resources to actively engage with companies directly. The Fund therefore delegates all voting and engagement activity to its investment managers on the basis that:

- ESG factors are relevant to all asset classes, whether liquid or illiquid investments, and investment managers have a responsibility to engage with companies on ESG factors.
- The Committee believes that engaging with companies is a more effective way to initiate change than by divesting and so will seek to communicate key ESG actions to its managers in the first instance. Divestment will however be considered on a pragmatic basis if engagement with the investment manager has not produced an appropriate change.
- Investment managers should be able to demonstrate the impact and effectiveness of their voting and engagement activities.

The Fund's ESG approach is set out in its Responsible Investment Policy. The Fund expects managers to vote in its best interests, whilst also maintaining their fiduciary duty. Day-to-day responsibility for managing investments and stewardship activities (including engagements) are therefore fully delegated to the Fund's appointed investment managers, and they are expected to monitor companies, intervene where necessary, and report regularly on activities undertaken. Reports from the investment managers on voting and engagement activities are provided to the Investment & Performance Sub-Committee on a regular basis.

The effectiveness of the Fund's managers' engagement activities is assessed through responses gleaned from their quarterly reports and engagement volumes are monitored to determine their commitment to the stewardship of investments under their management. Voting

patterns and volume of attended meetings are also used as indications of commitment and effectiveness.

When contentious issues of national interests, relating to any of the Fund's investments is prominent in the press, or widely debated, the Fund will generally contact the relevant manager(s) to ensure they are aware of the Committee's interest and opinions on the issue and, in turn, to provide the Fund and Committee with their views and the steps being taken, with the invested company, to ensure the Fund's position is understood and the investment manager's views are taken on board. On occasions, the Fund may participate in escalation of sensitive issues, principally through investment managers' engagements with parties of concern.

Setting Engagement Expectations, Monitoring & Reviews

As part of the annual Sustainability Integration Assessment, the Fund, with the help of its investment consultant, identifies proposed action points where progress is sought over the next 12 months. These action points form the starting position for continual engagement with and monitoring of its investment managers.

The Fund has also produced an Implementation Statement (see Appendix) to provide additional evidence that the Fund continues to follow and act on its agreed principles.

This report details:

- actions the Pension Committee and Pension Board has taken to manage financially material risks and ESG risks, including climate change, and implementing the Fund's key policies.
- the current policies and approach with regard to ESG and the actions taken with managers on managing ESG risks.
- the extent to which the Fund has followed policies on engagement, covering engagement actions with its investment managers and in turn the engagement activity of the investment managers with the companies they invest; and
- the voting behaviour of the Fund's investment managers covering the reporting year up to 31 March 2025 (noting the Committee's delegation of Fund voting rights to the investment managers through its investment in pooled fund arrangements).

To ensure effective and consistent use of the voting rights, investment managers are tasked with exercising the voting rights accruing to the Fund. If important issues impacting residents do emanate from actions of invested companies, the Pensions Committee will contact investment managers in charge of these assets to make their opinion known and ask for such to be presented at meetings with the company or reflected in their voting decisions.

The Fund's approach to engagement also recognises the importance of working in partnership to magnify the voice and maximise the influence of investors as owners. An example of how the Fund seeks to achieve this is via its membership of LAPFF, who engage on behalf of LGPS schemes on particular/contentious issues while using the weight of their collective capital.

The Fund expects its investment managers to work collaboratively with others if this leads to greater influence and deliver improved outcomes for shareholders more broadly. This is again assessed independently by the Fund's investment advisor, ISIO, providing a collaboration score for each manager, in order for the Committee to understand if more could be done. The Fund appreciates that to gain the attention of companies in addressing governance concerns; it needs to join with other investors sharing similar concerns.

Details of engagement activities, undertaken by investment managers in 2024/25, are provided in the Fund's implementation statement (see Appendix).

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

	Environmental	Social	Governance	Strategy	Other	Total ²
Baillie Gifford UK Equity	7	6	54	2	0	45
Baillie Gifford Global Alpha Paris Aligned	32	24	110	33	0	101
Morgan Stanley Global Quality Select	22	4	24	0	34	100
LGIM Future World Index	1,281	380	233	0	50	1,944
BlackRock Long Lease Property	-	-	-	-	-	-
M&G Alpha Opportunities Fund	13	1	1	0	0	15
M&G Index-Linked Gilts Fund	2	0	0	0	0	2
Partners Group	0	0	0	0	3	3 ¹
Permira	0	0	0	0	49	49 ¹
Macquarie	1	0	2	6	0	9
IFM	-	-	-	-	-	-
Nuveen	9	0	0	0	7	16
Quinbrook	-	-	-	-	-	-

¹Partners Group and Permira were unable to provide the breakdown of engagement activities by topic/theme, therefore we have assumed all their engagements in the 'Other' category.

² In some manager reporting, one engagement can compromise more than one topic across each company. This results in individual not summing to the reported total.

³ Partners Group engagement data reflects their activity over the 2024 calendar year.

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

Case Study – Baillie Gifford UK Equity Fund – Burberry Group Plc – Objective: Gain a better understanding of the recently appointed chief executive

Discussion

Baillie Gifford held a call with the chairperson to receive an update on the new chief executive, Josh Schulman, following his unexpected appointment. The discussion focused on Josh's integration and wider management team changes. Baillie Gifford noted Josh's messaging has been clear and consistent with regard to his intentions for Burberry which has been well received and that Josh has quickly made significant changes to the wider management team.

Outcome

Overall, Baillie Gifford concluded that the meeting provided assurance on Josh's leadership and the dynamics of the new management team so far. Baillie Gifford will continue to monitor the evolution of the board and management and success in implementing Burberry's strategy.

Case Study – M&G Index-Linked Gilts Fund - Orsted A/S – Objective: Assess the company's progress on biodiversity and climate goals

Discussion

M&G met with Orsted's global sustainability and investor relations teams to assess progress on biodiversity and climate goals. Discussions focused on assessing Orsted's progress relative to the Nature Action 100 benchmark given its target to be nature positive by 2030. Orsted has worked on biodiversity for over two years; this has involved engaging a biodiversity consultancy and launching its own measurement framework in June 2024. Currently the company is receiving feedback from NGOs and academia amongst others with the aim of implementing the framework in January 2025. The first set of metrics are expected at the end of 2025. Orsted additionally presented and explained numerous tools at its disposal, such as AI cameras and acoustic monitoring used to monitor wildlife ranging from insects to whale species as well as bubble curtains to insulate the installation of mono piling of offshore turbines to protect marine life from significant noise caused by this work.

Outcome

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

COLLABORATION

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

The Fund recognises the benefits of collaborative working and actively looks for opportunities to engage collaboratively with the broader market, including other investors and recognised bodies, on key issues and in relation to the Fund's ESG priorities and key objectives. However, as a small fund, there are limitations on how proactive it can realistically be and the extent to which it has the resources to be directly involved.

The Fund's approach to engagement recognises the importance of working in partnership to maximise the influence of investors as owners. The Fund also expects its investment managers to work collaboratively with others, if this will lead to greater influence and deliver improved

outcomes for shareholders/beneficiaries more broadly. The Fund appreciates that to gain the attention of companies in addressing governance concerns and other ESG issues, it needs to add its voice with other investors sharing similar concerns.

Industry initiatives

The Fund seeks to work collaboratively with other institutional shareholders and asset owners to maximise the influence that it can have on individual companies. These are listed and described in the table below:

Initiative / Body	Description
Task Force on Climate Related Financial Disclosures ("TCFD")	The TCFD recommendations advocate for better disclosure in relation to climate risks and metrics. The Fund considers climate issues of paramount importance and a primary risk of investments it holds. As a result, the Fund signed up to being a supporter of TCFD in 2023 and has committed to reporting in line with TCFD requirements over the coming years and as part of this looks to collaborate with other TCFD supporters. The Fund published its second TCFD report in June 2025, on a voluntary basis, as there are currently no regulated timescales in place for the Fund.
Local Authority Pension Fund Forum ("LAPFF")	The Fund joined the LAPFF to have a direct voice in influencing engagement themes. LAPFF is a voluntary association of public sector pension funds based in the UK and a leading voice for local authority pension funds and looks to promote the highest standards of corporate governance and corporate responsibility to protect the long-term value of local authority pension funds. As an output of this collaboration, voting recommendations are received from the LAPFF research team and are passed on to investment managers for consideration.
Climate Action 100+	The Fund as part of its responsible investment policy has become a signatory to Climate Action 100+ which has the support of 225 investors representing \$26.3 trillion of assets. It now has 700 investors with assets of \$68 trillion under management. Scottish Borders Council Pension Fund became a signatory to this in March 2020. During 2022 Climate Action 100+ produced 4 global sector strategy reports, identifying transition levers and supporting investor actions for aviation, food & beverages, electric utilities and steel sectors. Investor led work groups are focusing on actions required for these sectors to transition to Net Zero. They also undertook alignment assessments, measuring implementation of Paris-aligned corporate actions, to give investors better data on company disclosures and 'real world' actions companies are taking.
Scottish IGG/RI Group & Scottish LGPS Pension Network	The Fund is also a member of the Scottish Asset Owners Responsible Investment Roundtable: a collaborative initiative between mainly Scottish Asset Owners. Members include local authority funds, Universities, and corporate defined-benefit and defined-contribution pension funds. The group has a wide remit and aims to share best practice with the aim of improving Responsible investment standards throughout the industry. In addition, the Fund also collaborates with other Scottish LGPS Funds, through the Scottish LGPS Pension

