



Covering the period 1 April 2024 to 31 March 2025

THE STEWARDSHIP REPORT



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A MESSAGE FROM OUR CEO

As a responsible investor, Lothian Pension Fund (LPF) has a long-established commitment to stewardship. This is our fifth report prepared in accordance with the standards of the Stewardship Code 2020. As a leader in responsible investment amongst Local Government Pension Scheme (LGPS) funds, we prepare and submit this report to demonstrate the nature of our commitment to stewardship, for the benefit of our stakeholders.



In the context of a complex and unpredictable world, we think hard about our approach to stewardship and regularly reassess how we should exert our influence as assets owners in an appropriate and consistent manner. First and foremost, we own assets to fund our members' income in retirement, an important social responsibility in its own right, but with ownership comes the opportunity to encourage positive corporate behaviour for the benefit of society. We see this as an additional responsibility, which we address through our voting and engagement activities that are explained in the following pages. This report confirms our adherence to the standards of the UK Stewardship Code. Our commitment is to amplify our influence as a £10.3bn pension fund in an industry measured in the trillions, by working with other asset owners to drive the long-term value of our investment portfolio and contribute to the long-term health of the financial system.

David Vallery

CEO, Lothian Pension Fund



A MESSAGE FROM OUR PENSIONS COMMITTEE

The role of the Pensions Committee is to ensure that the pension fund is run in a sound and sustainable manner that guarantees we deliver on our pensions promise to our beneficiaries. We do this by investing prudently and carefully. We also do this by striving to ensure that the companies and assets we invest in are well governed and well managed, that they minimise their negative impacts on society and the environment, and that they make a positive contribution to our societies and our communities.

We use our rights as an investor to challenge companies when they fall short of the standards that we expect, and we stand with them and support them when they're developing and implementing strategies that enhance their long-term sustainability and resilience.

Our work to support good governance and engagement is underpinned by our belief in the power of our voice, often alongside others, to lead to positive change that sustains and drives value for our stakeholders today and in the future.



The Pensions Committee has a critical role to play. We want LPF to take meaningful action on a range of issues, notably corporate governance and climate change. We've encouraged the fund to continue to develop its approach to climate change, incorporating climate scenario analysis to stress test the results of our 2023 valuation, and adopting a new Climate Change Policy with a presumption against continued investment in laggard oil and gas companies while continuing to focus engagement on real-world decarbonisation policies to limit global warming.

The Pensions Committee welcome this report as a record of LPF's past efforts, outcomes and future areas of focus for further improvement in our approach to responsible investment, within the wider financial system on which our current and future stakeholders rely. We continue to encourage, support and commend LPF's work in this critically important area for our members and employers, for a resilient financial system, and for a better world.



ABOUT US: CREATING LONG-TERM INVESTMENT VALUE

Our Purpose, Vision and Duty

Our Purpose is to administer the LGPS in Edinburgh and the Lothians. By paying pensions and benefits to members, we contribute to the financial well-being of members and their families in retirement.

We invest the scheme's assets, seeking to earn an appropriate return that will reduce the cost of the scheme to employers and improve the sustainability of the LGPS. By investing responsibly, we seek to ensure that companies meet and manage environmental, social and governance standards, including those relating to the climate change threat and the need to transition to a net zero world.



Our Vision is to deliver outstanding pension and investment services for the benefit of members and employers. Beyond this we aspire to be the best LGPS in Scotland, if not the UK, in terms of meeting the needs of members and employers, in using our influence as a leading responsible investor, and offering a superior employment proposition to our colleagues.

About Us

LPF has been around in its current form (as a funded, defined benefit, statutory occupational pension scheme) since 1975 and has helped more than 75,000 local government workers and their families to experience a financially secure retirement. We're the second largest LGPS in Scotland as an asset-backed and multi-employer scheme with around £10.3 billion of assets and we were 157% funded at our last valuation in 2023. We're proud to serve over 95,430 members and 50 active employers.

LPF's stakeholders are the people and entities with an interest in the assets and activities of LPF. They include the members of the pension scheme (existing and future), their dependants and beneficiaries, as well as the participating employers who contribute to the assets of the fund and our governing bodies. We have a fiduciary duty to act in a financially prudent manner and to act in the best interests of the scheme employers and the scheme members.

It's this duty that defines our approach to stewardship. The activity of investing in assets for returns that will exceed inflation in the long-term has always relied on judgement, manager skill, diversification, and patience. Today is no different, but judgement, management and patience are especially challenged by climate risk assessment, other environmental, social and governance issues, and the distribution of information and misinformation in this age of social media. We need to manage our investments responsibly and exercise our fiduciary duty with due awareness of the complex dynamics of investing in a changing world in order to drive the long-term value of our investment portfolio so that we can pay pensions and benefits as they fall due over many decades to come.



ABOUT US: CREATING LONG-TERM INVESTMENT VALUE

Stewardship as an investment function

We see stewardship primarily as an investment function. Our core responsibility is to invest in a way that takes full account of the downside risks and the upside opportunities presented by ESG factors. We need to be properly compensated for risks, avoid over-paying for opportunities, and we need to manage and mitigate these risks in our investment portfolio.

This emphasis on the investment implications of ESG issues is reflected in our approach to stewardship. In June 2024, we created two new dedicated responsible investment roles within our investment team, illustrating our organisational commitment to appropriate resourcing and further development of our approach to responsible investment. We have an experienced portfolio manager leading our responsible investment activities and it's our portfolio managers and investment analysts who are responsible for engaging with companies and with investment managers. It's also our portfolio managers who lead our work with collaborative initiatives, such as with Climate Action 100+ and the Institutional Investors Group on Climate Change.

Stewardship as a collaborative activity

As an asset owner acting alone, our potential for direct influence is relatively modest. While direct company engagement is important and can be influential in situations where we have a significant holding, our biggest impact comes through working with others.



ABOUT US: CREATING LONG-TERM INVESTMENT VALUE

Our approach to stewardship therefore includes:

- Collaboration with our industry peers
- Engagement with our investment managers. We challenge our managers on their approach to responsible investment and ESG
- Supporting collaborative engagement and escalations through EOS at Federated Hermes (EOS), which derives considerable influence from representing owners of assets worth approximately \$2.2tn.



STEWARDSHIP IN PRACTICE: LOOKING FORWARD

Our aim, in all our stewardship efforts, is to ensure that the companies we invest in are sustainable and successful over the long-term and create enduring value for us as investors. We have a long track record of voting and engaging on what are often referred to as the traditional corporate governance issues, such as executive remuneration and board independence. These issues remain of central importance. Governance failures can lead to major financial losses for investors, to avoidable job losses or harm to employees or to unpaid suppliers and creditors.

However, environmental and social issues have risen up the agenda that shapes our present and our future: the climate emergency; human rights; geopolitical instability; nature degradation; equality, diversity and inclusion; and economic volatility, for example. These issues and the global response to them will affect our ability to deliver retirement savings for our existing and future members. As asset owners with a long-term horizon, we take these global issues seriously, we exercise our ability to vote and engage, and we encourage others to do the same.

Our priorities for 2025 and 2026

In March 2025 we updated our Statement of Responsible Investment Principles and adopted a new Climate Change Policy. The latter sets out our investment beliefs on climate change, why it's a priority, our role as investors and the actions we're taking to enhance the resilience of our investment strategy as well as how we support the real-world transition to net zero. We recognise that this is a complex, multi-decade transition, which will require a significant change in the shape and structure of the global economy, including a shift away from fossil fuels.



Our main stewardship priority for 2025 and 2026 is therefore to progress the implementation of our climate change commitments and ambitions, including a presumption against continued investment in laggard oil & gas companies and the development of our climate action plan. We maintain our focus on ensuring that the companies we invest in are well governed and well managed.

The LPF Climate Change Policy defines 'laggard' oil & gas companies as companies that have been subject to years of engagement through Climate Action 100+ and have a Transition Pathway Initiative, Management Quality assessment of less than 4.

We were early adopters of the Financial Reporting Council's (FRC) Stewardship Code 2020 in 2021 and participated in the FRC's consultation on updates to be implemented in 2026. We welcome the aim to reduce the reporting burden for signatories while still supporting high quality and accountability in stewardship reporting. We'll continue to report on our stewardship efforts, and we invite and welcome feedback on our approach.

PRINCIPLE 1: PURPOSE, STRATEGY AND CULTURE

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

OUR PURPOSE

Our purpose is to administer the LGPS in Edinburgh and the Lothians. By paying pensions and benefits to members, we contribute to the financial well-being of members and their families in retirement. For that reason, our primary objective is to ensure that there are sufficient funds available to meet all pension and lump sum liabilities as they fall due for payment. This means we need to generate the necessary long term cash flow returns to pay promised pensions and to make the scheme affordable to participating employers, now and in the future, while minimising the risk of having to increase contribution rates in the future.

In this report, we set out our assessment of how our purpose, strategy and culture meet the needs of our stakeholders with liabilities extending decades into the future, it's in our interests to take our responsibilities as institutional asset owners seriously. To this end, our approach to responsible investment centres on effective stewardship of all our assets, with a particular focus on good corporate governance to deliver sustainable value.

Our investment beliefs

As required by LGPS legislation, we maintain a Statement of Investment Principles (SIP) which articulates the investment principles and beliefs which guide our strategies and decision-making.

However, in view of the growth in our responsible investment and stewardship activities, we launched a [Statement of Responsible Investment Principles \(SRIP\)](#) in June 2020 to inform members and employers more fully. The SRIP, which was most recently updated in March 2025, sets out our responsible investing beliefs and commitments in more detail, and our strategy for integrating those with our investment activities. The review frequency of our SRIP is now aligned with the SIP schedule as at least every three years (previously annual).



