Appendix I: Annual Engagement Policy Implementation Statement for the year ended 31 March 2022

Background and Implementation Statement

Background

The Department for Work and Pensions ('DWP') is increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance (ESG) factors as financially material and schemes need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that schemes detail their policies in their statement of investment principles (SIP) and demonstrate adherence to these policies in an implementation report.

Statement of Investment Principles (SIP)

The Scottish Solicitors' Staff Pension Fund ("the Fund") has updated its SIP in response to the DWP regulation to cover :

- policies for managing financially material considerations including ESG factors and climate change
- policies on the stewardship of the investments

The SIP can be found online at the web address
https://download.members.pensionpal.co.uk/ssspf/Scottish%20Solicitors%20SIP%20Sept%202020.pdf

Implementation Report

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 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 2021 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

- The Fund terminated their equity portfolio over the year, fully disinvesting their holdings in the LGIM UK Equity and LGIM Global Equity Funds.
- The Fund disinvested c.£3.4m of their holdings from the LGIM Sterling Liquidity Fund. The proceeds of which were invested into the M&G Alpha Opportunities Fund as part of a new multi-asset credit mandate.

Implementation Statement

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

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 60% (on a flat gilts basis) of the total liability movements caused by changes to interest and inflation rates.	No Trustee actions or amendments were implemented over the reporting period in respect of interest rates and inflation risk.
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.	The Fund's strategy has a large allocation invested in mandates which have daily/weekly liquidity. The Fund has a large cash allocation which can be used to meet any needs that arise from the LDI portfolio or for ongoing member payments.
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.	No Trustee actions or amendments were implemented over the reporting period in respect of credit risk.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Fund for the risk of default.	The number of credit managers and breadth of market exposure increased over the period, providing increased diversification of default risk.
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.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process	The ESG policy was reviewed by the Trustees as part of the SIP update in September 2020.

		3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory The Trustees monitor the mangers on an ongoing basis.	
Currency	The potential for adverse currency movements to have an impact on the Fund's investments.	Allow the Scheme's active managers who invest in overseas securities the flexibility to hedge overseas currency exposure to manage risk.	No Trustee actions or amendments were implemented over the reporting period in respect of credit risk.

Changes to the SIP

Policies added to the SIP	
Date updated: 30 September 2020	
How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.	• The Trustee has delegated the day to day management of the majority of the Fund's assets to investment managers. The majority of the Fund's assets are invested in pooled funds which have their own policies and objectives and charge a fee, agreed with the investment manager, for their services. Such fees incentivise the investment managers to adhere to their stated policies and objectives.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	• The Trustee, in conjunction with its investment consultant, appoints its investment managers and chooses the specific pooled fund to use in order to meet specific Fund policies. It expects that its investment managers make decisions based on assessments about the financial and non-financial performance of underlying investments, and that they engage with issuers of debt or equity to improve their performance (and thereby the Fund's performance) over an appropriate time horizon. The Trustee has decided not to take non-financial matters into account when considering its policy objectives
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.	• The Trustee expects its investment managers to invest the assets within its portfolio in a manner that is consistent with the guidelines and constraints set out in their appointment documentation. The Trustee reviews investment managers periodically. These reviews incorporate benchmarking of performance and fees. Reviews of performance focus on longer-term performance (to the extent that is relevant), e.g. looking at five years of performance. • If the Trustee determines that the investment manager is no longer managing the assets in line with the Trustee's policies it will make its concerns known to the investment manager and may ultimately disinvest. • The Trustee pays its investment managers a management fee which is a fixed percentage of assets under management. Prior to agreeing a fee structure, the Trustee, in conjunction with its

	investment consultant, considers the appropriateness of this structure, both in terms of the fee level compared to that of other similar products and in terms of the degree to which it will incentivise the investment manager.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	• The Trustee does not explicitly monitor turnover, set target turnover or turnover ranges. The Trustee believes that the investment managers should follow their stated approach with a focus on risk and net return, rather than on turnover. In addition, the individual mandates are unique and bespoke in nature and there is the potential for markets to change significantly over a short period of time..
The duration of the Fund's arrangements with the investment managers	• The Trustee does not in general enter into fixed long-term agreements with its investment managers and instead retains the ability to change investment manager should the performance and processes of the investment manager deviate from the Trustee's policies. However, the Trustee expects its manager appointments to have a relatively long duration, subject to the manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.