Initiative / Body	Description
	Network.
Scottish LGP SAB	The Pension Fund benefits from strong national representation on the Scottish Local Government Pension Scheme Advisory Board (SAB). The Chair of the Pension Fund Committee serves as SAB Chair, and one other Committee member is a side member. The Chair of the Pension Board is Vice Chair of SAB, with two additional Board members also serving. These appointments reflect the depth of expertise within our governance structure and enhance our ability to anticipate and respond to regulatory developments, supporting effective stewardship of the Fund.
Creating a Sustainable Future for the Scottish LGPS	Demonstrating proactive leadership, the Chair of the Pension Fund Committee independently convened a collaborative event involving all 11 Scottish Local Government Pension Funds. The purpose was to initiate strategic dialogue on shared stewardship priorities, including: • Cross-fund collaboration to enhance efficiency and explore joint investment opportunities while maintaining fund independence • Climate transition strategy, focusing on knowledge-sharing and potential joint initiatives to support a sustainable future • Local infrastructure investment, examining mechanisms to deploy capital in Scotland without compromising fiduciary returns This event successfully brought together key stakeholders, fostering alignment on long-term stewardship goals and laying the foundation for future joint working across the Scottish LGPS community.

Investment collaboration

The Fund actively collaborates with Lothian Pension Fund Investments Ltd (LPFI) on a range of infrastructure investments. Within this collaboration, which allows the Fund to access investments not normally available to Pension Fund of our size on a cost-effective basis, the Fund is focussed on minimising the impact of any investments on the environment. LPFI has strong ESG credentials and is also a signatory to the UK Stewardship Code.

Expectations of investment managers

The Fund believes that the companies that manage assets on its behalf should at least be signatories to the UNPRI, GRESB, TCFD and UK Stewardship Code (where appropriate). Investment managers are actively encouraged to collaboratively engage with a wide set of other relevant bodies, organisations and initiatives (including in relation to climate change which is considered a current priority).

As outlined earlier, existing managers outside of these frameworks are actively encouraged to sign up, where appropriate, by the Fund. New investments will not be made by managers who are not signatories to the UNPRI, GRESB, TCFD and UK Stewardship Code (where appropriate). In addition, there is an expectation for managers to sign up and actively engage in other initiatives (for example TNFD, Climate 100+, etc.). The Fund makes this clear to the Fund's investment managers from the outset, as part of the procurement process.

As part of the Sustainability Integration Assessment, one of the five criteria in which investment

managers are assessed is collaboration and as a result, the Fund, through its investment consultant, engage with its investment managers on their collaboration activity with the wider industry, to drive improvements across the board.

Outcomes

Engagement and collaboration have to date been focused directly on investment managers of the underlying portfolio to drive improvement in the assets the Fund holds. The Fund's managers are now signatories to the UNPRI, as well as several other relevant ESG bodies, depending on asset class.

An outcome of joining LAPFF is that voting recommendations are received directly from the LAPFF research team which are now passed onto fund managers for consideration, resulting in more directed and focused engagement activity at the underlying holdings level.

The Pension Fund benefits from exceptional governance expertise through key appointments to the Scottish Local Government Pension Scheme Advisory Board (SAB). The Chairman of the Pension Fund Committee, Councillor David Parker, currently serves as Chair of the SAB, with an additional Committee member also appointed as a side member. The Chairman of the Pension Board, David Bell, holds the position of Vice Chair of the SAB, alongside two other Board members who serve as side members.

The SAB provides independent advice to Scottish Ministers, on request, regarding proposed changes to the Scottish LGPS, including policy development and amendments to scheme regulations. These appointments reflect the depth of knowledge, experience, and leadership within our Pension Fund governance structure.

Such representation at national advisory level is a significant achievement and underscores the Fund's commitment to high standards of stewardship. It ensures that our Committee and Board are well-informed on emerging regulatory developments and policy considerations, thereby strengthening the Fund's oversight and strategic decision-making.

Further examples of collaborative engagement by the investment managers, beyond the examples referenced in this report, are provided in the Sustainability Integration Assessment.

ESCALATION

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

The Fund recognises that its size and scale mean that it has limited ability to materially and beneficially influence the overarching policies of its Investment Managers. Instead, the Fund seeks to ensure that its expectations regarding stewardship activities, including escalation, are met through selecting and appointing 'best in class' managers and monitoring them on an ongoing basis.

Investment managers guidelines for such activities are expected to be disclosed in their own statement of adherence to the UK Stewardship Code and the Fund expects this to be in line with its own objectives and beliefs, stated within the Responsible Investment Policy. On occasions, the Fund may participate in the escalation of specific issues, done principally through investment managers engagements, with the parties of concern and/or in relation to investments in certain sectors (for example, tobacco and fossil fuels).

The Fund has had one example of a direct escalation with one of its investment managers, related to governance of the Fund's assets. Further detail of this is outlined in the case study below. Apart from this specific instance, there is constant engagement and collaboration with investment managers and other service providers, to drive broader improvements on an ongoing

basis. The Fund has seen positive outcomes as a result, with limited need for further escalation (out with the example provided), as investment managers and other service providers have been receptive to these engagements. The Pension Investment & Performance Sub-Committee will continue to review and monitor ESG scores annually, engage actively with managers and only recommend divestment pragmatically, should improvements not be forthcoming over a sustained period. The Committee will seek to formalise this process as future ESG scores can be monitored.

The LAPFF also issues voting alerts to members, especially where serious ESG concerns have been identified, or if attempts to engage with the company have been unsuccessful. LAPFF outlines the rationale behind the vote via press release or in LAPFF's quarterly engagement report. LAPFF believes in engaging constructively with members' investee companies and explaining the escalation in activity is seen as additional engagement with the company, extending the opportunity for dialogue and debate on material responsible investment concerns.

LAPFF engagements and voting alerts are disclosed in their quarterly engagement reports and annual reports are publicly available.

Case study: Escalation & Outcomes – Thames Water exposure via Macquarie Junior Infrastructure Debt

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

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

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

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

The Committee asked ISIO to engage with Macquarie to investigate their process for managing the position and remain abreast of any updates to the evolving situation. ISIO hosted an in-person meeting between the Committee and the manager in October 2023 to allow the Committee the opportunity to directly raise questions to the manager and outline their concerns relating to the investment. The manager acknowledged the concerns raised and provided a detailed update on the position and how they were managing this.

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

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

Over the reporting year, there has been no further changes to the credit rating applied to the position, and no further escalation has been required. However, the Committee continues to receive regular updates on the position direct from the manager, and from Isio, who maintains ongoing engagement with the manager.

SECTION 4 EXERCISING RIGHTS AND RESPONSIBILITIES

Signatories actively exercise their rights and responsibilities.

VOTING

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

The Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the UK Stewardship Code 2020 and expects appointed investment managers to be signatories to the Code and have publicly disclosed their policy on how they will implement their stewardship responsibilities. The Fund believes that stewardship is part of the responsibilities of share ownership, and therefore an integral part of the investment strategy.

In practice, the Fund's policy is to apply the Code through its arrangements with its investment managers. Investment managers play a key role in driving forward the global ESG agenda and have the resources at their disposal to raise issues of concern with portfolio companies. Most investment managers combine these meetings with their investment due diligence as part of a holistic approach to management of funds entrusted into their care. Whilst all voting decisions are delegated, managers are expected to adhere to their ESG and climate policies, as well as any expectations set by the Fund in relation to ESG or climate. The Fund's investment managers are required to report quarterly on their voting actions for every appropriate investment. Any responses received from the companies concerned should also be reported. Both require to be held and made available to the Fund for a full voting audit trail.

The process described above ensures invested companies are aware of the opinion of their shareholders, such as the Fund, regarding their stewardship approach and consider these opinions in their decision-making processes. Failure to heed such an opinion has often been followed by the fund manager raising the issues at company AGMs and subsequently employing their vote at such meetings to reinforce their position or sometimes in extreme cases, divest from such companies.

Details of the rights and responsibilities in relation to the Fund's voting and engagement activities is detailed in the Responsible Investment Policy and specific details of voting and engagement activity over the Fund's accounting year is detailed in the implementation statement (see Appendix).

Responsibility for the exercising of voting rights and day-to-day ESG integration of investments is delegated to the Fund's appointed investment managers who are expected to have closer knowledge of companies under investment and board activity. This includes consideration of

company explanations of compliance with the Corporate Governance Code. Regular reports are received from the investment managers on how votes have been cast, and controversial issues can be discussed at panel meetings. The Fund also reports annually on stewardship activity through a specific section on “Responsible Investing” in its annual report. Via this annual stewardship reporting, the Committee expects managers to provide an indication on shares invested on the Fund’s behalf and exercise any voting rights they have, wherever feasible.

Equity mandates

The Fund receives quarterly voting information for its segregated investments along with annual reports of the Stewardship activities and TCFD Climate report. The Fund’s segregated investments are held with Baillie Gifford who has fully integrated ESG and stewardship into its investment ethos. Baillie Gifford provides regular reports on the voting undertaken on behalf of the Fund and these are discussed at the Pension Fund Investment and Sub Committee.