PRINCIPLE 1: PURPOSE, STRATEGY AND CULTURE

In terms of those principles, which enable stewardship which may lead to sustainable benefits for the economy, the environment and society, we believe:

- Responsible investment supports our purpose and that through robust stewardship and an effective approach to ESG issues, we should reduce the risk associated with the invested assets that LPF owns to pay pensions when they become due
- As a provider of responsible capital, LPF should be an agent for positive change, engaging with companies to help them maintain or adopt best business practices and sustainable business models
- Businesses that are well-governed and managed in a sustainable way are more resilient, better able to survive shocks and have the potential to provide better financial returns over the long-term for investors
- Engagement adds value to our investment process, while the trading of equities (shares) may not in itself affect the capital position of a company
- We should exercise ownership rights responsibly by constructively engaging with our investee companies and appointed managers, either directly or via collaborative partners, to reduce risk. However, where material risks remain following engagement activity, we retain the ability to divest
- Decisions to invest in, or divest from, a particular company should be made by an investment manager based on a holistic analysis of financially material issues, including ESG issues. Investment managers make investment decisions in accordance with overarching policy set by the Pensions Committee, in consultation with LPF senior managers and the Pensions Board - for example the LPF Climate Change Policy.
- In being transparent about the methods we use to foster responsible investment as an organisation and being accountable for our responsible investment strategy and approach



Additionally, we recognise climate change as a systemic issue posing financially material investment risks but also opportunities, which we incorporate into our investment analysis and decision-making processes. We believe:

- Managing our exposure to financially material risks and opportunities of climate change within our investment portfolios is a component of our fiduciary duty to manage risk and generate appropriate long-term investment returns.



PRINCIPLE 1: PURPOSE, STRATEGY AND CULTURE

OUR STRATEGY

We have a clear strategic goal to invest responsibly for our members. More details about our investment approach are provided in Principle 6.

Our SRIP explains how we incorporate ESG issues into investment analysis and decision-making processes, as well as how we seek appropriate disclosure on ESG issues from any entities in which we invest. It allows us to communicate with our stakeholders to explain our strategy in detail. It sets out how we implement responsible investment on an asset class by asset class basis, as well as detailing how we utilise all the tools at our disposal to achieve our stewardship aims.

Our SRIP supports conversations with external managers and other institutional investors on evolving best practice in responsible investment as well as on implementation challenges and approaches to systemic issues.



Introducing our new Climate Change Policy

At the end of March 2025, LPF adopted a new Climate Change Policy (CCP) which is considered as an appendix to LPF's SRIP. It incorporates and updates commitments to climate monitoring and action which were previously included within the SRIP and enables a more comprehensive articulation of LPF's approach to this critical issue. It sets out our investment beliefs on climate change, why it's a priority, our role as investors and the actions we're taking to enhance the resilience of our investment strategy as well as how we support the real-world transition to net zero.

This represents a strengthening of our approach to climate change and lays the groundwork for future potential transition plan reporting requirements. Our full Climate Change Policy is available on our website:

www.lpf.org.uk/investments/climate-change/



PRINCIPLE 1: PURPOSE, STRATEGY AND CULTURE

Our climate change commitments and ambitions:

1

To support the goal of transitioning the real economy to net zero greenhouse gas emissions by 2050

- We do this primarily through engagement with investee companies and policymakers, collaborating with like-minded investors where appropriate

2

To promote a managed decline for the fossil fuel sector - introducing a presumption against continued investment in laggard oil and gas companies

- We've introduced a presumption against continued investment in laggard oil & gas companies

3

To report annually in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

- We measure and report annually on the carbon-equivalent emissions intensity of our equity and corporate bond portfolios, and aim to extend this to additional asset classes as more data becomes available

4

To develop a climate action plan - to support the resilience of our investment strategy to climate change:

- Identification and assessment of climate risks at an asset level: We consider climate related risks and opportunities within our investment decision making processes.
 - o We identify climate leaders and laggards
 - o Through engagement, we aim to encourage companies to align with the goals of the Paris Agreement - where material risks remain following engagement activity, we retain the ability to divest
 - o We avoid subscribing to new equity and fixed income issuance from companies whose business plans we assess as incompatible with the aims of the Paris Agreement
- Portfolio Alignment: We focus our efforts on engagement and advocacy (financing reduced emissions) to drive real world decarbonisation rather than simply reducing financed emissions.
 - o Our ambition is that over the next 5 years we will increase the alignment of our investee companies to a future low-carbon world
- Capital Allocation: We measure and report on the percentage of our assets allocated to climate solutions.
 - o We aim to position the Fund to benefit from the energy transition by having more exposure (across the Fund) to climate solutions than in companies whose primary business is related to fossil fuels.



PRINCIPLE 1: PURPOSE, STRATEGY AND CULTURE

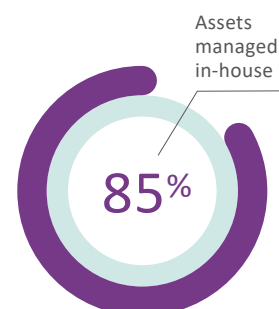
OUR CULTURE

Operating within the public sector means that we're subject to applicable public sector regulations and relevant public law duties. These require LPF to act fairly and transparently and brings us in-scope of the Freedom of Information regime. This promotes a strong degree of discipline and accountability across the organisation. We're always mindful of fulfilling our duties to stakeholders and serving their expectations regarding sustainable benefits for the economy, the environment and society.

We manage over 85% of assets in-house, through internal equity, bonds and certain real asset portfolios. This aligns our investment decision-makers with the fund's best interests.

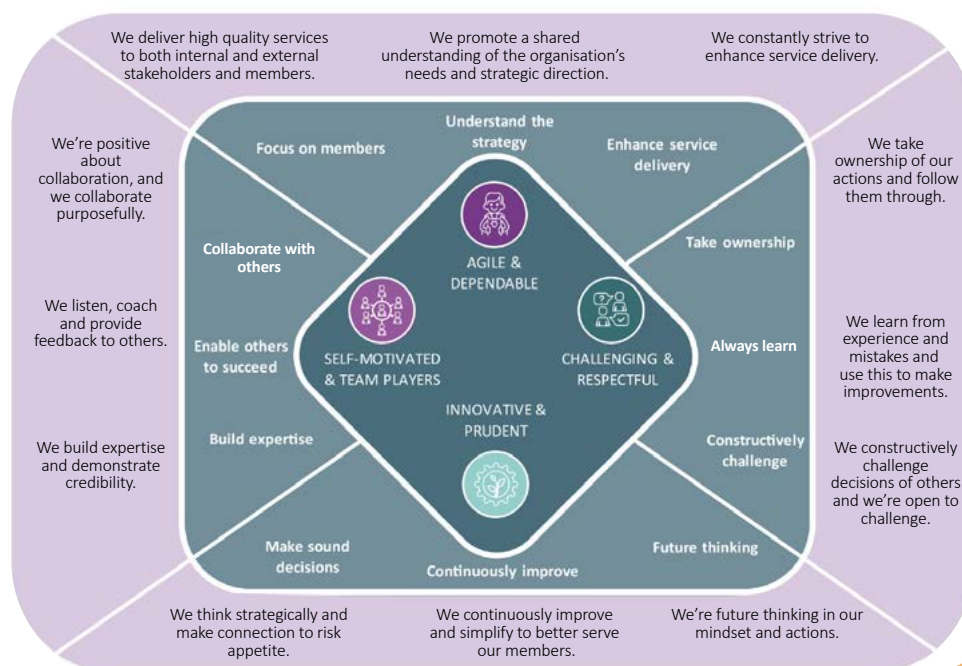
As explained in relation to Principle 2 (Governance), operating an FCA-authorised company within the group influences the culture throughout LPF. It allows LPF to build on the in-house investment expertise and promotes accountability and responsibility amongst individuals.

In 2024/25 we retained the Pensions Administration Standards Association accreditation, along with the Customer Service Excellence Award which we've held for the last 16 years. In addition, we were delighted to be shortlisted for Pensions Age magazine's Defined Benefit Pension Scheme of the Year. Whilst these accreditations aren't directly relevant to stewardship, they reflect LPF's stakeholder orientated culture, and in May 2025, LPF was honoured to be recognised as a leader in responsible investing by the Responsible Asset Allocator Initiative.



VALUES THAT SUPPORT OUR PURPOSE, STRATEGY AND CULTURE

We're passionate about enabling desirable and sustainable pensions, and our values are the enduring principles that inform, inspire and instruct the day-to-day behaviour of individuals working for LPF.



PRINCIPLE 1: PURPOSE, STRATEGY AND CULTURE

These values drive our active stance to stewardship and responsible investment and inform our approach to ESG. For example, our belief in the power of company engagement and the way in which we engage with companies and stakeholders, is relevant to our values of being 'Self Motivated and Team Players' and being 'Challenging and Respectful'.

Our value of being 'Innovative and Prudent' means that we focus on future thinking, which is critical in managing ESG risks today for positive outcomes for current and future beneficiaries.

INCLUSIVITY



We're one team, but we represent many ideas, experiences and backgrounds. We value everyone's contributions and believe that our colleagues should be their whole self at work. We want a diverse, inclusive and respectful workplace.

We're accredited with Disability Confident and more importantly, committed to review and improve everything we do with respect to recruitment and employment. Through Disability Confident, we work to ensure that disabled people and those with long term health conditions can fulfil their potential and realise their aspirations with us as an employer.



We're proud to partner with both [Future Asset](#) and [Girls Are Investors \(GAIN\)](#):

- Future Asset is an organisation in Scotland that aims to raise aspirations and confidence in girls in the senior phase of high school, encouraging them to choose ambitious career paths, and informing them about rewarding opportunities in investment
- GAIN is a charity set up by investment professionals to improve gender diversity in investment management by building a talent pipeline of entry-level female and non-binary candidates.



Case study

SUPPORTING GENDER DIVERSITY IN THE INVESTMENT INDUSTRY *UPDATE*

Context

Gender diversity is an area where the investment industry sadly falls short. Not only is the sector burdened with an outdated image of testosterone-fuelled trading floors, it hasn't done nearly enough to attract and develop female talent. As a result, women make up only 12.5% of fund managers in the UK.

How

At Lothian Pension Fund (LPF), we're mindful of our responsibility to help bring about a more inclusive investment industry. We do this through promoting a culture of diversity, equity and inclusion among our own colleagues, as well as supporting a variety of external initiatives focused on building a fairer and more representative future.

• LPF Policies

Our positive action approach to gender, which is benchmarked externally, is helping to ensure that our people policies and processes are inclusive and accessible, from how we attract and recruit, to how we reward and engage our colleagues. This includes our inclusive gender-neutral parent policy covering maternity, paternity, surrogacy and adoption, which we launched in 2021.

