



Scottish Solicitors' Staff Pension Fund Implementation Report

Period to 31 March 2024

Background and Implementation Statement

Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

Implementation Report

This implementation report is to provide evidence that the Fund continues to follow and act on the principles outlined in the SIP.

The SIP can be found online at the below web address, and changes to the SIP are detailed on the following page:

[SSSPF - SIP \(pensionpal.co.uk\)](https://pensionpal.co.uk)

The Implementation Report details:

- actions the Fund has taken to manage financially material risks and implement the key policies in its SIP
- the current policy and approach with regards 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 fund managers and in turn the engagement activity of the fund managers with the companies in the investment mandate
- voting behaviour covering the reporting year up to 31 March 2024 for and on behalf of the Fund including the most significant votes cast by the Fund or on its behalf

Summary of key actions undertaken over the Fund reporting year

- Following a review of the investment strategy in August 2023, the Trustee agreed to rebalance the current portfolio and reintroduce an allocation to diversified credit with the M&G Sustainable Total Return Credit Investment Fund ("STRCI"). In Q1 2024 the Trustee successfully onboarded the STRCI Fund to the portfolio, with the investment funded in two tranches, via partial disinvestments from the LGIM ARB and Apollo Total Return Fund. The LGIM ARB proceeds, due to the fund being more liquid, seeded the initial investment in STRCI in March 2024, with the second tranche from the Apollo Total Return Fund settling post-reporting period in May 2024.
- As part of the strategy review In August 2023, the Trustee agreed to rebalance the Fund's ARB and DGF allocations with LGIM back in line with target. The rebalance between the mandates was completed in March 2024.
- The Trustee also agreed to increase the Fund's hedge to 90% (on the Technical Provisions basis). The initial increase was completed in September 2023 and following receipt of updated liability cashflows from the Scheme Actuary, the hedge was rebalanced again in November 2023 after a review showed the Fund was over-hedged on both interest rates and inflation against the revised cashflows. The excess cash released from the rebalance (c.£0.5m) was invested in

the LGIM ARB Fund and later taken into account as part of the M&G STRCI implementation.

Implementation Statement

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

Chris Roberts

Position **Director**

Date **18/09/2024**

Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Interest rates and inflation	The risk of mismatch between the value of the Fund assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 90% (on the Technical Provisions basis) of the total liability movements caused by changes to interest and inflation rates.	The Trustee increased the Fund's hedge ratio to 90% on interest rates and inflation in September 2023. In November 2023, the hedge was rebalanced to the 90% target based on revised liability cashflows from the Fund's actuary.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI manager.	<p>The Fund's strategy has a large allocation invested in mandates which have daily/weekly liquidity. The Trustee monitors the Fund's liquidity position as part of quarterly performance reporting.</p> <p>When appointing a manager for the diversified credit mandate, the Trustee selected the STRCI Fund with M&G which offers daily liquidity.</p>
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.	<p>The Trustee:</p> <ul style="list-style-type: none"> - Implemented an increased liability hedging level, to protect against interest rates and inflation. - The Trustee re-introduced an allocation to diversified credit through the M&G STRCI Fund to further diversify the portfolio.
Credit	Default on payments due as part of a financial security contract.	<p>To diversify this risk by investing in a range of credit markets across different geographies and sectors.</p> <p>To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently</p>	The Trustee increased the overall diversification of credit risk for the Fund over the period, as the Trustee reintroduced an allocation to diversified credit through the investment in the M&G STRCI Fund.

		compensates the Fund for the risk of default.	
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	<p>To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:</p> <ol style="list-style-type: none"> 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory <p>The Trustees monitor the managers on an ongoing basis.</p> <p>The Trustee monitors the managers on an ongoing basis.</p> <p>The Trustee considers ESG issues as part of the investment process, and believe that financially material considerations (including climate change) are implicitly factored into the expected risk and return profile of the asset classes they are investing in.</p>	<p>The Trustee considered ESG credentials when selecting a fund for the diversified credit allocation. To enhance the overall ESG credentials of the Fund, the Trustee invested in the Sustainable version of the M&G diversified credit mandate.</p> <p>The Trustee made no amendments to the policy over the reporting period.</p>
Currency	The potential for adverse currency movements to have an impact on the Fund's investments.	Hedge all currency risk on assets that deliver a return through contractual income.	No Trustee actions or amendments were implemented over the reporting period in respect of currency risk.
Non-financial	Any factor that is not expected to have a financial impact on the Fund's investments.	Non-financial matters are not taken into account in the selection, retention, or realisation of investments.	No Trustee actions or amendments were implemented over the reporting period in respect of non-financial risk.