More broadly, the Fund has other equity holdings where the managers vote on behalf of the Fund. These equity holdings are as follows:

- Actively managed equities – by Baillie Gifford in two segregated funds and Morgan Stanley in a pooled fund.
- Passively managed equities – LGIM via a pooled fund from January 2022.

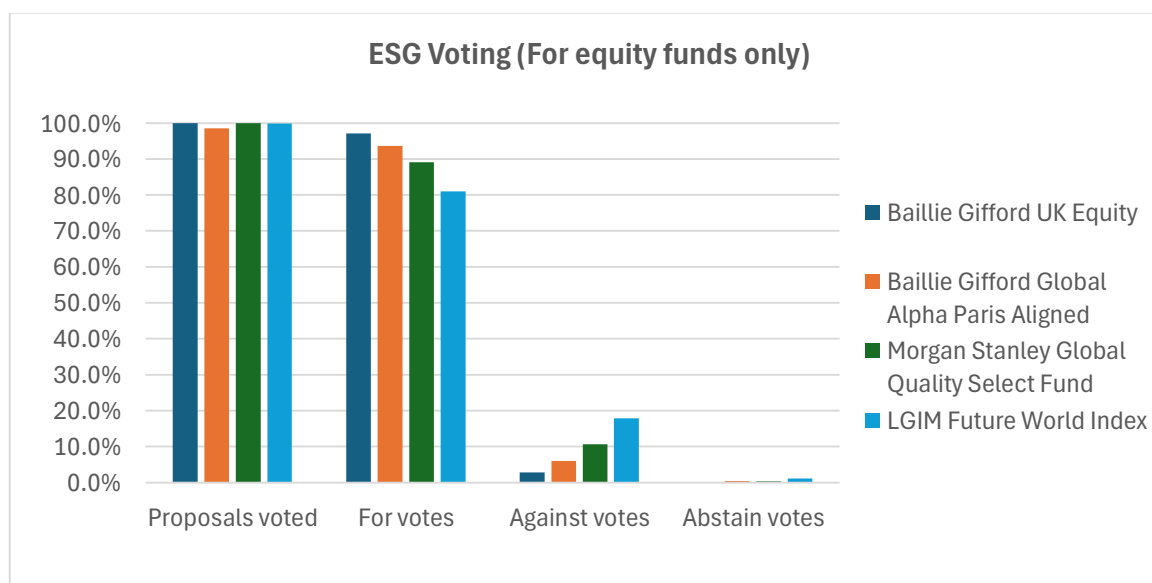
The Fund has an active stock lending programme for its segregated funds. Where stock lending is permissible, lenders of stock do not generally retain any voting rights on lent stock.

The Fund’s procedures enable stock to be recalled prior to a shareholder vote. Stock is recalled ahead of meetings, and lending can also be restricted including and not limited to, if the resolution is contentious, the holding is of a size which could potentially influence the voting outcome, or the Fund manager has co-filed a shareholder resolution.

VOTING ACTIVITY

Voting activity, including outcomes, from the Fund’s equity managers (Baillie Gifford, LGIM, Morgan Stanley) and which are aligned with the Fund’s key priorities and objectives are detailed in the attached Implementation Statement (see Appendix).

The chart below demonstrates shows the Voting activity per equity manager.



Fixed Income

For fixed income assets, the Committee, with the support of their advisors, review the fund prospectus and conduct appropriate due diligence before appointing an investment manager. The Committee delegates the Stewardship responsibility to the investment managers and expects prudent measures to be taken in relation to terms and conditions within contracts, deeds, and impairment rights. Having said that, there is consideration of the terms and conditions in fund indentures and contracts as part of the investment criteria of fixed income manager selections.

The Committee recognise this is an evolving market, particularly in relation to fixed income, and expect managers to continue to progress and evolve within the space e.g. greater adoption of ESG ratchets. Further, the Committee expects managers to engage with credit issuers to drive improvements in relation to ESG risks. The Committee reviews information on engagements from the investment managers on a regular basis and uses this to engage with them on key ESG issues.

Real Assets

For real assets, the Committee, with the support of their advisors, review the fund prospectus and conduct appropriate due diligence before appointing an investment manager. The Committee delegates the Stewardship responsibility to the investment managers and expects prudent measures to be taken in relation to terms and conditions within contracts.

Similar to credit, the Committee recognise this is an evolving market and expect managers to continue to progress and evolve within this space. Further, the Committee expects managers to engage with the management team of portfolio assets to drive improvements in relation to ESG risks. The Committee reviews information on engagements from the investment managers on a regular basis and uses this to engage with them on key ESG issues.

SECTION 5 FUTURE ACTIONS & IMPROVEMENTS

Stewardship Code	Activity for Further Improvement
Purpose & Governance (Principles 1-5)	1.1 Continuous review and implementation of requirements of TPR's General Code. Compliance status presented to Pension Fund Committee and Board on a quarterly basis. 1.2 Continued review and implementation the requirements of FRC's Stewardship Code' feedback. 1.3 Continually review and update Responsible Investment Policy and improve outcomes on ESG and climate change considerations including increased oversight reporting to be received from Fund managers. 1.4 Continue to review and rationalise the Fund's Risk Register, to provide greater focus on priority risks and areas which the Fund can impact and control. Continue to collaborate with Internal Risk to strengthen Governance where possible to reduce risk. 1.5 ESG Stewardship is considered by Internal Audit during the Investment Assurance reviews. The Internal Audit plan for 2025/26 includes specific activity to assess the performance requirements of the Investment Managers to implement the agreed ESG Policy to drive ESG improvements and monitoring information to Committee and Board and wider stakeholders. Audit Scotland review ESG stewardship during the annual Due Diligence review of our Investment Managers.

Stewardship Code	Activity for Further Improvement
	1.6 Continue to provide updates on General Code Compliance for Pension Fund Committee approval, outlining recommendations which have been assessed, prioritised and progressed each quarter. 1.7 Continue to review training and development provisions in the Training Policy to ensure these meet the induction and ongoing needs of Committee and Board members and Council LGPS Officials. Conduct annual training needs analysis to identify specific and generic training needs and devise a practical approach for evaluation of its effectiveness and value for members, staff and the Fund. Pension Fund Training Day for Pension Fund Committee and Pension Board scheduled for November 2025. 1.8 Formal annual review of fund policies is supported by a Policy log which is updated and reviewed on a quarterly basis.
Investment Approach (Principles 6-8)	2.1 Continue to monitor and assess the effectiveness of the Fund's Communication Policy and how it's implemented in terms of serving the best interests of Fund beneficiaries: • Continue to improve communications with members and signposting to the Fund website and other sources of information (Committee & Board minutes, Annual Report, Stewardship Code report, Strategic Investment Policy/Responsible Investment Policy etc). to increase awareness of Fund's commitment to Responsible Investing and Stewardship. • Continue to elicit member feedback on services provided, effectiveness of communications and areas of interest. Assess most effective channels of communication (level of reach, engagement and response, interest areas etc). 2.2 Continue to engage more proactively with employers on the activities of the Fund and its investment strategy, performance and Stewardship approach and elicit feedback on perceived value/interest areas. 2.3 Continue to promote the Fund's ESG activities, raising awareness by giving greater prominence to the Fund's website and content. 2.4 Continue to develop ESG objectives and metrics, in line with the TCFD project plan. 2.5 Continue to improve information consistency, sufficiency, and quality, from investment managers, to enable more robust monitoring of outcomes for the Fund's ESG objectives. The Fund is also working with investment consultant, Isio, to identify information gaps, enabling detailed discussions with every investment manager on how these gaps can be addressed. 2.6 Expand the data collected from every investment manager during the Fund's annual due diligence return process. This will help determine how effectively managers are incorporating ESG factors into

Stewardship Code	Activity for Further Improvement
	their decision making, for new investments and ongoing monitoring for existing ones. Due Diligence questionnaire planning for 2025/26 is in motion and questions will be reviewed to capture clear understanding of controls environment, valuation methods and ESG initiatives.
Engagement (Principles 9-11)	3.1 The Fund will continue to review opportunities for more direct engagement and collaboration, working with LAPFF and similar organisations, to increase influence, whilst continuing to improve monitoring and review for engagement and collaboration activities undertaken by its investment managers (as described in Principle 8 (Monitoring Managers & Service Providers) and in data quality. 3.2 The Pension Investment & Performance Sub-Committee will continue to review and monitor ESG scores annually, engage actively with managers and only recommend divestment pragmatically, should improvements not be forthcoming over a sustained period. The Committee will continue to review and support this process using the Escalation Policy introduced and approved in December 2024.
Exercising Rights & Responsibilities (Principles 12)	4.1 The analysis and key takeaways from TCFD Strategy and Risk Management report highlighted climate-related opportunities to be considered by the Pension Fund. The Committee also considered additional climate opportunities as part of the investment strategy review carried out and approved by the Pension Fund Committee and Board at the September 2024 meeting. The Fund have agreed to implement a formal “Impact” mandate within the strategy and will monitor and review this over the next reporting period. The Investment Strategy will be reviewed following the results from the 2026 Triennial Valuation.