• Asset Owner Diversity Charter (AODC)

As a signatory, LPF commits to including diversity as part of our ongoing manager monitoring and to take account of diversity and inclusion records from fund managers when choosing new partners. Fund managers are asked to disclose information and demonstrate how they're tackling diversity and inclusion within their workforce.

• Future Asset

This is a charity based in Scotland that aims to inspire high-school-age girls to discover what the investment sector has to offer as a potential career choice. Future Asset runs many excellent events, including its flagship 'Growing Future Assets' investment competition where teams from across the country vie to present the best stock pitch. Our colleagues have volunteered as judges or team mentors for the Future Asset competition over the last four years and LPF has hosted successful teams to undertake an insight day at our office.

• Girls Are Investors Network (GAIN)

GAIN is a charity set up by investment professionals to improve gender diversity in investment management by building a talent pipeline of entry-level female and non-binary candidates. The GAIN Empower Investment Internship Programme provides university students the opportunity to learn about and gain experience in investment management during a summer internship. In 2024, LPF's Head of Responsible Investment took on mentorship role and we launched our 2025 summer investment internship programme through GAIN.

"Our participation in the Future Asset programme allows us to actively inspire the next generation of female investors by showcasing the possibilities of a career in investment management. By promoting greater gender diversity in a traditionally underrepresented field, we are helping to build a more inclusive, forward-looking industry—an essential pillar of our responsible investment objectives."

- Mark Dobbie, Portfolio Manager

Case study

SUPPORTING GENDER DIVERSITY IN THE INVESTMENT INDUSTRY *UPDATE (CONTINUED)*

Outcomes

- **LPF Policies help to encourage a diverse workplace**
 - o As of 31 March 2025, we have, in aggregate, 50% women in our top three leadership layers
 - o Across the whole company, 58% of our workforce are women
 - o Our mean gender pay gap is 27.2%
 - o In 2024/25 we recruited 15 colleagues, 73% of these were women

- **AODC**

The AODC standardised questionnaire supports consistent reporting of diversity metrics, beyond just gender, and reduces the resource burden (for managers previously responding to multiple, different questions on the topic from asset owners and consultants). This enables managers to focus more on implementing and improving diversity policies that can ultimately lead to real-world change. An initial assessment of 2024 responses indicated welcome improvements, with more respondents having a diversity strategy/policy, undertaking gender pay gap analysis, and increasing participation in coaching and mentoring.

- **Future Asset**

As well as offering valuable insight into what investing careers are really like, the 'Growing Future Assets' investment competition has helped participating schoolgirls to build important skills that will serve them well regardless of the direction they choose. Participation in the competition has grown each year, reaching over 2,700 girls since 2020.

- **GAIN**

In 2024, GAIN worked with 99 firms to deliver internship placements and placed 149 interns (up 25% from 2023). 62% of interns were offered an investment role or secured a subsequent internship (excluding those still at university and those who didn't respond to the follow up survey).

- **Assessment of effectiveness**

It's important to remember that addressing the investment industry's gender diversity gap is a significant challenge. While there are signs that the industry is moving in the right direction, the rate of change is slow. One estimate suggests that parity in the numbers of UK male and female fund managers won't be achieved until 2215 at the current pace.

However, by directly acting to develop the next generation of female and non-binary investment professionals, there's cause for optimism that we can accelerate the process of breaking down barriers and building a more diverse workforce. Judging by the excellent efforts of the AODC, Future Asset participants and the GAIN interns, the future looks promising.



Future Assets Impact Report

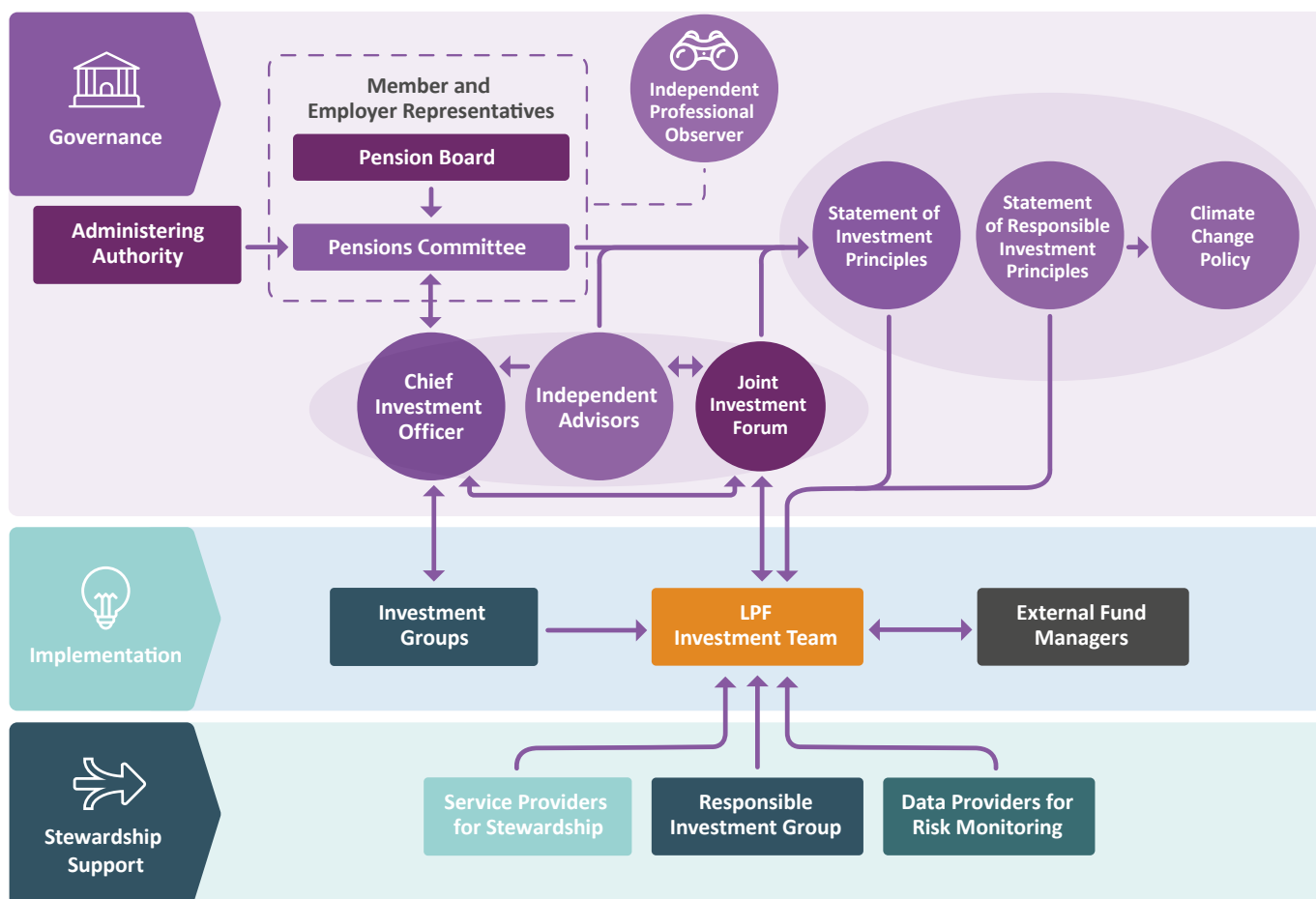
- Future Assets received 146 team submissions for the 2024 Growing Future Assets Competition, with over 900 girls involved
- The competition has grown from 13 schools participating in 2020 to 100 in 2024
- In 2024, the competition achieved a major milestone, reaching all local authorities across Scotland for the first time

PRINCIPLE 2: GOVERNANCE, RESOURCES AND INCENTIVES

Signatories' governance, resources and incentives support stewardship.

A ROBUST GOVERNANCE FRAMEWORK

We've set out an overview of LPF's governance framework below. Upholding and maintaining sound corporate governance supports the long-term success of LPF, leading to better outcomes for our members, employers and partners. We're also committed to enhancing our governance.



PRINCIPLE 2: GOVERNANCE, RESOURCES AND INCENTIVES

Pension Board

Our Pension Board was established on 1 April 2015 in accordance with the Public Service Pensions Act 2013 and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015. Its membership consists of equal numbers of representatives appointed from the employer bodies and trade unions for the membership of LPF. The Pension Board's role is to help ensure that the operation of LPF is in accordance with the applicable laws and regulations.

Pensions Committee

The City of Edinburgh Council (CEC) is the administering authority of LPF. Functions relating to pensions matters are delegated to CEC's Pensions Committee. The Pensions Committee oversees LPF's officers who carry out the operational activities of LPF. The members of the Pensions Committee act as 'quasi trustees' and normally hold four meetings a year. The Pensions Committee is made up of five elected CEC Councillor members and two external (non-Councillor) members representing the employers and members of the fund.



The Pensions Committee is responsible for setting LPF's investment strategy. It formally reviews and agrees the SIP and the SRIP at least every three years. The implementation of the strategy, through more granular investment decisions, and monitoring of investments, is delegated to suitably qualified and experienced individuals employed by LPF.

The Pensions Committee has also established a separate Pensions Audit Sub-Committee to review and scrutinise certain delegated matters, such as the control and assurance environment and framework of internal controls of the pension fund; agree internal audit plans; to ensure sound financial procedures are in place, and to promote the development of appropriate risk management strategies and procedures. The Audit Sub-Committee meets at least three times a year and reports to the Pensions Committee.

Group Companies

To support the distinction between LPF's purpose and the functions and responsibilities of City of Edinburgh Council as the administering authority for LPF, we have two Group companies, each with their own Board of Directors:

- LPFE Limited: an employment services company with the primary purpose to recruit, develop and retain LPF colleagues who support the specialist business and activities of LPF and LPFI Limited
- LPFI Limited: a regulated investment company, initially established to provide investment advice to our partner funds in Fife and Falkirk and now managing equity and bond mandates for those partners. LPFI is regulated by the Financial Conduct Authority.

PRINCIPLE 2: GOVERNANCE, RESOURCES AND INCENTIVES

Joint Investment Forum

LPF collaborates with Falkirk Council Pension Fund and Fife Council Pension Fund by participating in a Joint Investment Forum (JIF) to support investment decision-making. Meetings of the JIF take place quarterly and are attended by external investment advisers, and representatives from each participating Fund, who receive advice and discuss investment issues common to the three Funds. The JIF enables the Funds to share expertise and resources and to align investment approaches where appropriate, with the aim of implementing investment strategy in the most effective way.

