

## 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 can also provide an element of diversification to the Fund's investment strategy.

Over the last 15 years, LPF has developed our 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 our 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, with our collaboration partners, LPF committed over £300 million in infrastructure investment during 2019/20.

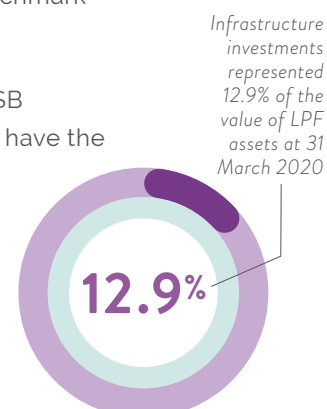
LPF has a long-standing commitment to responsible investment. In addition to becoming a signatory of the PRI (Principles of Responsible Investment) in 2008, we have subscribed to GRESB (Global Real Estate Sustainability Benchmark) to further enhance our analysis of environmental, social and governance (ESG) issues.

At 31 March 2020, 89% of the Infrastructure portfolio value was invested in assets/funds which were also signatories of the PRI and 32% of funds participated in the 2019 GRESB Infrastructure Assessment, a relatively new initiative. Most of Lothian Pension Fund's infrastructure funds also publish an internal ESG policy, outlining the consideration given to ESG issues within the decision-making and ongoing investment monitoring process, and this has become a standard requirement/consideration for manager selection.

Within the GRESB Infrastructure Assessments, participating funds and assets report annually to GRESB on their internal controls and policies. GRESB validates the submitted data and assesses the fund or asset with reference to a series of performance indicators, including the sustainability of its investment strategy, stakeholder relations and level of gender/diversity reporting. The aggregate scores determine a total fund or asset score which can be used to benchmark performance against its peer group.

Funds and assets across all infrastructure sub-sectors can participate in the GRESB Infrastructure assessments, but Transport and Renewable Power assets currently have the greatest participation rate within Lothian Pension Fund's portfolio.

Infrastructure investments represented 12.9% of the value of Lothian Pension Fund assets at 31 March 2020, comprising one of the largest and most diversified allocations among UK LGPS funds. Of the total infrastructure investment of £962 million (31 March 2019: £870 million), the majority is invested in the UK.

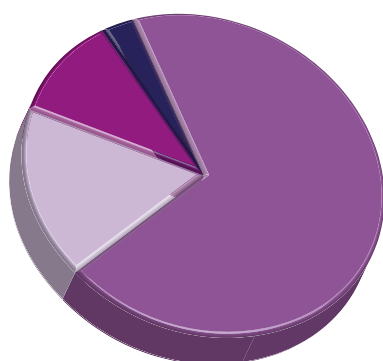


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During 2019/20, Lothian Pension Fund completed investments in eight secondary fund interests and made three co-investments. Approximately £165 million has been invested over the year in UK, European and Global infrastructure assets. During the same period, £187 million has been distributed/returned to the Fund. Of note, there were two successful realisations generating proceeds of £80 million and recording a net internal rate of return over 20% and a total value to paid-in multiple of 2x. A sale of another of the larger assets was agreed, which crystallises proceeds of approximately £39 million in April 2020.

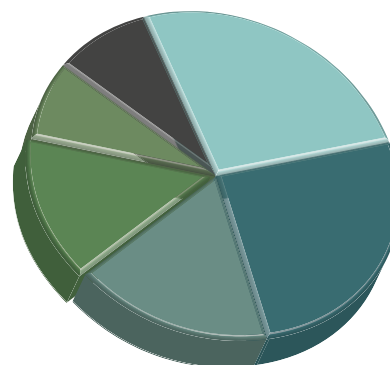
The geographic and sector diversification for Lothian Pension Fund infrastructure (as percentage of infrastructure asset value of £962m at 31 March 2020) is shown in the charts below.

### GEOGRAPHIC DIVERSIFICATION



■ 69%	UK
■ 17%	Europe ex UK
■ 11%	North America
■ 3%	Rest of the world

### SECTOR DIVERSIFICATION



■ 26%	Utilities	■ 14%	Transportation
■ 26%	Social Infra.	■ 8%	Energy & Power
■ 17%	Renewables	■ 9%	Telecom & Others

Infrastructure investments in the UK contributed 69% (or £661 million) of the total. The Fund's 20 largest UK investments, representing £407 million of value, are shown in the map below. Investments are made across a diverse range of projects, in the areas of:

- Utilities (including regulated water, gas and electricity)
- Social infrastructure (including hospitals, schools and roads)
- Renewables, Energy and Power (including wind farms, biomass and natural gas pipelines)
- Transportation (including ports and rail); and
- Telecom and Others (including telecom towers and car parks).

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We recognise the role infrastructure investment can make to address part of the current environmental challenges related to climate change. Approximately, 17% of the infrastructure portfolio is invested in renewable energy.

During the year, the Fund allocated c. £32 million to new investments in UK renewable energy projects and new opportunities continue to be appraised.

Since March 2020, the impact of COVID-19 on the Lothian Pension Fund infrastructure portfolio has been closely monitored. The portfolio sector bias towards regulated utilities, social infrastructure and renewable energy, includes essential critical assets which benefit from contracted or regulated income streams, and is expected to largely insulate the portfolio from material adverse financial impacts derived from COVID-19.

