



Capability Scotland Pension Scheme: Implementation Report

June 2026

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](#).

There were no changes to the SIP during the reporting year.

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 their 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:

- There were no actions taken over the Scheme reporting year as the Trustees prepare for an insurance buy-out. The Scheme retains a single holding in the Insight Liquidity Plus Fund following the purchase of a full member insurance buy-in policy with Legal & General Assurance Society in May 2022.

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.

Signed: *Trustees of the Capability Scotland Pension Scheme*

Date: *June 2026*

Director, McGrigors Pension Trustees Limited

For and on behalf of the Capability Scotland Pension Scheme

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. There were no changes to the SIP over the reporting 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. There were no changes to the SIP over the reporting 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. There were no changes to the SIP over the reporting year.

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.	The Scheme is exposed to very limited credit risk via the cash fund. There were no changes to the SIP over the reporting year.
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 via their investment advisors, Isio. There were no changes to the SIP over the reporting 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. There were no changes to the SIP over the reporting year.
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. There were no changes to the SIP over the reporting year.
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 were no changes to the SIP over the reporting year.


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.

Based on advice from the Trustees' investment consultant, the Trustees have no notable concerns regarding Insight's ESG capabilities or engagement activity for the Liquidity Plus Fund.

Please see a summary of the engagements by category for the 12-month period to 31 March 2026.

Fund name	Engagement summary	Commentary
Insight Liquidity Plus Fund	<p>Total Engagements: 43 (across 11 companies / counterparties)</p> <p>Environmental: 10</p> <p>Social: 2</p> <p>Governance: 1</p> <p>Strategy, Financial and Reporting: 30</p>	<p>Insight engages with counterparties on a range of ESG issues, mainly related to strategy, financial and reporting issues.</p> <p>Examples of significant ESG activities with counterparties include:</p> <p>Société Générale - Insight engaged with Société Générale to assess and strengthen the bank's climate strategy, financed emissions approach and transition planning. In the latest discussions, the bank reaffirmed that its climate ambitions and portfolio alignment targets remain unchanged despite a more challenging environment, highlighting continued progress in embedding ESG considerations into risk management and expanding sector-specific decarbonisation targets. Insight noted the bank's increasing emphasis on supporting client transition rather than exiting relationships, alongside the extension of transition assessment tools across a wider set of carbon-intensive sectors and their growing integration into credit and risk processes.</p> <p>While these developments signal meaningful progress, particularly in governance and transition frameworks, the engagement also identified ongoing gaps in the transparency and completeness of emissions reporting</p>



and quality of certain financed emissions data. Insight considered the dialogue to be constructive but continues to emphasise improvements in data quality, disclosure and clearer evidence of how transition assessments translate into measurable client outcomes and stronger alignment with net zero objectives.