The external advisers provide an independent, expert view to support decisions in relation to investment strategy, bringing external challenge and supporting a key area of governance in the investment decision-making process. Each pension fund retains responsibility for its own decisions and specifically, LPF's Chief Investment Officer (CIO) has delegated responsibility for implementing LPF's investment strategy and for appointing, monitoring and reviewing managers and advisers.

Portfolio Managers and Policy Investment Groups

The day-to-day management of LPF's assets is performed by internal and external professional portfolio managers. Pension fund officers monitor the assets including mandate and policy group performance quarterly with the support and advice of the JIF and report to the Pensions Committee at its regular meetings. Portfolio manager activities are defined by investment management agreements detailing the portfolio objectives and constraints. Portfolio managers may have discretion to buy and sell investments within the terms of their mandates, or they may require approval from the relevant equity, debt, or real asset investment group.



PRINCIPLE 2: GOVERNANCE, RESOURCES AND INCENTIVES

Fiduciary responsibilities

LPF's activities are guided by the legal principle of fiduciary duty. A legal opinion on the nature and extent of LPF's fiduciary responsibilities was obtained by the Scheme Advisory Board for the Scottish LGPS in 2016. LPF regularly reviews this analysis and monitors legal and regulatory developments as they relate to responsible investment.



PRINCIPLE 2: GOVERNANCE, RESOURCES AND INCENTIVES

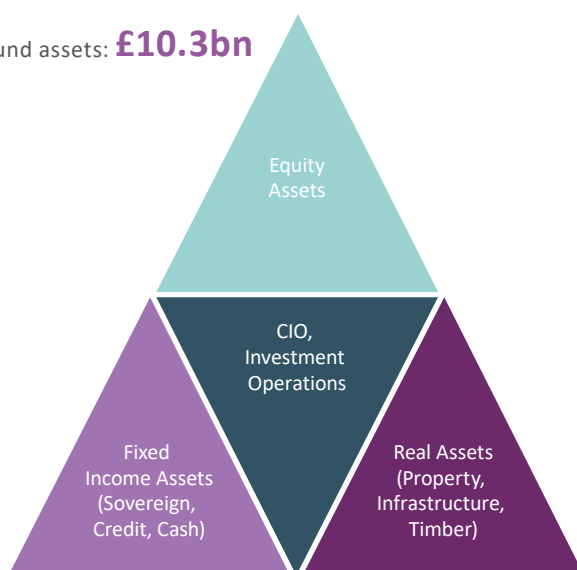
STAFF STRUCTURE

Senior Leadership Team (SLT) as at March 2025



Internal Investment Team as at March 2025

Fund assets: **£10.3bn**



Internal Investment Team of 25	
Chief Investment Officer (CIO):	1
Head of Investment Policy Groups*:	5
Portfolio Manager:	6
Deputy Portfolio Manager:	2
Property Asset Manager & Surveyor:	2
Investment Analyst (including RI analyst):	3
Research Analyst and Assistant	3
Investment Operations & Business Support Analyst:	3

* Heads of includes Head of Equity, Head of Fixed Income, Head of Real Assets, Head of Investment Operations and Head of Responsible Investment (RI)

All Heads of Investment Policy Groups and Portfolio Managers are subject to annual fit and proper assessments and all LPF staff are subject to a Code of Conduct, which sets the minimum expected standards of individual behaviour. A range of relevant professional qualifications are held across the team, including from CFA Institute, MRICS and CISI. At least eight of the internal investment team have over 20 years of experience in investing, which supports a long-term, through market-cycle perspective. We encourage and support members of the team to gain experience, both through professional development and professional qualifications (including through the CFA Institute Program). We monitor the experience and qualifications of external managers as part of our due diligence process.

Furthermore, senior managers have a duty of responsibility to take reasonable care to avoid and/or stop a breach from occurring in the business area that they're responsible for, and such duty is formalised by regulation. All SLT appointments at LPF are subject to the FCA's Senior Managers and Certification Regime such that LPF benefits from implementing the standards of the FCA more widely than just for LPFI activities.

PRINCIPLE 2: GOVERNANCE, RESOURCES AND INCENTIVES

Staff resourcing

We've built out a staff structure to best resource our activities and allow us to enhance the exercise of our stewardship. Our headcount of 103 (as at 31 March 2025) includes dedicated teams which support our communication with stakeholders, good governance, stable ICT systems, effective management of risk, people and finances, and the delivery of legal services.

During the year we recruited 15 new colleagues across a variety of roles. This included a restructuring of the investment team and the creation of two new roles dedicated to responsible investment. These hires will not only ensure that we remain adequately resourced to deliver what we need today but will enable us to continue to improve our capabilities and the services we deliver to our members and employers.



Internal stewardship resource and Responsible Investment Group

At LPF we primarily see stewardship as an integrated element of the investment function. Our core aim is to exercise our rights and responsibilities as investors; our entitlement to vote provides an opportunity to engage to enhance both corporate governance and investee company prospects. Analysis of ESG factors supports investment decision-making, shedding light on downside risks and upside opportunities.

In June 2024, in recognition of increasing stakeholder interest in responsible investment topics, continual advances in best practice and expanding reporting expectations, two new dedicated responsible investment roles were created within our investment team:

- The Head of Responsible Investment (HoRI) supports the CIO in fulfilling responsibility for implementing our responsible investment strategy with oversight of responsible investment service providers, managing our participation in collaborative initiatives, driving the evolution of our approach as best practice evolves and leading our reporting to stakeholders
- The Responsible Investment Analyst provides additional capacity to support the HoRI and Portfolio Managers with implementation of our responsible investment strategy and processes.

Our internal portfolio managers also participate actively in collaborative initiatives, such as Climate Action 100+ for which we're a co-lead engager, and it's our portfolio managers and analysts who are responsible for engagement and escalation activities with investee companies. These activities are undertaken directly or through our external managers or via our engagement and voting provider (see External stewardship resource on page 24).

PRINCIPLE 2: GOVERNANCE, RESOURCES AND INCENTIVES

We also utilise stewardship knowledge from LPF's other functional teams. The Responsible Investment Group (RIG) was established in 2021 to bring together members of the different functional teams formally and regularly to share diverse perspectives sourced from experience in: ESG investment analysis and research, public policy and advocacy, thematic investment, investment management, investment consultancy, law, actuarial advice and pension trusteeship.



The SLT oversees the RIG, which is comprised of:

- Chief Investment Officer
- Head of Responsible Investment (from June 2024)
- Heads of Investment Policy Groups
- RI Analyst (from June 2024)
- Representatives from the Legal, Risk & Compliance and Communications teams

The inter-disciplinary group enables the sharing of knowledge, experience and insight relevant to other areas, while improving the governance and oversight of stewardship activities. By providing stewardship advice to LPF officers and the Pensions Committee, the RIG aims to mitigate risk and identify opportunity, for example, by supporting internal and external managers in navigating regulatory changes and shareholder actions.

Members of the RIG have extensive experience in responsible investment roles and have relevant qualifications, undertaking continuing professional development and participating in industry Responsible Investment groups to maintain and build best practice knowledge. Over the 12 months to 31 March 2025, the RIG logged over 100 hours of continuing professional development across a range of themes including climate risk, fossil fuel stranded asset risk, biodiversity and nature risks, executive remuneration, diversity, human rights in conflict-affected and high risk areas, responsible mining, aligning expectations between asset owners and asset managers on voting, and UK corporate governance/stock market listing rules. The HoRI also led training sessions for the internal investment team and the Pensions Committee on responsible investment topics. The combination of skill sets, backgrounds and practical experience of team members is well suited to the development and execution of our responsible investment policy and integration into LPF's wider investment approach.

Our HoRI's expertise as an investor with specialist knowledge across the asset classes in which we invest is essential to delivering effective stewardship. The HoRI leads the development and implementation of our responsible investment practices, (including our reporting and collaborative initiative commitments), manages the relationships with our stewardship data and service providers, and champions LPF's responsible investment beliefs and stewardship activity in the wider investment industry. Our RI Analyst works with our internal portfolio managers to ensure material ESG risks are identified, monitored and managed throughout the investment process and supports the oversight and monitoring of external managers.

LPF also allocates a budget for the procurement of ESG data to support our integration of these factors into our investment process, including the analysis of climate-related risks and opportunities.

PRINCIPLE 2: GOVERNANCE, RESOURCES AND INCENTIVES

External stewardship resource

To adequately resource our stewardship activities, LPF utilises a range of ESG providers, tools and technologies (see table below). We contract an external voting and engagement provider, EOS at Federated Hermes (EOS), to undertake much of LPF's voting and engagement activities. Engagement involves dialogue with company management and boards to understand their approaches to key issues and to advocate for improvements in areas such as governance, environmental and social performance, and executive remuneration. LPF engages with companies on these issues because they can create significant risks which, if not appropriately addressed, threaten investments with material and permanent capital impairment.

Our investment team interacts with EOS to contribute to the work plan and access the body of knowledge that resides with their engagement professionals. EOS represents owners of assets with a total worth of more than \$2.2tn (as of 31 December 2024), which enables greater access to engage with companies than LPF would have on its own. In addition, EOS is structured to undertake multi-year engagements, often leveraging its access to engage across multiple themes.

The EOS team draws on a wide range of skills and backgrounds: senior engagers come from a range of backgrounds including banking, academia, law, corporate governance, sciences, corporate strategy and climate change. The engagement team consists of 32 people (supported by six client and business development professionals).

ESG Providers, Tools and Technology

ESG research: MSCI ESG research, Transition Pathway Initiative, GRESB

Proxy voting analysis: ISS, EOS at Federated Hermes

Business involvement research: MSCI ESG research

Trade Associations: Pensions UK, Investment Association, LAPFF

Investor Initiatives: IIGCC, CA100+, LGPS X-Pool RI Group, Asset Owner Council, PRI (including PRI Advance and SPRING), Global Investor Commission on Mining 2030

Technology Enablers: Bloomberg, Factset, MSCI One

Further details are provided in Principle 10 on Collaboration



EOS undertakes a skills gap analysis of the wider team with reference to the thematic and sectoral issues covered, to ensure EOS has the right mix of professionals who can represent EOS and its clients' views in engagements with companies. Furthermore, it delivers training to share knowledge across different sectors and themes to facilitate cross-pollination of expertise. EOS has intentionally built a diverse team (56% female/44% male for permanent staff as at 31 December 2024) of experienced and international professionals who have the expertise, language skills (fluency in 17 different languages) and cultural knowledge to access and maintain constructive relationships with company boards across the globe.