The Fund's stewardship framework continues to be underpinned by strong and evolving governance. This year's Stewardship Code submission reflects a high level of compliance with the TPR General Code, supported by the introduction of dedicated standalone policies for conflicts of interest, escalation, breaches, internal dispute resolution, and cessation. TPR General Code compliance is strategically aligned with the Fund's robust business plan and formalised risk register, both of which are subject to regular review by our risk and compliance and internal audit teams. Assurance over their effectiveness is evidenced through sound internal and external audit reports. Governance is further reinforced by the depth of knowledge and experience across Fund officers, Pension Fund Committee and Board members, including their active engagement with the Scheme Advisory Board (SAB). The addition of an Independent Professional Observer this year has further enhanced oversight and transparency, providing valuable support to both the Pension Fund Committee and Board.

The Fund's investment approach remains focused on delivering appropriate returns for members and beneficiaries, while aligning with long-term sustainability goals. ESG integration, strategic asset allocation reviews, and annual manager assessments ensure that stewardship expectations are consistently upheld. Engagement with fund managers and collaboration with Scottish LGPS peers further demonstrate the Fund's proactive stance in knowledge sharing and collaboration.

Collectively, these developments and initiatives demonstrate the Fund's commitment to continuous improvement, effective stewardship, and long-term value for its members and stakeholders.

APPENDIX – Implementation Statement 2025



Scottish Borders Council Pension Fund

Implementation Statement

October 2025

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Background

Background

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

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

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

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

Statement of Investment Principles

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

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

The Fund updated its SIP in March 2025. The SIP can be found online at the following web address:

[THE PENSION FUND of the \(scottishborderscouncilpensionfund.org\)](https://www.scottishborderscouncilpensionfund.org)

Implementation Report

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

- actions the Committee has taken to manage financially material risks and implement the Fund's key policies;
- the current policies and approach with regards to ESG and the actions taken with managers on managing ESG risks;
- the extent to which the Committee has followed policies on engagement, covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the underlying companies they invest; and
- the voting behaviour of the Fund's investment managers covering the reporting year up to 31 March 2025. This is in context of the Committee's delegation of Fund voting rights to the investment managers through its investment in pooled fund arrangements.

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

- The Fund's investment strategy was reviewed at the September 2024 Committee meeting following completion of the 2023 Actuarial Valuation. As part of the review, the Committee agreed to a number of refinements to the strategy, including the changes list below. As at the reporting year-end date, the revised strategy was partially implemented, with full implementation being carried out in tranches to account for the varying liquidity profiles of the underlying impacted mandates.
 - Termination of the Diversified Alternatives portfolio with LGT. The full disinvestment was completed in April 2025.
 - Reduction of the strategic allocation to Long Lease Property from 12% to 5%. The Committee subsequently instructed the full redemption from BlackRock in December 2024, following a loss of confidence in the manager. The Committee have selected M&G to manage the target long lease property allocation, which will be implemented following full redemption from the BlackRock mandate. A partial redemption from BlackRock was received in July 2025.
 - Increased allocation to credit with M&G, via the diversified credit and index-linked gilt mandates, increasing the target allocation to 12% and 10% respectively.
 - Increase the allocation to infrastructure equity to 10%, with the intention that as the Fund's separately managed infrastructure portfolio with Lothian Pension Fund winds down, the proceeds will be invested in the Fund's pooled infrastructure equity mandate with IFM.
 - Maintain the existing strategic 10% allocation to direct lending with consideration of how the implementation of the allocation should evolve as the existing closed-ended mandates wind down. The Committee selected the Partners Group's open-ended fund, the Partners Group Private Loan Fund, for this role.
 - Implementation of a formal "Impact" mandate with a 5% target allocation. To build this allocation out, the Fund increased its allocation to Renewable Infrastructure by committing £20m to the follow-on vintage of their existing mandate with Quinbrook, the Renewable Infrastructure Fund II, in December 2024. The Fund also topped up their position in the Nuveen Global Timberland Fund by £10m in February 2025. The Committee undertook training with Isio before selecting the M&G Social Investment Fund to form the final 1.5% allocation to Impact. The Committee are expected to make a £30m commitment to the M&G mandate in Q4 2025.

- The Fund completed its Responsible Investment Metrics and Targets Report in November 2024, which documents each manager's ability to report on the required metrics and current position. This was the third year the Fund had delivered this report, which will be produced on an annual basis going forward. The most notable update from the 2024 report was the first inclusion of Scope 3 carbon emission data from the managers.
- The Fund completed its annual ESG Impact Assessment of the Fund's investment managers in February 2025.
- The Fund continued to progress the various workstreams required under its voluntary compliance with the Task Force on Climate Related Financial Disclosures (TCFD). The Fund delivered its second TCFD report post-reporting year end.

Implementation Statement

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

Implementing the Current ESG Policy and Approach

ESG as a Financially Material Risk

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

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

Implementing the Current ESG Policy

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social Responsibility, Corporate Governance factors and the exercising of rights and engagement activity	• The Committee will continue to develop their understanding of ESG factors through regular training on ESG and keeping up to date on the latest sustainable investment opportunities. • The Committee's ESG beliefs will be formally reviewed biennially or more frequently if required by the Committee. • The Committee will incorporate ESG Criteria as part of new manager selection exercises, with explicit consideration of ESG factors for any segregated mandates. This includes an initial screening process to ensure all new managers adhere to and report on the United Nations PRI Code, GRESB and the UK Stewardship Code.	• The investment manager has not acted in accordance with their policies and frameworks. • The investment managers' ability to abide by the Committee's Responsible Investment Policy ceases due to a change in the manager's own ESG policies.

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- The Committee will undertake annual reviews of the investment managers' approach to integrating ESG factors and identify where investment managers are misaligned with the Committee's ESG beliefs. Isio will engage with each manager on the Committee's behalf to remedy these issues where possible.
 - The investment managers' stewardship and engagement activities will be monitored on an ongoing basis and the Committee will seek to understand the effectiveness of these activities.
 - The Committee has also agreed to specifically monitor the following responsible investment and metrics:
 - Carbon emissions (Scope 1 & 2)
 - Carbon footprint (Scope 1 & 2)
 - Implied Temperature Rise (ITR)
 - Number of climate-related Engagements
-

Areas of Assessment and ESG Beliefs

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

Risk Management	1. ESG factors (including Climate Change) are important for risk management (including reputational risk) and can be financially material. Managing these risks forms part of the fiduciary duty of the Committee. 2. The Committee believes that ESG integration, and managing ESG factors such as climate change risks, is likely to lead to better risk-adjusted outcomes and that ESG factors should be considered in the investment strategy, where it is believed they can add value. 3. The Committee will consider Council and other employer policies and values in the Fund's ESG policy
Approach / Framework	4. The Committee seeks to understand how investment managers integrate ESG considerations into their investment process and in their stewardship activities. 5. The Committee believes that certain sectors that provide a positive ESG impact, such as funds that support the climate transition, will outperform as countries transition onto more sustainable development paths. The Committee also requires all investment managers to declare and explain any holdings in companies which violate the UN Global Compact.
Voting & Engagement	6. ESG factors are relevant to all asset classes, whether liquid or illiquid investments, and managers have a responsibility to engage with companies on ESG factors. 7. The Committee wants to understand the impact and effectiveness of voting & engagement activity within their investment mandates. 8. The Committee believes that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance. Divestment will be considered on a pragmatic basis in the event that the engagement with the investment manager has not produced positive results.
Reporting & Monitoring	9. ESG factors are dynamic and continually evolving, therefore the Committee will receive training as required to develop their knowledge. 10. The Committee will seek to monitor key ESG metrics, such as greenhouse gas emissions, within the investment portfolio to understand the impact of their investments. 11. The Committee will set ESG targets based on their views and how key ESG metrics evolve over time.
Collaboration	12. The Fund's investment managers should be actively engaging and collaborating with other market participants to raise broader ESG investment standards and facilitate best practices as well as sign up

and comply with common frameworks such as UNPRI, GRESB, TCFD and Stewardship Code.

13. The Fund should sign up to further recognised ESG framework/s to collaborate with other investors on key issues.
-

Changes to the SIP

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

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

ESG Manager Summary

The table below details ESG views, actions identified and engagement details for the Fund's current investment mandates (following the end of the financial year) with any mandates which are in the process of being redeemed excluded. Given the size of the position, and the subsequent decision post-termination from the manager to defer redemptions, we have included details of the BlackRock Long Lease Property mandate below, albeit note this in the process of being redeemed.

The information contained in the table below is as at 31 March 2025, excluding Partners Group which is as at 31 December 2024, and is intended to be updated annually going forward. These managers and funds will evolve as the investment strategy changes through time.

