



Capability Scotland Pension Scheme: Implementation Report

September 2023

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.

Statement of Investment Principles (SIP)

The SIP can be found online at the web address [Capability Scotland SIP - 2022 \(signed\)\(134634884.1\) original.pdf](#).

The SIP in the above link was updated in September 2022 following the buy-in insurance transaction referred to below. Changes to the SIP are detailed on the following pages.

Implementation Report

This implementation report is to provide evidence that the Trustees of the Capability Scotland Pension Scheme continue to follow and act on the principles outlined in the SIP.

The Implementation Report details:

- actions the Trustees have 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 Trustees have 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

Summary of key actions undertaken over the Scheme reporting year

- The Scheme purchased a full member insurance buy-in policy with Legal & General Assurance Society during the reporting-year; this was executed on 20 May 2022.
- In terms of pooled investment vehicles, the Scheme retains a single holding in the Insight Liquidity Plus Fund.

Implementation Statement

This report demonstrates that the Trustees of the Capability Scotland Pension Scheme have adhered to their investment principles and their policies for managing financially material considerations, including ESG factors and climate change.

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.

Signed 

Position DIRECTOR, MCGRIGGERS PENSION TRUSTEES LIMITED

Date 26/09/2023

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 Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To broadly hedge 100% of these risks.	Interest rate and inflation hedging is provided by the Scheme's full member insurance buy-in policy with Legal & General Assurance Society. We do not have oversight of the buy-in policy. The change was reflected in the Scheme's SIP over the year.
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).	Member benefits are covered by the Scheme's buy-in policy. Any additional cashflow requirements are funded from the Scheme's holdings in the Insight Liquidity Plus Fund. The change was reflected in the Scheme's SIP over the year.
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.	The Scheme is not materially exposed to market risks through the investment portfolio as the Scheme has a buy-in policy in place and an allocation to a cash fund.
Credit	Default on payments due as part of a financial security contract.	To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available	The Scheme is exposed to very limited credit risk via the cash fund.

sufficiently compensates the Scheme 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.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: <ul style="list-style-type: none"> • Responsible Investment ('RI') Policy / Framework • Implemented via Investment Process • A track record of using engagement and any voting rights to manage ESG factors • ESG specific reporting • UN PRI Signatory 	The Trustees indirectly monitor this risk as part of annual performance reporting. This risk has been significantly reduced as part of the strategic changes implemented over the Scheme year.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge all currency risk on all assets that deliver a return through contractual income.	The Scheme is not exposed to adverse currency exposure through the investment portfolio.
Longevity	Members of the Scheme living longer than expected, leading to a larger than expected liability.	To hedge the majority of this risk through the purchase of the buy-in policy.	The Scheme has a buy-in policy in place to manage this risk.
Non-financial	The views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Scheme in the selection, retention and realisation of investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments. This policy will be reviewed at least annually.	There was no action taken in relation to this risk over the Scheme reporting year.

Changes to the SIP

Amendments to SIP	
Date updated: September 2022	
Investment objective	<p>In May 2022 the Trustees agreed to restructure the strategy, using the majority of the Scheme's assets to purchase a buy-in policy which covers the majority of the Scheme's liabilities.</p> <p>The Scheme's present investment objective is to achieve the return on UK Government bonds, with a nature and duration consistent with the Scheme's liabilities.</p>
Investment Manager Monitoring and Engagement	<p>As the remaining assets are due to fund any true-up premium in respect to the buy-in insurance policy, the Trustees periodically monitor that the Scheme has sufficient assets. If this is not the case, the Trustees may need to intervene.</p> <p>The Trustees acknowledge the importance of Environmental, Social and Governance factors (ESG). As the majority of the assets are invested in the buy-in policy, there is limited scope for the Trustees to incorporate ESG into the Scheme's investment strategy.</p>

Appendix 1

Strategic asset allocation by fund manager

Fund Manager	Fund	Manager Benchmark/Target
Legal & General Assurance Society	Full member insurance buy-in	n/a
Insight (accessed via the Mobius Life platform)	Liquidity Plus Fund	SONIA

Appendix 2 – Risks, Financially Material Considerations and Non-Financial matters

The Scheme is exposed to a number of underlying risks relating to the Scheme's investment strategy, these are summarised below:

Risk	Definition	Policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities	To broadly hedge 100% of these risks.

	from changes in interest rates and inflation expectations.	
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).
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.
Credit	Default on payments due as part of a financial security contract.	To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme 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.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: Responsible Investment ('RI') Policy / Framework Implemented via Investment Process A track record of using engagement and any voting rights to manage ESG factors ESG specific reporting UN PRI Signatory
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge all currency risk on all assets that deliver a return through contractual income.
Longevity	Members of the Scheme living longer than expected, leading to a larger than expected liability.	To hedge the majority of this risk through the purchase of the buy-in policy.
Non-financial	The views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Scheme in the selection,	Non-financial matters are not taken into account in the selection, retention or realisation of investments. This policy will be reviewed at least annually.

	retention and realisation of investments.	
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ESG Summary and Engagement

The Trustees acknowledge the importance of Environmental, Social and Governance (ESG). However, as the majority of scheme assets are invested in the buy-in policy, there is limited scope for the Trustees to incorporate ESG into the Scheme's investment strategy. The remaining funds are invested via fund managers who provide details on their engagement actions. Please see a summary of the engagements by category for the 12 month period to 31 March 2023.

Fund name	Engagement summary	Commentary
Insight Liquidity Plus Fund	Total Engagements: 128	Insight engages with counterparties on a range of ESG issues, mainly related to strategy, financial and reporting issues. Examples of significant ESG activities with counterparties include: Rabobank - Insight engaged with the counterparty on various ESG issues, including Markets in Financial Instruments Directive ("MIFID") disclosures and mis-selling, their approach to net zero and cyber security. The engagement itself was to gain insight and knowledge rather than to influence. Insight will continue to engage with and review Rabobank's net zero targets. UBS - Insight engaged with the counterparty to discuss governance-related issues. Insight held a meeting with USB's Investor Relations, Business Strategy and Global Head of Funding to address UBS' weak governance scores in their Prime ESG ratings and to understand the steps they are taking to improve performance. Insight engaged with UBS on their diversity performance, as only 25% of management are female. Subsequently, USB released a diversity target of 30%. Insight will continue to regularly engage with UBS.
	Environmental: 26	
	Social: 14	
	Governance: 19	
	Strategy, Financial and Reporting: 69	