EOS reports on voting and engagement activity across LPF's assets every quarter, as well as annually. Through this regular reporting and dialogue, we're able to ensure that the service is being delivered as expected and in alignment with our responsible investment policies. EOS also engages with regulators, industry bodies and other standard setters to shape capital markets and the environment in which companies and investors operate. We present voting and engagement case studies in relation to Principle 9 (Engagement) and Principle 12 (Exercising rights and responsibilities), later in this report.

PRINCIPLE 2: GOVERNANCE, RESOURCES AND INCENTIVES

External managers

We expect our external managers to engage investee companies on our behalf on material issues including ESG issues and opportunities. We encourage our external managers to enhance stewardship by participating in collaborative engagements (see Principles 9 and 10) and to support best practice disclosure. We receive quarterly updates from our external fund managers, which include updates on company engagements and stewardship initiatives.

Learning and development to support our responsible investment beliefs

Members of the Pensions Committee are required to undertake a minimum of 21 hours training per year. This supports them in fulfilling their role and managing the lobbying they may receive, as elected officers, on a wide range of issues (including aspects of LPF's investment activities).

During the year to 31 March 2025, the Pensions Committee received training and reports on a number of stewardship topics including: climate change related risks (including exposure to fossil fuels) and opportunities, and our voting and engagement activities.

The fund's officers also access a range of resources to support learning and development across responsible investment themes through our membership of collaborative initiatives such as CA100+, IIGCC, EOS, PRI, PRI Advance, SPRING and the Global Investor Commission on Mining 2030. More details on these are provided in Principle 10 (Collaboration), later in this report.



Performance and reward

We recognise the importance of our people in achieving our responsible investment commitments and stewardship aims, and the need to develop, reward and support them in their roles, within their teams and as individuals.

In terms of staff performance, the role profile for each member of our investment team includes explicit reference to LPF's responsible investment and ESG aims. This makes each person involved in LPF's investment decision-making individually accountable for furthering LPF's responsible investment aims.

The annual performance review for our portfolio managers and deputy portfolio managers looks at how they contribute to the strategic goal "to invest responsibly for our members" through "delivering sufficient investment returns over the long term to meet funding targets and seeking to have a positive impact on the economy and society by continuing to integrate Environmental, Social and Governance (ESG) considerations into our investment processes and demonstrating good stewardship of our assets."

LPF's remuneration scheme is deliberately structured to align staff with LPF's long-term aims and to avoid incentivising inappropriate risk-taking.

PRINCIPLE 3: MANAGING CONFLICTS OF INTEREST

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Our commitment to managing conflicts of interest

At LPF, we're committed to acting in the best interests of our stakeholders, ensuring the highest standards of integrity and transparency in managing pension assets and delivering services. This duty includes our responsibilities as both a pension fund and where applicable, an investment manager.

- As a pension fund, we have a fiduciary duty to act in the best interests of our pension stakeholders, including members, beneficiaries and scheme employers
- As an investment manager, LPFI has a duty to act fairly, paying due regard to the interests of our LGPS clients and treating them with fairness and integrity.

Identifying and managing conflicts of interest is a vital part of ensuring these duties are upheld. We're dedicated to meeting the requirements of The Pensions Regulator (TPR), the Financial Conduct Authority (FCA) and the UK Stewardship Code in our approach to conflicts management.

WHAT IS A CONFLICT OF INTEREST?

A conflict of interest may arise when an individual's actions or decisions could be influenced or appear to be influenced by other competing interests, relationships or personal gain.

Such conflicts may arise from financial interests, personal and professional relationships or any other circumstances that impact the ability to make impartial decisions.



How we manage Conflicts of Interest

Our approach to Conflicts of Interest is published on our website: www.lpf.org.uk/about-us/conflicts-of-interest. We take a proactive approach to ensure that potential conflicts are identified, monitored and managed, including:

- **Identification:** We have processes in place to identify any potential or actual conflicts of interest across all LPF activities, including: decisions made by the governing body; the administration of the pension fund; and investment management. Our team is trained to recognise potential conflicts, whether they arise from financial interests, personal or professional relationships or circumstances involving advisors, third-party service providers or employers
- **Disclosure:** We require potential or actual conflicts to be disclosed. Our colleagues and members of our governing bodies must declare relevant interest and these disclosures are documented and reviewed regularly

PRINCIPLE 3: MANAGING CONFLICTS OF INTEREST

- **Decision-Making:** We have processes in place to help ensure decisions are made objectively. Where a conflict is identified, steps such as recusal, independent review, legal advice or delegated authority can be used to maintain integrity
- **Ongoing Monitoring:** Conflicts of interest are monitored and reported regularly to ensure evolving issues are promptly managed
- **Training and Awareness:** All LPF staff complete regular training on conflicts of interest and adhere to a Code of Conduct, which reinforces their commitment to ethical behaviour and impartiality. Pension Board and Committee members are also subject to specific training requirements and follow their own [Pension Board & Committee Code of Conduct](#) to ensure they understand and meet their fiduciary responsibilities
- **Adherence to Regulatory Standards:** Our approach is designed to meet TPR, FCA and the UK Stewardship Code requirements, ensuring we maintain high standards of governance, stewardship and client care.



Review and Oversight

Our approach to Conflicts of Interest is reviewed regularly (most recently in January 2025) to ensure it remains effective and up-to-date with regulatory standards and best practices. Our governance framework includes monitoring and oversight by our Risk and Compliance team, with regular reporting on conflicts management provided to senior management to maintain transparency and accountability.

Conflicts of interest can arise at LPF in a number of ways, but most likely in the form of an employee's financial or external interest or through a personal connection. Conflicts could also arise where LPF benefits at the expense of a client, or through a conflict from holding an interest in the outcome of a service or transaction at odds with clients or other beneficiaries.



PRINCIPLE 3: MANAGING CONFLICTS OF INTEREST

Whilst no actual conflicts resulting in the failure to act in the best interest of beneficiaries have been identified, those actual or potential conflicts considered most likely to arise in LPF, are noted below, together with our approach to addressing these:

- **Director conflicts.** A conflict could arise where executive or non-executive directors of LPFE or LPFI have personal or professional interests that conflict with the interests of LPF or its stakeholders

LPF approach: All LPFE and LPFI directors are required to disclose conflicts of interest upon appointment and on an ongoing basis through a standing agenda item at Board meetings

- **Outside Business Activities (OBAs).** A conflict could arise where a LPF employee has an outside business interest, employment, or role or connection that conflicts with their role at LPF

LPF approach: All employees must disclose external roles and apply for permission before taking up new external appointments

- **Fiduciary duty for Pensions Committee and Pension Board members.** A conflict could arise where the personal, professional, or political interests of Pensions Committee or Pension Board members differs from their fiduciary duty owed to LPF's pension stakeholders

LPF approach: All Pension Board and Pensions Committee members are subject to a Code of Conduct which sets out their responsibilities. An Independent Professional Observer provides impartial observations on the operation of the Pensions Committee and Pension Board, to support them in fulfilling their duties

- **Gifts and Entertainment.** A conflict could arise where LPF provides or receives gifts or entertainment that may influence decisions

LPF approach: All employees follow standards set out in a Gifts & Entertainment policy on when such offers may be accepted or declined. Records are kept of all such offers, accepted or declined and periodic monitoring is undertaken by the R&C Team to provide assurance regarding compliance with this policy

- **Personal Account Dealing.** A conflict could arise when an LPF employee or close friend or family member owns or trades in a personal capacity in securities which LPF or LPFI also has an interest in

LPF approach: All employees are required to declare ownership of personal securities on commencing employment and on an annual basis thereafter. A Personal Dealing policy sets out required standards which includes preapproval before trading and record keeping obligations. Periodic monitoring is undertaken by the R&C Team to provide assurance regarding compliance with this policy

PRINCIPLE 3: MANAGING CONFLICTS OF INTEREST

- **Stewardship.** Conflicts may arise as a result of our investment activities due to differing interests between LPF as asset owner and LPFI as asset manager, or differences in voting or stewardship approach with clients or managers

LPF approach: Where potential conflicts arise, they're identified and managed transparently to ensure our decisions are consistent with our fiduciary duty.

- **Third-party providers.** A conflict may arise due to the need to achieve best value for money, and the best interest of pension stakeholders or clients

LPF approach: LPF appoints and manages suppliers through a detailed procurement process and supplier management framework.



Case study

MISALIGNMENT OF STEWARDSHIP EXPECTATIONS BETWEEN ASSET OWNERS AND ASSET MANAGERS UPDATE

Context

Lothian Pension Fund (LPF) is one of many asset owners that publicly recognise that climate change presents material investment risks with the potential to disrupt economic systems and affect long-term beneficiary interests. While LPF manages most of its listed equity investments internally, many asset owners invest through funds where the external asset managers undertake voting in accordance with their own voting policies. In our 2024 Stewardship Report, we highlighted our participation in a roundtable convened by the UK Pension Fund Roundtable (now called the Asset Owner Council). This roundtable discussed the perceived misalignment of interests evidenced by a material divergence between asset owner expectations and the implementation of climate stewardship by asset managers, which was identified in [academic research](#) published in November 2023. The roundtable was a starting point for dialogue on this issue, enabling commitment towards better communication and transparency.



Action

In February 2025, LPF endorsed the launch of the [Asset Owner Statement on Climate Stewardship](#) as part of a coalition of 23 asset owners from the UK, Europe, Australia and the US, together representing c.US\$1.2 trillion (c.£1 trillion) of assets. The Statement responds to asset managers' requests by providing clarity on asset owners' expectations of managers to meet beneficiaries' long-term interests with five principles that build on existing industry guidance and best practice:

1. Industry/market and public policy engagement should be core to the climate stewardship proposition across asset classes
2. Where permissible, asset managers should prioritise collaborative initiatives to achieve greater impact and embed efficiencies in engagement activities
3. Asset managers' prioritisation framework for company engagement should be rooted in a robust theory of change which delivers maximum impact
4. A systematic approach to voting is imperative
5. The stewardship function needs to be appropriately resourced.