Current ESG policy and approach

ESG as a financially material risk

The SIP describes the Fund's policy with regarding to ESG as a financially material risk. This page details how the Fund's ESG policy is implemented, while the following page outlines Isio's assessment criteria as well as the ESG beliefs used in evaluating the Fund's managers' ESG policies and procedures. The rest of this statement details our view of the managers, our 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 Trustee intend to review the Fund's ESG policies and engagements periodically to ensure they remain fit for purpose – for now, the Trustees have adopted Isio's standard ESG beliefs, shown below.

Implementing the Current ESG Policy

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights and engagement activity	• Through the manager selection process ESG considerations will form part of the evaluation criteria • The Fund's investment advisor Isio will monitor managers' ESG policies on an ongoing basis	• The manager has not acted in accordance with their policies and frameworks.

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 2021.

Fund name	Engagement summary	Commentary
LGIM Diversified Fund LGIM Over 10 Year Active Corporate Bond Fund LGIM LDI Portfolio LGIM Cash	LGIM do not currently provide details of their engagement activities at Fund level, however the firm is considering how such information can be provided going forward. Isio will work with LGIM on the development of the firm's engagement reporting.	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
Aberdeen Standard Investments Corporate Bond Fund	ASI are currently unable to provide engagement data at a Fund-level. ASI are looking to align their Fund engagement reporting with the Investment Consultant Sustainability Working Group ('ICSWG') reporting template once finalised later in 2021.	At a firm-level, ASI engage with investee companies on an ongoing basis and produce a quarterly ESG report detailing their engagement activity. They do not currently report at a Fund-level for engagement

		activity but are working to do so and plan to report in line with the ICSWG requirements.
M&G Alpha Opportunities Fund	Total engagements: 8 Environmental: 1 Social: 2 Governance: 5	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. 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 CF&S Term, 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: Quadient – M&G engaged with the automation and communications company to encourage further disclosure and policies relating to human rights and modern slavery, in order to recognise the importance of these issues given the nature of the supply chain. This engagement allowed the company to explain its full ESG strategy to M&G and look in greater depth at its approach to supply chain management, especially relating to conflict minerals and human rights. M&G asked the company to publish full public policy documents on human rights, supplier practices, business ethics and data privacy. The company was extremely receptive to M&G's questioning and their suggestions for releasing public-facing policy documents. The company has assured M&G that it intends to publish these, and supplementary information, on its

			website in the near future. M&G will continue to monitor and follow up as appropriate. AB InBev – M&G met with the multi-national drinks company, urging it to set emissions reduction targets, post 2025, as well as a net zero target for 2050 or sooner. M&G met with the investor relations and sustainability teams, who explained the company's main challenges to reducing emissions. These primarily focused on the heat required in the brewing process - which is currently two-thirds of its energy requirements - and product packaging, which represents 40% of its scope 3 emissions. The company is clearly aware of its challenges and is working on the solutions, which could include the increased use of returnable glass bottles and recycling plastic on the packaging side. M&G are now giving the company time to work through these solutions and await its next ESG report, which was due to be published in February 2021, to see if any new targets are published. M&G will then decide if further near-term engagement is necessary.

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 2021. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
LGIM Diversified Fund	*Meetings eligible to vote for: 11,362* *Resolutions eligible to vote for: 115,604* *Resolutions voted for: 99.0%*	Barclays – LGIM voted in favour of supporting Barclays' Commitment in Tackling Climate Change. The commitment sets out Barclay's long-term plans and has the backing of ShareAction (a charitable	LGIM's Investment Stewardship team are responsible for managing voting activities across all funds.

	Resolutions voted with management: 81.7% *Resolutions voted against management: 17.7%* *Resolutions abstained from: 0.6%*	organisation set up to improve ESG issues in the investment sector). 99% of shareholders voted in favour of the resolution and LGIM plan to continue to work with Barclays board and management to develop their plans and drive positive change. ExxonMobil – LGIM voted against the re-election of the current chair of the board as part of LGIM’s ‘Climate Impact Pledge’. LGIM also supported a shareholder proposal for an independent chair and a report on the company’s political lobbying. While shareholders voted in favour of re-election, LGIM’s vote was widely publicised promoting their efforts in driving positive change