Manager and Fund	ESG Summary View	Actions Identified	Engagement Details
Baillie Gifford UK Equity	Baillie Gifford ("BG") has established comprehensive firm-wide stewardship priorities. In November 2024, Baillie Gifford withdrew from the Net Zero Asset Managers Initiative (NZAMI) and Climate Action 100+ (CA100+), two prominent collaborative climate initiatives, driven by concerns over increasing litigation risk in certain US jurisdictions, and significant AUM from US investors (c.40%). While we appreciate Baillie Gifford's rationale, we see this as a negative development from a stewardship and climate credentials perspective and believe combining collective engagement with a robust internal stewardship approach is a best practice approach to amplify influence. However, Baillie Gifford emphasised the decision reflects a need to mitigate firm-wide risks only, rather than a shift in their climate strategy. They remain committed to managing net-zero portfolios (including the Global Alpha Paris Aligned strategy) and engaging with companies in line with their climate statement. Baillie Gifford have also taken part and provided feedback to the NZAMI ongoing review.	Baillie Gifford should consider setting diversity targets as well as establishing a defined and mandatory firm-wide ESG training syllabus. Baillie Gifford should look to increase proportion of firm assets covered by net zero commitments. Baillie Gifford should Consider fund-level social and nature-related objectives in addition to excluding thermal coal and oil sands. Baillie Gifford should use an ESG scorecard in its due diligence and monitoring process. Baillie Gifford should include carbon footprint data in regular reporting.	Baillie Gifford confirmed that ESG factors are a central consideration in their investment research framework. The UK Equity Team has a five-question framework that all holdings are assessed against (Edge, Sustainability, Growth, Valuation and Discipline). Key ESG issues will vary depending on the industry, sector, geographic region and core business activities of each company. Baillie Gifford confirmed they coordinate efforts across their investment department through their key point person system (where more than one strategy owns a company), and any engagements are shared across the

Baillie Gifford Global Alpha Paris Aligned	The strategy has two dedicated ESG analysts who work collaboratively to integrate ESG into the portfolio. At a firm level, Baillie Gifford have over 40 people within their ESG team, who work collaboratively with the wider portfolio management team.		investment department via their research library and dedicated engagement portal. Baillie Gifford, therefore, believe a centralised team would not improve the UK team's engagement activities. Carbon footprint data is currently included in Baillie Gifford's annual Stewardship Report. The manager has yet to explore including this, alongside other metrics, in more regular reporting.
	The strategy is a variation of the Baillie Gifford ('BG') Global Alpha strategy. The parent strategy is adjusted in order to screen out carbon intensive companies from the portfolio. The strategy has a commitment to lowering carbon intensity and this is assessed by having a lower greenhouse gas intensity than the MSCI ACWI EU Paris Aligned Requirements Index (which itself has an intensity 50% lower than the MSCI ACWI, with a 7% year-on-year decarbonisation pathway).	Baillie Gifford should consider setting diversity targets as well as establishing a defined and mandatory firm-wide ESG training syllabus. Baillie Gifford should look to increase proportion of firm assets covered by net zero commitments. Baillie Gifford should consider improving social and environmental engagement elements. Baillie Gifford should improve scope of coverage of emissions in order to include Implied Temperature Rise ("ITR") and "Greenhouse Gas" GHG emissions.	Baillie Gifford has incorporated a broad range of ESG considerations into their stock-level research – including but not limited to climate, social and nature risks. The manager has also carried out pre-buy due diligence for all holdings assessing E, S and G factors that may pose a risk to the investment. At the Fund level, regular ESG audits are conducted on topics including remuneration, tax, and board composition. Baillie Gifford considers E, S and G factors within each holding's investment case. The Fund also has an explicit climate focus, which requires the manager to pay particular attention to how they invest in line with the Paris Agreement. By aligning with the Paris Agreement, the

Morgan Stanley Global Sustain Equity Fund			Fund commits to a carbon footprint lower than that of the MSCI EU Paris-Aligned Requirements Index. Additionally, Baillie Gifford commit to 90% of scope 1, 2 and 3 portfolio emissions being attributed to businesses with climate strategies that they believe to be Net Zero aligned by 2030 and to 100% of the portfolio being Net Zero aligned by 2040. Baillie Gifford provides engagement examples every quarter corresponding to environmental, social and governance factors.
	While investment teams are ultimately responsible for defining their approach to ESG integration within their funds, Morgan Stanley continue to grow their dedicated Sustainability Team which provides support and training to enhance ESG integration. The fund targets a significantly lower greenhouse gas emissions intensity than that of the benchmark, as well as requiring a minimum of 20% of the portfolio be in sustainable investments.	Morgan Stanley should consider implementing a firm-level net zero target with agreed interim decarbonisation targets. Morgan Stanley should become a signatory of the Net-Zero Asset Manager's Initiative (NZAMI) and Climate Action 100+. Morgan Stanley should consider establishing quantitative forward-looking ESG objectives as well as explicit climate-, social- and nature-related objectives. Morgan Stanley should improve evidence of how Fund holding engagement activities are linked to	We have raised with Morgan Stanley that they should be tracking social metrics as part of the Fund's ESG reporting. They are currently working on including social metrics as part of the Fund's ESG reporting. Morgan Stanley is still considering the most optimal methodology to align the Fund with a temperature pathway. We will provide any updates on our next year's SIA report.

		stewardship priorities.	
LGIM Future World Index	LGIM continues to grow their dedicated and experienced ESG team that drive engagement with portfolio companies on key ESG issues. Within LGIM's Future World Index, a set of exclusions are applied, alongside enhancements based on the comprehensive evaluation of ESG factors.	LGIM should aim to make sustainability training compulsory for the investment teams.	LGIM have confirmed that they produce quarterly ESG reports where the Carbon Emission asset eligibility exceeds or is equal to 50% and the coverage of those assets exceeds or is equal to 60%.
	Climate considerations are a key priority for the fund, and LGIM are continually improving their capabilities in the space. In 2023, LGIM introduced Scope 3 and GHG emissions data in regular reporting for the fund.	LGIM should consider developing connections with leading academic institutions to develop robust risk management frameworks.	Additional information on percentage eligibility of assets covered in funds and percentage covered is also provided.
	We view LGIM as being leaders in promoting ESG through collaboration with the broader industry and clients, specifically on climate-related topics.	LGIM should have their ESG metrics and data independently verified.	
		LGIM should consider reducing the exclusion threshold for revenue from coal.	
BlackRock Long Lease Property		LGIM should incorporate social, nature & biodiversity objectives, and related metrics into the process.	
	BlackRock have a robust firm wide ESG process that is well integrated within their Real Assets platform. Each asset within the portfolio is reviewed from an ESG standpoint to ensure ESG is monitored throughout the lifecycle of an investment, although they admit their limited control over properties and the importance of engaging with tenants going forward.	BlackRock should introduce firm-level stewardship objectives and formal approach within the firmwide ESG policy.	BlackRock confirmed that they are working on providing more data on their stewardship activities and engagement with underlying tenants. Quarterly reports include carbon data but there is currently no engagement data included.
	BlackRock have committed to improving their ESG framework on an ongoing basis to identify the ESG risk and rewards associated with each underlying asset.	BlackRock should commit to a Net Zero target, with meaningful interim targets.	
	BlackRock currently report on some ESG metrics for the fund however are actively looking to improve their reporting once data quality is improved.	BlackRock should reconsider position in relation to CA100+ and NZAMI membership.	BlackRock has stated that as the properties are controlled by the tenant, the Fund does not generate any Scope 1 or Scope 2 greenhouse gas emissions. However, all greenhouse emissions associated with the Fund are
		BlackRock should provide evidence of detailed ESG metrics within their regular reporting cycle.	

M&G Alpha Opportunities Fund		BlackRock should implement quantifiable ESG targets. BlackRock should produce an ESG scorecard (in line with best practice).	classified as Scope 3 and are included in quarterly reporting. The Fund also report on interventions and actions implemented by the property and asset managers. BlackRock have not yet established a firm-level net zero objective. BlackRock have stated they do not make commitments to meet environmental standards that constrain their ability to invest their clients' money consistent with their objectives, nor do they commit to moving their clients' assets to reach certain targets unless explicitly asked to do so.
	M&G boasts a robust company-wide ESG strategy, illustrating their competency in managing ESG risks within the fund. However, the ESG reporting lags versus peers in the market as M&G do not produce detailed ESG metrics and tracking for the assets contained within the portfolio. M&G have launched a 'sustainable' version of the fund with a greater focus on impact investments to cater for clients with stronger ESG objectives.	M&G should include nature and social factors in stewardship priorities. M&G could enhance collaboration with academic institutions to develop risk management frameworks M&G should establish and report on fund-level ESG objectives. M&G should improve and report on active engagement with issuers across climate, social and biodiversity factors.	M&G confirmed that engagements are organised at a firm level, however, they are able to provide specifics on those applicable to the fund on request. This does not form part of their standard report for the fund. M&G confirmed enhanced ESG reporting is in place for the sustainable version of Alpha Opportunities and will not include a sustainable investment focus on the original version. Standard climate metrics are available on request, however work is ongoing to include the provision of this data in regular reporting for non-sustainable funds. No firm timeline has been confirmed yet.