Case study

MISALIGNMENT OF STEWARDSHIP EXPECTATIONS BETWEEN ASSET OWNERS AND ASSET MANAGERS *UPDATE (CONTINUED)*

Outcome & assessment

Following launch, the Statement has garnered further support from asset owners and more than 25 asset owners, representing c\$1.5 trillion of assets, are now signatories (at the time of writing). However, the success of the Statement will be determined by its effective use within the industry. The initiative is particularly relevant in the current environment, where some managers are experiencing pressure to reduce their stewardship on climate and need the ongoing support of their clients to maintain/build on their work in this area. We also note that some asset managers have adopted “pass-through” or “client-directed” voting, utilising new technologies to enable asset owners to preset voting instructions to align with their stewardship policies in both segregated and pooled mandates. Other managers have introduced new stewardship policies for portions of their fund ranges (following client consultation) to ensure their policies better meet asset owners’ expectations.

While LPF manages most of its listed equity investments internally, it’s still relevant for us to work with the industry to address concerns of climate stewardship misalignment as LPF is a small asset owner in the global context. We recognise that corporate managers are unlikely to respond meaningfully to shareholder proposals calling for more ambitious approaches to transform their business to align with the aims of the Paris Agreement if these shareholder proposals are only supported by a minority of votes. It’s therefore in the interest of our scheme members and employers that like-minded investors’ climate concerns are better communicated to investee companies either through client-directed voting or improved alignment of asset managers’ stewardship activities.



PRINCIPLE 4: PROMOTING WELL-FUNCTIONING MARKETS

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

IDENTIFYING AND ADDRESSING MARKET AND SYSTEMIC RISKS

As a long-term investor, sustainable, well-functioning markets are essential to our purpose of delivering a valued retirement savings product for our members. They'll enable us to pay pensions and benefits when they fall due over the next several decades.

We ensure that the risks to our investments are effectively managed as we know that Environmental, Social and Governance (ESG) factors are fundamental considerations in driving the long-term value of our investment portfolio.

We're very aware that investment markets can go down as well as up and market conditions can change rapidly. Uncertainties that affect the behaviour of markets within the macroeconomic environment can affect the value of the assets held within a portfolio. When considering or reviewing investments we look at factors such international political developments, market sentiment, economic conditions, circumstances where markets aren't allowed to freely move (due to government controls), changes in government policies, restrictions on foreign investment and currency repatriation, currency fluctuations and other developments in the laws and regulations of countries in which investment may be made.

Given the potential impact on our investment returns, we closely monitor market-wide and systemic risks. We collect information from many sources.



PRINCIPLE 4: PROMOTING WELL-FUNCTIONING MARKETS

External advisers

- LPF uses the JIF to explore insights on market trends and conditions
- LPF's external managers include market commentary within their periodic investment reports, which LPF reviews in detail
- LPF's actuary may comment on general investment issues as part of the valuation they do for LPF
- LPF's investment consultant provides an Economic Scenario Service to support our Investment Strategy Review.



External providers

- EOS supports us in identifying systemic and emerging risks as well as mitigating these risks through engagement. Our Internal Equities team work closely with EOS in our collective approach to engagement, reflecting the areas of stakeholders' interest and concern. We undertake to utilise our voting rights, including those exercised through proxy, to engage with the management of companies in whom we invest, to promote appropriate standards of corporate governance that safeguard shareholder interests and respect stakeholder interests
- The organisations which support LPF's portfolio monitoring for shareholder litigation share insights on market-wide issues relevant to risk.

Reviews

- LPF monitors its counterparties and suppliers to ensure they remain creditworthy and suitably authorised to provide services
- Our investment team monitors the creation of debt within the financial system to identify systemic and non-systemic vulnerabilities.

Collaboration

- Collaborative initiatives are a valuable source of intelligence on emerging risks and ways to mitigate these risks. We have a long track record of collaborating with other investors, asset owners and organisations
- By participating actively in the Climate Action 100+ initiative, our officers and service providers have influenced real change, including an accelerated timetable for methane emissions reduction
- We also continued as an active participant in the Asset Owner Council (AOC), which is a forum for sharing stewardship best-practice across the industry. Our HoRI took on the role of co-chair of the AOC in January 2025.
- In August 2024, LPF signed up as an endorser of the SPRING initiative. SPRING is a stewardship initiative for nature, addressing the systemic risks of biodiversity loss to protect the long-term interests of investors. It was launched in June 2024 by the Principles for Responsible Investment (PRI).

PRINCIPLE 4: PROMOTING WELL-FUNCTIONING MARKETS

UNDERSTANDING MARKET AND SYSTEMIC RISKS

We discuss the materiality of each potential risk and agree an action plan for addressing it, including:

- Responding to consultations: engaging with government and industry bodies, for example:
 - o In July 2024, the UK government announced a Pension Review. LPF participated in the Call for Evidence in September 2024, which was part of the first review phase. While the Scottish LGPS was out with the remit of the review, LPF is a successful fund within both the Scottish LGPS and in the wider UK context, so our contribution was meaningful to this review. Interim findings from phase 1 of the Pension Review were published in November 2024, accompanied by two consultations: unlocking the UK pensions market for growth; and LGPS in England and Wales: fit for the future. LPF responded to the second of these, supporting proposals to strengthen the management of LGPS investments as our business model already utilises key aspects of the proposals.
 - o In mid-2024, the Financial Reporting Council (FRC) announced interim changes to the UK Stewardship Code (the Code) reporting requirements ahead of a fuller consultation on more significant changes, which was launched in November. The Code promotes improved transparency, disclosure and accountability in the stewardship eco-system. Signatory reporting is assessed by the FRC to maintain standards. The Code has a strong reputation both domestically and internationally for supporting high-quality stewardship. As a signatory to the Code, LPF welcomed the aim to reduce the reporting burden while still supporting high quality and accountability. We participated in a number of roundtables and responded formally to the consultation in February 2025. The updated Code was published in June 2025 for first implementation in 2026, providing an opportunity for further stakeholder feedback on the draft guidance. This (our 2025 report) follows the current 2020 Code requirements together with the interim changes announced in 2024.
- Direct dialogue:
 - o Responding via the AOC to a request from The Pensions Regulator (TPR) for feedback on the Climate Governance and Reporting Regulations (2021) by convening discussion among the AOC membership on the topic and representing the main points raised by members to the ESG, Climate & Sustainability Lead at TPR in March 2025.
 - o Engaging directly with companies, including as a participant in Climate Action 100+ (CA100+)



PRINCIPLE 4: PROMOTING WELL-FUNCTIONING MARKETS

- Collaborative initiatives: this includes our membership of IIGCC, CA100+, PRI, OPSC and LAPFF [more details provided in Principle 10]
 - o Signing the 2024 Global Investor Statement to Governments on the Climate Crisis, calling for the implementation of policies in line with countries' nationally determined contributions (NDCs). The statement was signed by 651 financial institutions and their representatives managing almost \$34 trillion in recognition that effective policies are essential to accelerate the private capital flows needed for a climate-resilient, nature-positive, just net zero transition.
 - o Endorsing the Asset Owner Statement on Climate Stewardship in February 2025 (see Case Study on page 30) which responds to asset managers' requests for clarity on asset owners' expectations of managers to meet beneficiaries' long-term interests.
- Advocating for better standards through engagement with our external managers: we engaged with our external managers on steps they could take to align their practices with our Responsible Investment aims and objectives, in particular, our ambition to avoid funding companies whose business models aren't aligned with the goals of the Paris agreement. This ambition was a key consideration throughout the review and evaluation process for appointment of a new corporate bond manager.



Case study

ENGAGING WITH GOVERNMENTS TO ENCOURAGE CLIMATE POLICY IMPLEMENTATION AND ENHANCING OUR INVESTMENT APPROACH

Our investment beliefs on climate change

We recognise climate change as a systemic issue posing financially material investment risks but also opportunities, which we incorporate into our investment analysis and decision-making processes.

We believe managing our exposure to financially material risks and opportunities of climate change within our investment portfolios is a component of our fiduciary duty to manage risk and generate appropriate long-term investment returns.

Background: Why climate change is a priority

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO₂) and other greenhouse gases (GHG) from burning fossil fuels. This changes the world in which we live, but also the world in which we invest.

Recognising the existential threat to society that unmitigated climate change represents, in 2015, the nations of the world came together in Paris and agreed to limit global warming to 2°C and to pursue efforts to limit the temperature increase to 1.5°C. Paris Agreement signatories agreed to adopt and implement nationally determined contributions (NDCs) that set out the actions they'd take to reduce greenhouse gas emissions. They also committed to strengthen these efforts in the years ahead.

Despite some progress, the Paris Agreement ambition to limit the global temperature increase to 1.5°C is in peril. Analysis by Climate Action Tracker indicates that in December 2023 the world was already at approximately 1.3°C of warming above pre-industrial levels and current policies in place globally put the world on track for a central estimate of around 2.7°C warming by 2100.

Governments and all sectors of society (individuals, companies and investors) will need to do much more if the global temperature rise this century is to be limited to 1.5°C above pre-industrial levels. The transition to the low carbon economy calls for significant change in the shape and structure of our economy, including the rapid shift away from fossil fuels (phasing out of all unabated coal and oil power plants) to achieve a Net-Zero carbon economy by 2050.

LPF Action

In September 2024, ahead of the 29th Conference of the Parties (COP29) to the United Nations Framework Convention on Climate Change, we signed the 2024 Global Investor Statement to Governments on the Climate Crisis, calling on governments to enact policy actions to accelerate the private capital flows needed for a just transition to a climate-resilient, nature-positive economy:

1. Enact economy-wide public policies
2. Implement sectoral transition strategies, especially in high-emitting sectors
3. Address nature, water and biodiversity-related challenges contributing to and stemming from the climate crisis
4. Mandate climate-related disclosures across the financial system
5. Mobilise further private investment into climate mitigation, resilience and adaptation activities in emerging markets and developing economies (EMDEs)

Further details are available at [The Investor Agenda](#).



Systemic issue

"We consider climate change risk a systemic issue because it is not possible to mitigate it through investment diversification due to the interconnection of exposures throughout the global economy."