Changes to the SIP

There were no changes to the SIP over the period, albeit an updated version is due to be signed in due course.

Current ESG policy and approach

ESG as a financially material risk

The SIP describes the Fund's policy with regards to ESG as a financially material risk. The Fund has agreed a more detailed ESG policy which describes how it monitors and engages with the investment managers regarding the ESG policies. This page details the Fund's ESG policy. The next page details our view of the managers, our actions for engagement and an evaluation of the engagement activity.

Risk Management	<ol style="list-style-type: none">1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Fund2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee
Approach / Framework	<ol style="list-style-type: none">3. The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager.4. ESG factors are relevant to investment decisions in all asset classes.5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.
Reporting & Monitoring	<ol style="list-style-type: none">6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important.7. ESG factors are dynamic and continually evolving; therefore the Trustee will receive training as required to develop their knowledge.8. The role of the Fund's asset managers is prevalent in integrating ESG factors; the Trustee will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions.
Voting & Engagement	<ol style="list-style-type: none">9. The Trustee will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach.10. Engaging is more effective in seeking to initiate change than disinvesting.
Collaboration	<ol style="list-style-type: none">11. Asset managers should sign up and comply with common codes and practices such as the UNPRI & Stewardship code. If they do not sign up, they should have a valid reason why.12. Asset managers should engage with other stakeholders and market participants to encourage best practice on various issues such as board structure, remuneration, sustainability, risk management and debtholder rights.

Engagement

As the Fund invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category for the reporting year up to 31 March 2024.

Fund name	Engagement summary	Commentary
LGIM Absolute Return Bonds	<p>Total engagements: 109*</p> <p>Environmental: 57</p> <p>Social: 12</p> <p>Governance: 29</p> <p>Other: 11</p> <p>Number of companies engaged: 64</p> <p>*One engagement can comprise of more than one topic across each company</p>	<p>LGIM have clearly identified firm-wide sustainability goals and have a dedicated team responsible for engaging with portfolio companies. At a firm level LGIM is strong in their approach to ESG and voting/engagement.</p> <p>LGIM currently do not provide examples of their engagement activities at the Fund level.</p> <p>LGIM's Investment Stewardship team are responsible for engagement activities across all funds.</p>
LGIM LDI Portfolio	<p>LGIM do not currently provide details of their engagement activities at Fund level. Isio will work with LGIM on the development of the firm's engagement reporting.</p>	<p>LGIM leverage the wider capabilities of the global firm to engage with companies. The team also regularly engage with regulators, governments and other industry participants to address long term structural issues, aiming to stay ahead of regulatory changes and adopt best practice.</p>
LGIM Diversified Fund	<p>Total engagements: 1,643*</p> <p>Environmental: 1,162</p> <p>Social: 178</p> <p>Governance: 265</p> <p>Other: 38</p> <p>Number of companies engaged: 1,321</p> <p>*One engagement can comprise of more than one topic across each company</p>	<p>LGIM leverage the wider capabilities of the global firm to engage with companies. The team also regularly engage with regulators, governments and other industry participants to address long term structural issues, aiming to stay ahead of regulatory changes and adopt best practice.</p>

Apollo Total Return Fund

Apollo do not currently disclose the split of engagements by theme or topic. Isio will work with Apollo on the firm's engagement reporting.

Apollo have a clear due diligence and engagement framework, however, has not established a clear stewardship policy or stewardship priorities for the Fund. The team continually engage with portfolio companies through discussion with management, and these engagements have been a key driver for the production for formal company ESG reports and Key Performance Indicators. As bond investors, Apollo's voting rights are limited, making it more difficult to engage with portfolio companies in comparison to equity investors.