M&G Index-Linked Gilts Fund	M&G showcase a comprehensive firm-wide ESG approach with a commitment to net-zero emissions across all portfolios by 2050, with a dedicated stewardship team also in place. Isio continue to engage with M&G to support ESG improvements at a fund-level where possible. However, M&G have limited scope to integrate ESG into the fund’s investment process due its focus on index-linked gilt investments only.	M&G should include nature and social factors in stewardship priorities. M&G could enhance collaboration with academic institutions to develop risk management frameworks M&G should look to improve coverage of emissions data for the fund, with a focus on expanding their reporting to include data on UK sovereigns. M&G should consider setting allocations to green or sustainable sovereigns, once more widely available for index-linked gilts.	M&G decided not to purchase any Green Gilts as the pricing was not sufficiently attractive compared to existing gilts to warrant an investment. This possibility was discussed by M&G with the Treasury and the Debt Management Office (DMO) regarding the issuance of Green Gilts, including their pricing. M&G confirmed that ESG-related panel discussions and forums were scheduled firm-wide on key ESG topics, including ESG risks. Sustainability topics are included in formal, all-staff training modules, delivered in multiple parts throughout the year. Engagements are organised at a firm level and are not fund specific. Interactions with the UK government are captured in the manager’s annual Stewardship Report. M&G have increased fund emission data coverage in the year for public assets, due to the addition of a new third-party data source. The manager expects further improvements as availability of data improves, and industry guidance extends to a broader range of asset classes.
Partners Group Private Credit	Partners Group continue to demonstrate a strong firm-wide	Partners Group should implement firm-level ESG objectives with a	Partners Group have incorporated a comprehensive sustainability scoring

	approach to ESG and have strong ESG teams and practices. They have a strong screening process in their investment approach, using industry recognised guidance, such as the TCFD and UN Global Impact. However, Partners Group lag peers in reporting and therefore have seen their score downgraded in this area.	quantifiable target to enhance ESG policy. Partners Group should Establish nature and biodiversity-related stewardship priorities. Partners Group should become a signatory to the Net Zero Asset Manager's Initiative (NZAMI). Partners Group should begin regular reporting on fund-level temperature pathway alignment and emissions data. Partners Group should engage with a significant number of the underlying issuers and improve the reporting of these engagements.	methodology into their due diligence process for direct debt investments. This includes assessment of climate and social risks, where the scores are determined by an internally assigned formula and is reviewed annually. Partners Group confirmed that stewardship in debt investments is limited due to the lack of governance rights. However, they are actively bringing sustainability into their term sheets and commitments where possible; for example: by incorporating Sustainability-Linked Loans (SLLs) to ensure portfolio companies work toward ESG goals. Partners Group now provides a range of standardised ESG metrics and reports. They offer multiple templates which are available in a standardised format following the completion of the 2023 data collection in May 2024.
Permira – PCS III	Given this fund vintage is fully deployed, the scope for fund-level improvements is limited. Future improvements are therefore likely to focus on enhancing engagement and reporting capabilities. Permira has a dedicated ESG team which supports engagement actions and aids training across the credit business. Permira have sought to improve data collection through primary data collection to feed into reporting quality, however, these areas have been downgraded from last year due to	Permira should explore setting firm-level net zero commitments. Permira should consider signing the Stewardship Code 2020. Permira should evaluate adding nature and biodiversity as firm-level stewardship priorities.	Permira has set explicit ESG objectives for the PCS V Fund in line with its classification as an Article 8 Fund under Sustainable Finance Disclosure Regulation ("SFDR") and is able to disclose on their progress against these objectives. Permira has not set any ESG related objectives for the

Permira – PCS V	the standards improving across newer vintages within the direct lending space.	Permira should provide specific case studies showcasing engagement on ESG issues with portfolio companies. Permira should work with portfolio companies to provide emission and temperature metrics, including scope 1 and 2 emissions.	earlier vintages, including PCS III. Permira are utilising a third-party data provider to incorporate ESG metrics and improve their reporting. Permira report ESG metrics for the PCS V fund, albeit, should look to improve their reporting capabilities further, including the frequency of reporting and the ESG-related areas which are monitored.
	As an SFDR Article 8 rated fund, Permira have enhanced ESG integration in PCS V compared to their previous fund vintages. The main improvements related to this are an enhanced ESG scorecard used in the due diligence process and the use of ratchets to incentivise borrowers to meet ESG-related KPIs. Permira has a dedicated ESG team which supports investment decisions and aids training across the credit business. Permira utilise an ESG scorecard in their due diligence process and have enhanced their risk management by adding in additional parameters to assess environmental and societal impacts.	Permira should explore setting firm-level net zero commitments. Permira should consider signing the Stewardship Code 2020. Permira should evaluate adding nature and biodiversity as firm-level stewardship priorities. Permira should provide specific case studies showcasing engagement on ESG issues with portfolio companies. Permira should work with portfolio companies to provide emission and temperature metrics, including scope 1 and 2 emissions.	Permira are able to provide specific case studies showcasing engagement on ESG issues with portfolio companies, however, are currently unable to provide a detailed breakdown of all engagement activities by theme or topic. Permira has not confirmed that they are progressing to set firm-level net zero commitments.
Macquarie – Senior / Junior Infrastructure Debt	Macquarie has made improvements to its implementation of ESG policies, stewardship and risk analysis at the firm level, however, these strategies lack specific ESG objectives, reporting is both lacking in terms of detail and frequency. Due to the limitation of publicly available data on carbon emissions, Macquarie has excluded its Private Credit strategies from its firm level net zero target.	Macquarie should formalise engagement programme with targets and KPIs to be monitored. Macquarie should consider becoming a signatory to broader ESG initiatives, beyond climate, such as social targeted organisations.	The Fund's ESG objective is to consider ESG throughout the investment approach. ESG considerations form a key part of the investment process, from the initial screening through to the final investment decision, and subsequent

		Macquarie should develop climate, social, and environmental objectives at the fund level. Macquarie should enhance reporting by offering temperature pathway alignment and ESG ratings for the assets within the fund.	monitoring and engagement. Macquarie considers a wide range of ESG issues determined by the borrowers' employees, industry, jurisdiction and the community in which it operates. Macquarie are currently testing an ESG scorecard and assessing whether this will bring additional benefits, with the manager's expectations to implement a scorecard in 2025 In 2024, Macquarie established a central process and escalation policy for engagements of portfolio assets. This includes requirement for potential investments to complete an ESG escalation screening and setting up a dedicated tracker for the engagements.
	IFM Global Infrastructure	IFM comprehensively integrate the firm's Responsible Investment Charter throughout the fund's investment process and have a clear process for ESG integration through the investment process. They have specifically included climate concerns throughout their assessment approach, with quantifiable metrics and targets at fund level. Reporting is now TCFD and SFDR aligned but there is potential for more detail in fund-level ESG metrics scoring and reporting, particularly around scoring for social factors.	IFM should set up a stewardship policy with climate and social factors as explicit priorities. IFM should obtain a UNPRI score across Strategy & Governance and Infrastructure Equity. IFM should Review its ESG scorecard on an annual basis. IFM should provide social and nature-based metrics as part of regular reporting. The Global Infrastructure Fund ("GIF") should complete its emission

Nuveen Global Timberland Fund Quinbrook Renewables Impact Fund		reduction plans at the asset level at the earliest opportunity to assess alignment with its net zero targets.	priorities for the Fund. IFM has published its initial transition and physical risk assessment in the 2020 Infrastructure Climate Risk Assessment to guide its portfolio decision making, which includes scenario analysis. IFM should continue to develop their climate scenario analysis capabilities and introduce stresses for more extreme temperature changes. A detailed set of ESG metrics is available through IFM's regular fund reporting, including the annual SFDR disclosures and the annual Infrastructure Climate Change report.
	Nuveen has a firmwide Responsible Investment ("RI") policy which sets out their approach to ESG and supports stewardship efforts across their funds. They have a dedicated RI team who drives their RI programme and works collaboratively with the different fund management teams. At a fund level, in line with its Global Sustainability Policy, the Global Timberland Fund encourages asset operators to comply with industry best practices for responsible forest management.	Nuveen should collaborate with academic institutions for research and development. Nuveen should establish interim decarbonisation targets at the firm level. Nuveen should join the Net Zero Asset Management Initiative.	The Fund issued its first supplement last year (under Article 8). Additionally, on 1 January 2025, the Fund was upgraded to Article 9, which will be tracking its contribution to the overall fund target annually and the first report will be published in 2026. Nuveen has completed its application for the UK Stewardship Code.
	Quinbrook's fundamental investment strategy is to build energy infrastructure and related businesses that support the transition to net zero. Quinbrook have a firmwide Responsible Investment and ESG policy which covers their approach to ESG and a Stewardship policy which supports	Quinbrook should set up explicit stewardship priorities, including ESG factors. Quinbrook should set up a policy to target and report on Equality, Diversity an	Quinbrook recognises the importance of diversity, equity and inclusion; and are actively working to increase female representation through their recruitment efforts.

	their engagement with portfolio companies. At a fund level, the Renewable Infrastructure Fund ("RIF") integrates ESG throughout the investment process. Each investment completed by the fund supports the UK's net zero energy transition, providing solutions to ensure a more reliable and accessible carbon-free power supply for the UK.	Inclusion ("ED&I") metrics. Quinbrook could introduce a formal ESG training programme with defined training priorities. Quinbrook should utilise an ESG scorecard during the due diligence process. Quinbrook should provide detailed examples of engagement outcomes. Quinbrook should report a temperature pathway alignment metric.	As at December 2024, women represent 44% of Quinbrook's total workforce and 38% of their investment team. Third party ESG ratings are not available for their portfolio companies and assets due to their size and maturity. Quinbrook reports climate and emissions data quarterly for their fund assets based on an audited carbon model (last audit 2023). The manager is exploring the option to have the data verified by a third party.