– Gillian de Candole,
Head of Responsible Investment

Case study

ENGAGING WITH GOVERNMENTS TO ENCOURAGE CLIMATE POLICY IMPLEMENTATION AND ENHANCING OUR INVESTMENT APPROACH

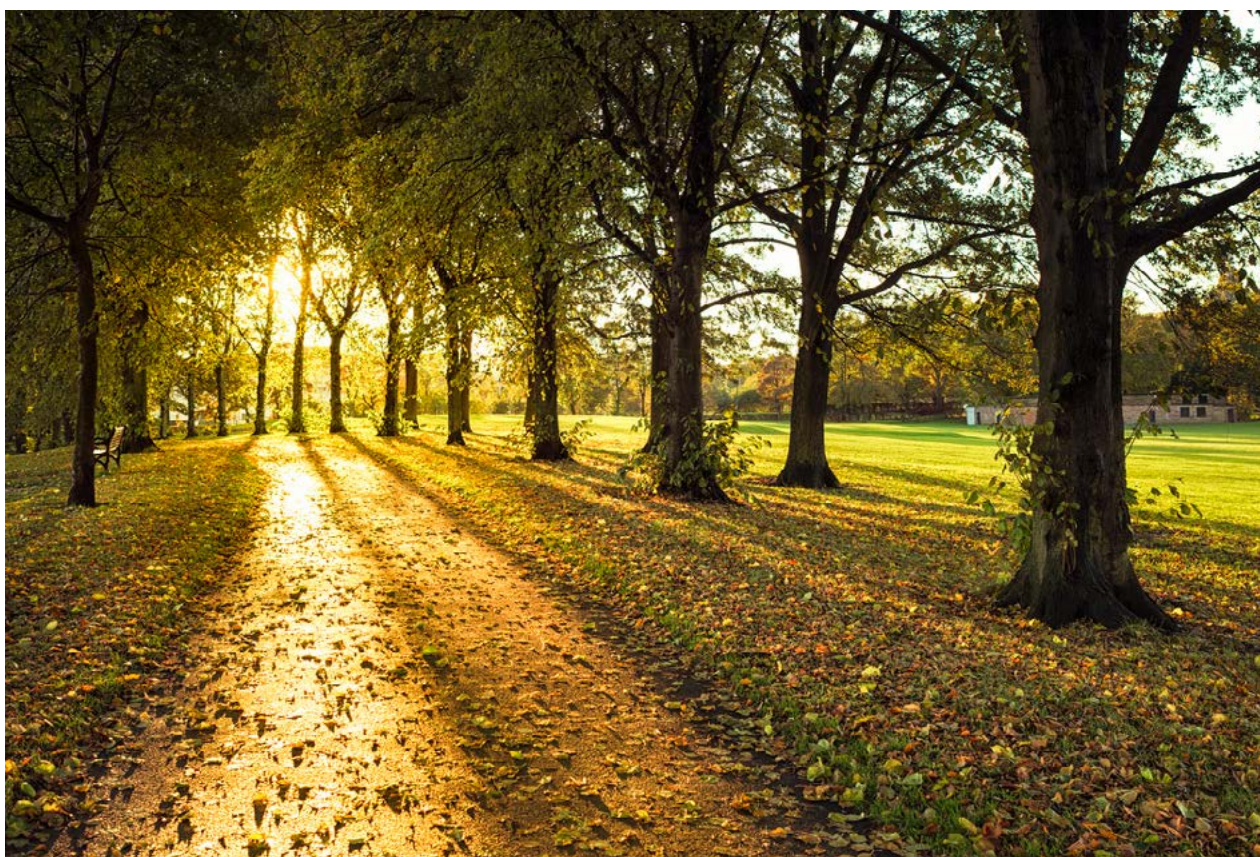
(CONTINUED)

We also enhanced and extended our approach to climate change culminating in the adoption of our new Climate Change Policy in March 2025. Our climate change commitments and ambitions are set out in Principle 1 on page 12 and our full [Climate Change Policy](#) is available on our website.

Assessment of the effectiveness

The 2024 Global Investor Statement was signed by 651 financial institutions and their representatives managing almost \$34 trillion, indicating the necessity for policy implementation by governments around the world to accelerate the private capital flows needed for a climate-resilient, nature-positive, just net zero transition.

While LPF's £10bn in assets contributed a relatively small portion to this global investor initiative, our participation demonstrates our support for global policy action. It also supports our communication with our stakeholders and investee companies regarding the importance of real-world decarbonisation. This is further enhanced by the adoption of our new Climate Change Policy, which demonstrates how we aim to manage climate risks and benefit from the energy transition from investing in climate solutions.



PRINCIPLE 4: PROMOTING WELL-FUNCTIONING MARKETS



OUR APPROACH TO CLIMATE CHANGE RISK

The Case Study on page 36 explains why we consider Climate Change a key systemic risk and our top priority for integration within our stewardship and investment processes. It outlines how we've engaged with governments, seeking to encourage further policy implementation to address this risk, as well as the actions we have taken to enhance our approach to climate change risks and opportunities.

Principle 7 provides further details on how we integrate climate change risks (and other ESG risks) into our investment processes. In Principle 10, we highlight collaborative engagement activities through LAPFF and other collaborative partners. In Principle 11, we provide a case study on how we use voting to escalate engagement (page 101) and more details on our voting policies can be found in Principle 12.



Assessment of effectiveness

Our ability to influence investee companies through voting and engagement is limited as a minority investor. However, by collaborating with like-minded investors on engagement and being transparent about our voting actions, we can amplify our influence to drive the long-term value of our investment portfolio and contribute to the long-term health of the financial system.

The companies in which we invest need a clear legal and regulatory framework in which to operate. We'll continue to call on governments to deliver consistent policies to support a well-functioning market and an energy transition that delivers energy security and mitigates risk. These policies need to adequately discourage the expansion of fossil fuel extraction and its consumption. We'll continue to engage with and encourage our investee companies to develop and implement credible plans consistent with the Paris Agreement. And, as part of our diversified portfolio, we'll continue to make investments where we believe they'll generate both a sufficient return and support the energy transition. We've committed to continue to develop our approach; as the real-world transition progresses, we're aiming to increasingly avoid financing non-Paris aligned investments and to position LPF to benefit by having more exposure to climate solutions than in companies whose primary business is related to fossil fuels.

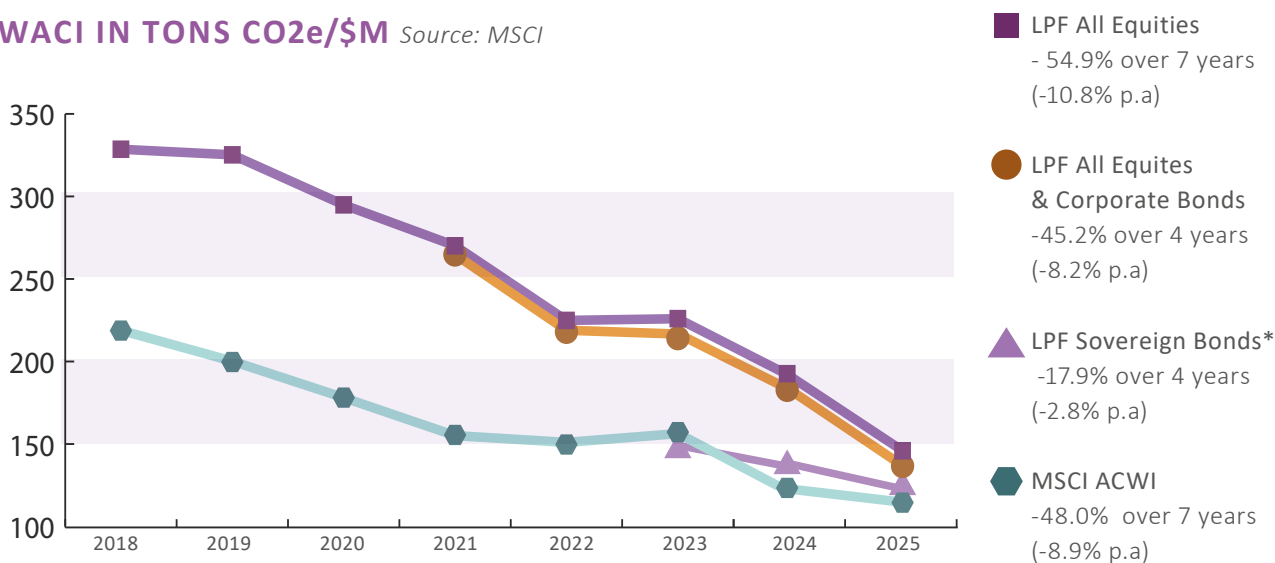
PRINCIPLE 4: PROMOTING WELL-FUNCTIONING MARKETS

MEASURING CLIMATE RISK IN OUR PORTFOLIOS

We believe that accurate measurement of emissions is an important element in assessing the climate risk of an investment portfolio. Supported by a research budget specifically allocated to data services targeting ESG and climate-related risks and opportunities, we published our first annual carbon footprint (weighted average carbon intensity - WACI) for listed equities in 2018 and expanded the scope to include our corporate bond investments in 2020/21 and sovereign bonds in 2022/2023. Our most recent carbon footprint covered 72.2% of our total fund (in line with the prior year).

In 2021 the UK Government announced that emissions reporting will be mandatory for occupational pensions schemes by 2025 using specific Department of Work and Pensions (DWP) guidelines based on the TCFD framework. Although this doesn't apply to the Local Government Pension Scheme (LGPS), we've committed to report annually in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We continue to prepare for further regulatory adoption of sustainability reporting standards and transition plan reporting requirements in line with the Transition Plan Taskforce disclosure framework.

WACI IN TONS CO₂e/\$M *Source: MSCI*



While there are currently challenges with the cost and availability of emissions data, particularly where we're dependent on the level of information provided by external managers, we support industry-wide efforts to improve the provision and quality of data.

Our view on divestment from companies involved in the extraction of fossil fuels

LPF is often challenged about its approach to responsible investment, including requests to promote a policy of divesting from companies involved in the extraction of fossil fuels. We don't reduce our position size or sell existing holdings for purely non-financial reasons. Nor do we exclude companies from our investment universe for purely non-financial reasons. We do, however, believe that environmental, social and governance issues can affect the financial performance of the companies in which we invest. We take these issues seriously and integrate them into our decision-making processes.

