

Infrastructure Investment

Infrastructure investments have the potential to generate attractive risk-adjusted returns, with cash flows often linked to inflation. The long-term and defensive nature of these assets also can provide an element of diversification to the Fund's investment strategy.

Over the last decade, the Fund has developed its reputation, networking and execution capabilities to secure access to investment opportunities within this market niche. The Fund's experienced team appraises, and invests in primary and secondary funds as well as co-investments, to achieve its target allocation in a cost-effective manner. An important element of the implementation strategy is to work closely with investment managers to ensure execution certainty and to diligence the commercial and legal terms. Collectively, Lothian and its collaboration partners committed over £200 million in 2018/19 in infrastructure investment.

Lothian Pension Fund has a long-standing commitment to responsible investment. In addition to becoming a signatory of the UNPRI (United Nations Principles of Responsible Investment) in 2008, the Fund has subscribed to GRESB (Global Real Estate Sustainability Benchmark) to further enhance our analysis of environmental, social and governance issues.

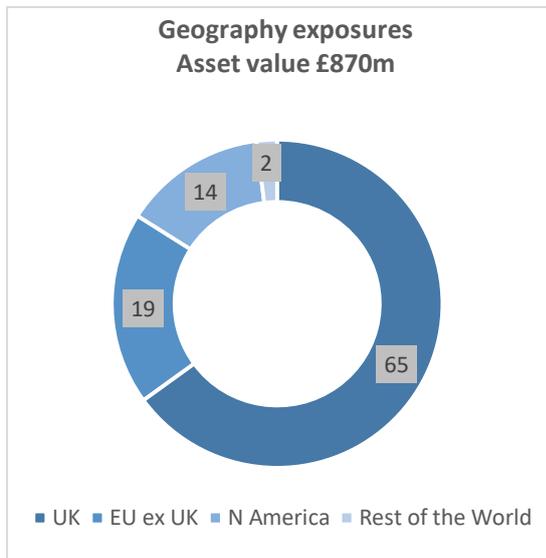
Infrastructure investments represented 11.1% of the value of Lothian Pension Fund assets at 31 March 2019, comprising one of the largest and most diversified allocations among UK LGPS funds. Of the total infrastructure investment of £870 million (31 March 2018: £795 million) invested in infrastructure, the majority is invested in the UK.

During 2018/19, Lothian Pension Fund completed two primary fund investments, acquired seven secondary fund interests and invested in three co-investments. Approximately £135 million has been invested over the year in UK, European and Global infrastructure assets. During the same period, £173 million has been distributed to the Fund. There were two successful realizations during the period generating proceeds of £48 million and recording a blended net internal rate of return of 22.3% and a total value to paid-in multiple of 1.8x. Distributions from secondary fund investments contributed £91 million.

Secondary fund investments completed following the global financial crisis in 2007-2008 boosted returns.

The Fund invested £402 million in ownership interests of 23 funds from 2010 to 2019. It has received £309 million of distributions from those investments and the remaining invested value at 31 March 2019 was £329 million. This generated a total value to paid-in multiple of 1.6x and an internal rate of return of 17% to date.

The geographic and sector exposures for Lothian Pension Fund infrastructure allocations (at 31 March 2019) are shown in the charts below.



Infrastructure investments in the UK contributed 64% (or £559 million) of the total. The Funds' 20 largest UK investments, representing £400 million of value, are shown in the map below.

Investments are made across a diverse range of projects, in the areas of:

- social infrastructure (including hospitals, schools and roads);
- regulated utilities (including water and electricity);
- energy & renewables (including solar and wind);
- transportation (including ports and rail); and
- others (including car parks and smart meters).

The Fund recognises the role infrastructure investment can make to addressing part of the current environmental challenges related to climate change. Approximately, 20% of the infrastructure portfolio is invested in renewable energy. During the year, the Fund allocated £47 million to co-investments in UK renewable energy projects – a diversified portfolio of wind farms and in an energy from waste facility.