ESG Engagement

Investment Managers' Engagement Activity

As the Fund invests in funds managed by various investment managers, each manager provided details on their engagement activities including a summary of the engagements by category for the 12 months to 31 March 2025 (in line with the Fund's financial reporting year).

Fund Name	Engagement summary	Commentary
Baillie Gifford UK Equity	Total engagements: 45 Environmental: 7 Social: 6 Governance: 54 Strategy: 2 * One engagement can comprise of more than one topic across each company.	Baillie Gifford list the primary reasons for ESG engagement as: fact finding, monitoring progress, exerting influence and supporting the management team. The team prefer to encourage changes through engagement and dialogue rather than exclusion or divestment. Examples of significant engagements include: Burberry Group Plc – Baillie Gifford held a call with the chairperson to receive an update on the new chief executive, Josh Schulman, following his unexpected appointment. The discussion focussed on Josh's integration and wider management team changes. Baillie Gifford has noted Josh's messaging has been clear and consistent with regard to his intentions for Burberry which has been well received and that Josh has quickly made significant changes to the wider management team. Overall, Baillie Gifford concluded that the meeting provided assurance on Josh's leadership and the dynamics of the new management team so far. They will continue to monitor the evolution of the board and management and success in implementing Burberry's strategy.

Baillie Gifford Global Alpha Paris Aligned	Total engagements: 101	Baillie Gifford list the primary reasons for ESG engagement as: fact finding, monitoring progress, exerting influence and supporting the management team. The team prefer to encourage changes through engagement and dialogue rather than exclusion or divestment. Examples of significant engagements include: Moderna – Baillie Gifford engaged with Moderna’s chief legal officer and deputy general counsel to discuss executive pay and ESG. Baillie Gifford were updated on the company’s efforts to improve minority rights and the reasons behind the appointment of two new independent directors to the board. Baillie Gifford support the appointment but have noted the board may require additional members with more science and technology expertise in future. Additionally, Moderna’s progress on ESG reporting on its new Access Principles and climate commitments, including science based target initiative (“SBTi”) validation, was commended. Baillie Gifford shared its updated compensation principles, supported by the latest research. They believe Moderna’s compensation plan is supportable however can be improved by making it less complex and more long-term focussed. Moderna was receptive to this feedback, and Baillie Gifford plans to share its supporting research. Baillie Gifford expects further governance developments and climate disclosures in 2025.
	Environmental: 32	
	Social: 24	
	Governance: 110	
	Strategy: 33	
	* One engagement can comprise of more than one topic across each company.	
Morgan Stanley Global Sustain Equity Fund	Total engagements: 100	The fund’s portfolio team are responsible for all engagement and voting activities but receive support from Morgan Stanley’s stewardship team which tracks proxy voting from research providers. Examples of significant engagements include: Procter & Gamble Company – Morgan Stanley engaged with company because they assessed that they are exposed to financially material nature-related risks. These include water scarcity and responsible sourcing of palm kernel oil alongside other commodities which the company estimated 51-60% of its sales are dependent on. Morgan Stanley consider this financially material due to environmental regulation such as the EU Deforestation Regulation (“EUDR”) which require companies to implement improved traceability and compliance systems which is due to be enacted at the end of 2025. The company confirmed at a Q4 2024 meeting that they are aiming to reduce water use within its operations and set numerous goals to achieve by 2030 such as increase water efficiency at its facilities by 35% per unit of production. They are prioritising 33 facilities located in areas exposed to heightened water risk. Another avenue that the company is taking action in to mitigate water scarcity risk is through innovating their products such that they require less water usage to operate. With regard to the EUDR, the company has been prioritising working with their suppliers on their compliance plans and is upgrading their traceability system to meet the incoming regulatory requirements for its palm oil supply chain. Morgan Stanley believe the
	Environmental: 22	
	Social: 4	
	Governance: 24	
	Other: 34	
	* One engagement can comprise of more than one topic across each company.	

		company its taking appropriate action to mitigate nature-related risks and believe that the increased transparency on the magnitude of these risks is beneficial to investors.
LGIM Future World Index	Total engagements: 1,944	LGIM's Investment Stewardship team are responsible for engagement activities across all funds. LGIM share their finalised ESG scorecards with portfolio companies and the metrics on which they are based. LGIM leverage the wider capabilities of the global firm to engage with companies meaningfully. LGIM currently do not provide examples of their engagement activities at Fund level.
	Environmental: 1281	
	Social: 380	
	Governance: 233	
	Other: 50	
	*One engagement can comprise of more than one topic across each company.	
BlackRock Long Lease Property	BlackRock do not currently provide details of their engagement activities for this investment due to the nature of the fund.	BlackRock's ESG related engagement is led by the BIS team. BlackRock lease on full repairing and insuring ("FRI") terms, which means that whilst a tenant is in a property BlackRock has limited control over that property.
	Isio will work with BlackRock on behalf of the Fund to develop BlackRock's engagement reporting going forward.	BlackRock does recognise the importance of engaging with tenants and other stakeholders to gain insight into their ESG practices and key performance indicators. Engagement activity varies from asset to asset, but often includes a combination of campaigns, activities and events to address sustainable best practice, particularly in relation to energy and resource efficiency, which is a key priority area for BlackRock and the wider industry.

M&G Alpha Opportunities Fund	Total engagements: 15	M&G have a systematic approach to engagements whereby specific objectives are outlined in advance and results measured based on the outcomes from the engagements.
	Environment: 13	
	Social: 1	
	Governance: 1	M&G Analysts are expected to have a more granular awareness of key ESG risks which impact the individual issues they monitor. Where engagement is deemed to be necessary, analysts engage with issuers supported by M&G's Sustainability and Stewardship Team, allowing them to leverage their expertise and sustainability themes. M&G monitor the success of engagement by assessing whether they have met their objective and log this in a central system. Examples of significant engagements include: Eramet SA – M&G engaged with the issuer after it was flagged by one of M&G's ESG data providers, RepRisk, for violating the United Nations Global Compact ("UNGC") principles relating to human rights and environmental standards following allegations made by Survival International. These allegations were focussed on Eramet's indirect interest in the PT Weda Bay Nickel Mine in Indonesia. M&G encouraged the issuer to make a public commitment to adhere to globally accepted standards in its treatment of indigenous people in all jurisdictions it operates in, to publicise detailed information on its environmental impacts in Indonesia, alongside evidence it has taken to remediate impacts, and demonstrate stakeholder engagements they have undertaken by February 2026.

M&G Index-Linked Gilts Fund	Total engagements: 2 Environment: 2	M&G have a systematic approach to engagements whereby specific objectives are outlined in advance and results measured based on the outcomes from the engagements. M&G Analysts are expected to have a more granular awareness of key ESG risks which impact the individual issues they monitor. Where engagement is deemed to be necessary, analysts engage with issuers supported by M&G's Sustainability and Stewardship Team, allowing them to leverage their expertise and sustainability themes. M&G monitor the success of engagement by assessing whether they have met their objective and log this in a central system. Examples of significant engagements include: Orsted A/S - M&G met with Orsted's global sustainability and investor relations teams to assess progress on biodiversity and climate goals. Discussions focused on assessing Orsted's progress relative to the Nature Action 100 benchmark given its target to be nature positive by 2030. Orsted has worked on biodiversity for over two years, this has involved engaging a biodiversity consultancy and launching its own measurement framework in June 2024. Currently the company is receiving feedback from NGOs ("Non-Government Organisations") and academia amongst others with the aim of implementing the framework in January 2025. The first set of metrics are expected at the end of 2025. Orsted additionally presented and explained numerous tools at its disposal, such as AI cameras and acoustic monitoring used to monitor wildlife ranging from insects to whale species as well as bubble curtains to insulate the installation of mono piling of offshore turbines to protect marine life from significant noise caused by this work. The company committed to considering biodiversity in executive remuneration once the framework and metrics were implemented which M&G will revisit. Overall, M&G were satisfied that Orsted are taking biodiversity seriously.
Partners Group PMCS 2016	During the reporting period, the Fund did not undertake any ESG-related engagements, which is consistent with its current phase of winding down operations.	Partners Group maintains ongoing contact with the management teams of their portfolio companies, however, given their position as lenders they will typically rely on the equity sponsor to report ESG-related concerns and drive ESG improvements. Investing in private companies also reduces the transparency of the information available to assess ESG risks. Partners Group has engaged on mostly governance related issues over the period, rather than environmental or social considerations. Partners Group were not able to provide ESG engagement examples.