Examples of significant engagements include:

Covanta Holding Corporation – Apollo engaged with the company on a number of ESG-related topics including how the company is progressing on its sustainability-linked goals, labour turnover, and unionization. The company shared that it believes it is on track to meet both of its sustainability linked KPIs by the end of 2025. The company also disclosed to Apollo that <10% of the work force was unionised. The information provided allows Apollo to form a more wholesome understanding of the ESG risks and opportunities to which the company is exposed and integrate this assessment into their investment decision-making.

M&G Sustainable Total Return Credit Investment Fund¹

Total engagements: 12
Environmental: 8
Social: 2
Governance: 2
Number of companies engaged: 11

M&G engage across corporates, governments, regulators and industry bodies to seek both positive change at issuer level and to improve the wider market.

An example of a significant engagement includes:

ING Group NV – M&G engaged with the Dutch financial institution to discuss their climate targets and strategy. The Company is currently committed to a near term SBTi but M&G requested the company provided additional data to allow them to better measure and track the company’s progress against their targets. ING is reviewing the latest SBTi guidance for banks before submitting their targets to SBTi for approval, which they expect to do in 2024. M&G noted the company was very receptive to their requests for additional data and will follow up with the company in due course to understand how effectively their requests have been taken on board.

¹ The Fund invested in the M&G STRCI Fund over the reporting period. Engagement data from the manager has been provided for the full 12-month period to 31 March 2024.

Voting (for equity/multi asset funds only)

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

Fund name	Voting summary	Examples of significant votes	Commentary
LGIM Diversified Fund	<p><i>Meetings eligible to vote for: 8,997</i></p> <p><i>Resolutions eligible to vote for: 93,090</i></p> <p><i>Resolutions voted for: 99.8%</i></p> <p><i>Resolutions voted with management: 76.6%</i></p> <p><i>Resolutions voted against management: 23.1%</i></p> <p><i>Resolutions abstained from: 0.3%</i></p>	<p>Prologis, Inc.– LGIM voted against the election of Director Jeffrey L. Skelton. This was because LGIM expects at least a third of the board to be made up of women and the company has an all-male executive committee. LGIM views gender diversity as a financially material issue for clients, and believe these issues have implications on the assets they manage.</p> <p>Toyota Motor Corp.– LGIM voted against management in favour of the amendment of Articles to report on corporate climate lobbying aligned with the Paris Agreement. LGIM views climate lobbying as a crucial part of enabling the transition to a net zero economy. They find that a vote for the proposal was warranted as LGIM believes that companies should advocate for public policies that support global climate ambitions and not stall progress on a Paris-aligned regulatory environment.</p>	<p>LGIM’s Investment Stewardship team uses ISS’s ‘ProxyExchange’ 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.</p>

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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Scottish Solicitors - Implementation Statement 2024 - DRAFT

Final Audit Report

2024-09-18

Created:	2024-09-18
By:	Tracy Bennett (tracy_bennett@dalriadatrustees.co.uk)
Status:	Signed
Transaction ID:	CBJCHBCAABAAHmGe5m-_Szmw0f15OkGBTa6wBubxTjaH

"Scottish Solicitors - Implementation Statement 2024 - DRAFT" History

-  Document created by Tracy Bennett (tracy_bennett@dalriadatrustees.co.uk)
2024-09-18 - 11:43:48 GMT- IP address: 195.26.51.19
-  Document emailed to chris_roberts@dalriadatrustees.co.uk for signature
2024-09-18 - 11:44:53 GMT
-  Email viewed by chris_roberts@dalriadatrustees.co.uk
2024-09-18 - 16:32:06 GMT- IP address: 104.47.11.62
-  Signer chris_roberts@dalriadatrustees.co.uk entered name at signing as Chris Roberts
2024-09-18 - 16:32:51 GMT- IP address: 31.94.62.150
-  Document e-signed by Chris Roberts (chris_roberts@dalriadatrustees.co.uk)
Signature Date: 2024-09-18 - 16:32:53 GMT - Time Source: server- IP address: 31.94.62.150
-  Agreement completed.
2024-09-18 - 16:32:53 GMT