Partners Group PMCS 2018	During the reporting period, the Fund did not undertake any ESG-related engagements, which is consistent with its current phase of winding down operations.	Partners Group maintains ongoing contact with the management teams of their portfolio companies, however, given their position as lenders they will typically rely on the equity sponsor to report ESG-related concerns and drive ESG improvements. Investing in private companies also reduces the transparency of the information available to assess ESG risks. Partners Group has engaged on mostly governance related issues over the period, rather than environmental or social considerations. Partners Group were not able to provide ESG engagement examples.
Partners Group PMCS 2020	Total engagements: 3 * Note that Partners Group provide data annually, and as such the engagement data shown reflects their activity over the 2024 calendar year.	Partners Group has engaged mostly on environmental related issues over the period. An example of a significant environmental engagement within portfolio projects is as follows: Astek – Partners Group engaged with the Company’s management to discuss the possibility of setting ESG margin ratchets. There were also discussions around setting goals for the ESG margin adjustments. Two out of three criteria have been agreed upon, and discussions are still ongoing for the final one.
Permira PCS III	Total engagements: 7 *Permira was not able to provide a breakdown of engagement activities by theme/topic.	Permira have dedicated ESG teams for the credit department and the wider business who are responsible for ESG integration. Permira have fund-level Stewardship Objectives, relating to climate and social factors, but their fund-level engagement data and evidencing of progress remains limited. An example of a significant engagement includes: YMU– Permira supported YMU via 1-to-1 meetings and document reviews with developing its first sustainability policy, action plan, and ESG statement which was approved by the YMU board in Q2 2024. Post-reporting period, as at Q2 2025, YMU represented 36% of the remaining PCS3 Senior portfolio. Ongoing engagement continues on a collective basis.
Permira PCS V	Total engagements: 42 *Permira was not able to provide a breakdown of engagement activities by theme/topic.	Permira have dedicated ESG teams for the credit department and the wider business who are responsible for ESG integration. Permira have fund-level Stewardship Objectives, relating to climate and social factors, but their fund-level engagement data and evidencing of progress remains limited. An example of a significant engagement includes: Artus - Permira engaged in discussions with Artus on their approach and strategy to meeting ESG targets. In 2024, Artus agreed to introduce enhanced terms to the loan agreement that included ESG margin ratcheting as an incentive to meet ESG targets. Following 1-to-1 discussions with Artus, they appointed EcoVadis, a third-party group that provides ESG ratings and collaborates with firms to improve their ESG impact. EcoVadis will continue to work with Artus to provide

		yearly ratings and improve their score from the 2024 baseline. Continued improvements of the EcoVadis ratings will allow Permira to reduce Artus' ESG margin.
Macquarie – Senior Infrastructure Debt	Total engagements: 4	Macquarie have engaged on several different issues over the reporting period. An example of a significant engagement is as follows: Heathrow Airport – Macquarie engaged with Heathrow Airport to assess risk and remediation efforts related to Reinforced Autoclaved Aerated Concrete ("RAAC"). Heathrow had proactively conducted surveys across all owned buildings, confirming RAAC in 14 locations including Terminal 3 in 2023. In light of heightened media coverage of the issue across public buildings in the UK, Heathrow reviewed its RAAC management plans. Management is currently having all these locations surveyed to assess their current condition and therefore have not yet sought cost estimates for remedial work. No urgent safety issues were found in May 2024 assessments. A comprehensive risk management strategy was implemented, including training, controls, and stakeholder communication. Macquarie continues to monitor progress and gather updates on remediation and strategy development to ensure appropriate actions are being taken to manage the material's risks.
	Strategy: 4	
Macquarie – Junior Infrastructure Debt	Total engagements: 5	Macquarie have engaged on several different issues over the reporting period. An example of a significant engagement is as follows: Dove / Kemble Water – Macquarie maintained regular engagement with the Independent Non-Executive Directors of Kemble Water through weekly calls to monitor Thames Water's progress in addressing its licence breach following the loss of its investment-grade credit rating. Key developments include that Ofwat (the UK water industry regulator) appointed L.E.K. Consulting, a specialist infrastructure advisory firm, to conduct a review of Thames Water's operational performance and governance. Furthermore two new Non-Executive Directors were appointed to the board, both bringing extensive expertise in corporate restructuring. Macquarie remains committed to ongoing dialogue with the borrower to track further advancements and ensure alignment with governance and sustainability objectives.
	Environmental: 1	
	Governance: 2	
	Strategy: 2	

IFM Global Infrastructure	IFM currently do not provide details of their engagement activities due to the nature of the fund. Isio will work with IFM on the development of the firm's engagement reporting.	IFM engage through board representation in both their private equity and public market portfolio holdings. IFM will only invest in companies which have appropriate governance structures in place. IFM bring together key executives of their portfolio companies to help spread good ESG practice and objectives across the portfolio. An example of a significant engagement includes: Mersin International Port – IFM continues to support Mersin International Port on the delivery of its Safety Remedial Actions as well as with the set-up of its longer-term Safety Culture Transformation Programme. In 2024, Mersin International Port continued to improve its safety culture, as evidenced by a further decrease in lost time injury frequency ("LTIF") rate by 19%.
Nuveen Global Timberland Fund	Total engagements: 16 Environmental: 9 Other: 7	Nuveen's stewardship approach involves engagement with industry stakeholders ranging from direct local stakeholders such as local indigenous communities to Industry bodies and NGOs. At an asset level they prioritise improvement of management practices and performance whilst at a fund level they engage with industry platforms and collaborative groups to contribute to best practice for forest stewardship and nature-related disclosures. Nuveen were unable to provide ESG engagement examples at the strategy level.
Quinbrook Renewables Impact Fund	Quinbrook currently do not provide details of their engagement activities for this investment due to the nature of the fund. Isio will work with Quinbrook on the development of the firm's engagement reporting.	The fund focuses on investments that directly support the UK's "Net Zero" energy transition and provides solutions for decarbonisation and clean energy. The fund also supports broader sustainability goals within its portfolio companies, aligned with protocols such as the UN Sustainable Development Goals ("UN SDG") and TCFD.

ESG Voting (for equity/multi asset funds only)

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

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

As the Fund invests via fund managers the managers provided details on their voting actions including a summary of the activity covering the financial reporting year up to 31 March 2025. The managers also provided examples of any significant votes.

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

Fund Name	Voting summary	Examples of significant votes	Commentary
Baillie Gifford UK Equity	Votable Proposals: 1,028 Proposals Voted: 100.0% For votes: 97.1% Against votes: 2.8% Abstain votes: 0.1%	Games Workshop Group PLC – Baillie Gifford supported Games Workshop's remuneration policy, believing it aligned pay with long-term performance and ownership. The resolution saw 27% opposition, marking it significant. The reason for heightened opposition was unclear however Baillie Gifford understand that the cause was proxy advisor concerns over the policy not being in line with industry norms.	Whilst Baillie Gifford makes use of proxy advisers' voting recommendations (ISS and Glass Lewis), they do not delegate or outsource stewardship activities or rely upon their recommendations. All client voting decisions are made in-house.
Baillie Gifford Global Alpha Paris Aligned	Votable Proposals: 1,215 Proposals Voted: 98.5% For votes: 93.6% Against votes: 6.0% Abstain votes: 0.4%	Microsoft Corporation – Baillie Gifford opposed the ratification of Microsoft's external auditor, Deloitte, citing concerns over the firm's lengthy tenure of 41 consecutive years. Baillie Gifford advocates for periodic auditor rotation to enhance independent oversight and maintain audit quality. Despite Microsoft's explanation of internal policies supporting auditor independence, the company confirmed it has never retendered its audit engagement and has no	Whilst Baillie Gifford makes use of proxy advisers' voting recommendations (ISS and Glass Lewis), they do not delegate or outsource stewardship activities or rely upon their recommendations. All client voting decisions are made in-house.

		plans to do so. Baillie Gifford believes that regular changes in audit firms bring fresh perspectives and strengthen financial scrutiny and therefore considered this resolution significant.	
Morgan Stanley Global Sustain Equity Fund	Votable Proposals: 695 Proposals Voted: 100.0% For votes: 89.1% Against votes: 10.7% Abstain votes: 0.3%	The Coca-Cola Company – MSIM exercised its proxy voting authority by voting against the election of a director at Coca-Cola, reflecting its governance concerns regarding potential over-boarding risks whereby a Director does not have sufficient time to devote to board service to properly represent shareholders. The resolution ultimately passed. MSIM may engage on this topic in future if they consider it a financially material ESG risk or opportunity.	Morgan Stanley make use of research providers (ISS) to analyse proxy issues, but are not obligated to act in line with their recommendations and will review all recommendations before issuing a decision. All Morgan Stanley proxy votes are made in line with their own proxy voting policy, in the best interest of each client.
LGIM Future World Index	Votable Proposals: 55,096 Proposals Voted: 99.8% For votes: 81.0% Against votes: 17.9% Abstain votes: 1.1%	Microsoft Corporation – LGIM voted in favour of a shareholder resolution to report on AI data sourcing accountability. LGIM believe that the company is at risk of legal action and reputational damage as a result of copyright infringement associated with its data sourcing practices. LGIM noted the company has strong disclosures on its approach to responsible AI and its related risks. However, LGIM believe shareholders would benefit from greater attention to the risks caused by the company's use of third-party information to train its large language models. Alphabet Inc – LGIM voted against the resolution to elect John L. Hennessy as director as LGIM expect boards to be regularly refreshed to maintain appropriate mix from an independence, relevant skills, experience, tenure and background perspective. In the this case, LGIM voted against the resolution as women make up less than one-third of the board, the Chair of the Committee has served more than 15 years and because the voting structure is currently not one-share-one-vote.	LGIM's Investment Stewardship team are responsible for managing voting activities across all funds. LGIM's Investment Stewardship team uses ISS's 'Proxy Exchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM, and they do not outsource any part of the strategic decisions. To ensure the proxy provider votes in accordance with their position on ESG, LGIM have put in place a custom voting policy with specific voting instructions. LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management.

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