We have a policy of engagement with companies and policymakers rather than a policy of exclusion or divestment. We consider divesting from or excluding entire sectors as inappropriate as the transition to a low carbon economy will affect some sectors more than others, and within sectors there are likely to be winners and losers. Hard to abate sectors of the economy, such as cement – a crucial product for the building and construction sector - actively need investors' help and support to transition to a carbon neutral future. We believe that a policy of divestment passes shares to potentially less responsible and/or less active share owners, who are less likely to hold companies' managers to account on planning for and managing significant transitions in their businesses over the next decades. Abandoning these companies by divesting and/or starving them of capital or excluding them from our opportunity set achieves nothing in terms of real-world sustainability.

We also recognise the outsized impact that some specific sectors and industrial activities have on climate change by virtue of the magnitude of their greenhouse gas emissions. As part of our Climate Change Policy (which was approved by our Pensions Committee in March 2025) we've committed to identify and engage with climate laggards with a presumption against continued investment in laggard* oil and gas companies, given our recognition of the need for the world to phase out the vast majority of fossil fuel use by 2050.

Our policy of engagement allows us to exert influence on companies to improve their business practices, align with the Paris goals, and disclose their climate-related risks and transition plans as well as their investments in solutions, with TCFD compliant reporting.

Where material risks remain following engagement activity, we retain the ability to reduce our position size or selectively sell to mitigate our risk exposure on a case by case basis.

*Our definition of laggard oil and gas companies: For companies in the oil and gas sector that have been subject to years of engagement through Climate Action 100+, we consider a Management Quality assessment by the Transition Pathway Initiative (TPI) scoring <4 to indicate a laggard oil and gas company. Note that the TPI considers companies that are assessed at <3 (out of a maximum of 5) on Management Quality to be laggard companies.

PRINCIPLE 4: PROMOTING WELL-FUNCTIONING MARKETS

HOLDING COMPANIES TO ACCOUNT

In addition to our engagement activities supported by EOS, we recognise shareholder action as another way that we, as an institutional investor, can promote good corporate governance and therefore contribute to well-functioning markets.

Where it's economical to do so, our fiduciary duty may require us to take action to recover funds lost through investments in companies as the result of corporate mismanagement, but we wish to highlight how this can also reduce some systemic risk where corporate reforms can be secured alongside financial recovery. This may be important where there's a void in the role of industry regulators, (due to constrained resources for example) or where changes in political administration can impact the willingness of regulators to take enforcement actions.

We use third party providers to support our portfolio monitoring, to collect information and to undertake legal analysis necessary to make informed decisions about the best options for asset recovery and the wider benefits of participating in potential claims. We have an internal policy to guide our actions, and this considers the significance of a company's wrongdoing, and the wider context of our stakeholder expectations.

Confidentiality restrictions limit how much detail we can provide about specific actions, but LPF continues to actively monitor its loss exposure in relation to class actions, and has previously taken 'lead plaintiff' status for US-based actions.



PRINCIPLE 5: REVIEW AND ASSURANCE

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

We have a range of internal and external review and assurance processes which support good stewardship. We run our review and assurance in conjunction with other underlying business and compliance processes, such as external manager monitoring programmes, which includes responsible investment governance and stewardship, to assess and ensure responsible investment policies are being implemented (see Principle 8).

REVIEW

We have a formal policy management framework which helps ensure we regularly review our policies and their effectiveness. For example, our Conflicts of Interest policy (see Principle 3) was last reviewed in January 2025 and is scheduled to be reviewed annually.



Case study

REVIEW OF OUR STATEMENT OF RESPONSIBLE INVESTMENT PRINCIPLES (SRIP)

Background

Our SRIP sets out our responsible investing beliefs and commitments in more detail, and our strategy for integrating those with our investment activities. Having launched the initial version in 2020, we had reviewed it annually introducing minor amendments. However, a more substantial review was undertaken in 2024/25 as enhancing our approach to climate change was identified as a priority in 2024, recognising it as a key systemic risk but also noting improvements in climate data availability over recent years and an expansion of investment approaches/frameworks which aim to address this risk.

Process

Our Responsible Investment Group assimilated feedback from stakeholders and reviewed peer asset owner policies to appraise best practice approaches to responsible investment. Our internal investment team participated in a workshop to review investment beliefs on climate change and discuss potential enhancements to our approach. Whereas previously our SRIP included a section on our approach to climate change, proposed enhancements included development of a separate Climate Change Policy as an appendix to a more succinct SRIP.

In December 2024, the JIF advisors and our Pensions Committee and Board initially appraised the proposed changes to the SRIP, together with a draft Climate Change Policy. However, the final review was carried over to March 2025 to enable a Pensions Committee and Board training session to run through the proposals, given the technical detail included in the Climate Change Policy. Feedback was incorporated including simplifying and clarifying the language used in our climate change commitments and actions, while retaining detailed notes on their scope to enable robust monitoring.

Outcome

Our updated [SRIP](#) and new [Climate Change Policy](#) were approved by our Pensions Committee on 26 March 2025 and published on our website in early April 2025. The review frequency of the SRIP was aligned with that of our SIP (at least every three years), while the review frequency of our Climate Change Policy was set as annual, in recognition of the latter being an area of continued best practice evolution.

Assessment

Our SRIP was refocused on the six core principles of the United Nations backed Principles for Responsible Investment (PRI), the most fundamental being our ongoing commitment to "incorporate environmental, social and governance (ESG) issues into investment analysis and decision-making processes". The adoption of our new Climate Change Policy enhanced and extended LPF's existing approach to climate change. It retained our commitment to support the goal of transitioning the real economy to net zero greenhouse gas emissions by 2050 or sooner and introduced new climate change commitments and ambitions to support the resilience of our investment strategy to climate change, including a new presumption against continued investment in laggard oil & gas companies (see page 40 for more details). The training session in early 2025 provided more time for a thorough review and discussion of the details of the proposed Climate Change Policy. The training standards described earlier in this report supported the ability of our various governing bodies to provide a meaningful review of our policies. The adoption of our updated SRIP and associated Climate Change Policy is not expected to be financially material to LPF's long-term performance.

However, the impact of the new presumption against continued investment in laggard oil & gas companies is likely to increase over time. We also noted that impacts will vary across internal and external mandates and by asset class, and this should be recognised when comparing performance with benchmarks and peer groups.

Next Steps

Through 2025/26 we will be progressing with the implementation of our new climate change commitments and ambitions, including the development of our climate action plan and reporting on progress indicators.



PRINCIPLE 5: REVIEW AND ASSURANCE

ASSURANCE

We care about and respect our members and employers and are committed to being a responsible business. We have comprehensive policies and procedures in place, and collectively, our Governance, Legal, Risk & Compliance functions ensure that LPF and its group companies meet all corporate governance, legal and regulatory obligations and expectations that impact our work. This requires a continued focus on how to improve the effectiveness of everything we do.

Having enhanced our existing risk management arrangements in previous years, we have created a fully integrated framework based on the following principles:

- Focus on managing risk across the business in a proportionate and pragmatic way
- Ensure arrangements are scalable with an emphasis on investing for the future and building resiliency
- Reduce complexity by standardising processes wherever possible and appropriate
- Operate an integrated internal audit programme to include the LPFE and LPFI entities

We follow an ethos of continuous improvement and seek out improved ways of doing things wherever possible.

RISK MANAGEMENT FRAMEWORK

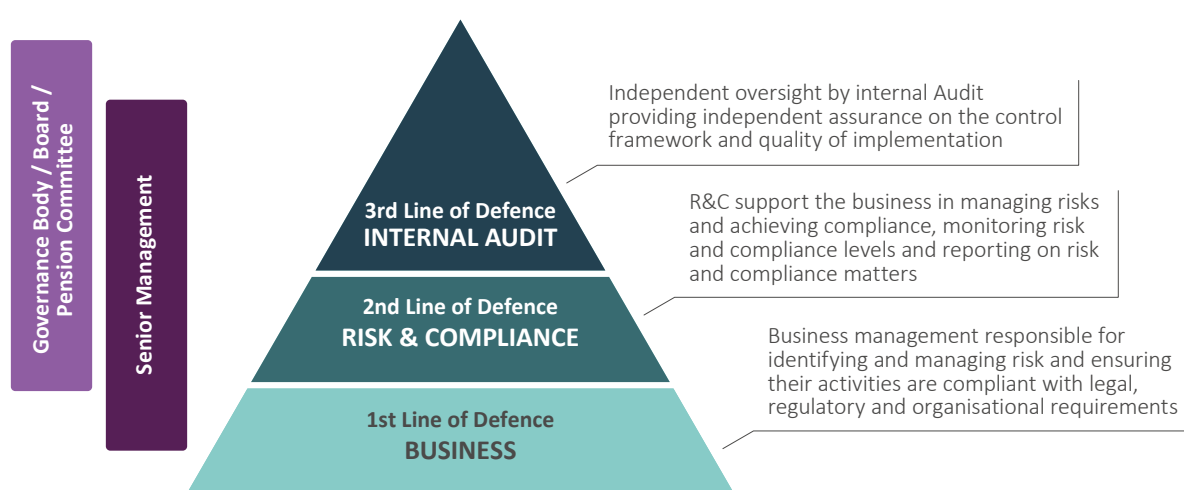
LPF has a risk management framework (RMF) in place across its business functions and group entities, including a toolkit and methodology for identifying, assessing, evaluating, monitoring and reporting risks and controls. This helps to ensure that we're able to operate and demonstrate an appropriate and effective control environment which continues to facilitate and support LPF's forward looking business strategy and objectives.

A high level LPF group risk register is maintained which describes and evaluates all key risks that LPF are exposed to and what controls and mitigating actions are in place to manage them. Risk profiles also exist at individual functional or team levels considering those risks that would prevent a particular area from being able to operate and achieve its purpose/objectives, describing business risks it faces in day-to-day operations and the controls framework which is in place to mitigate risks. Risks are formally considered by the Risk Management Committee on a quarterly basis, although risks are reviewed on an ongoing basis as required.

PRINCIPLE 5: REVIEW AND ASSURANCE

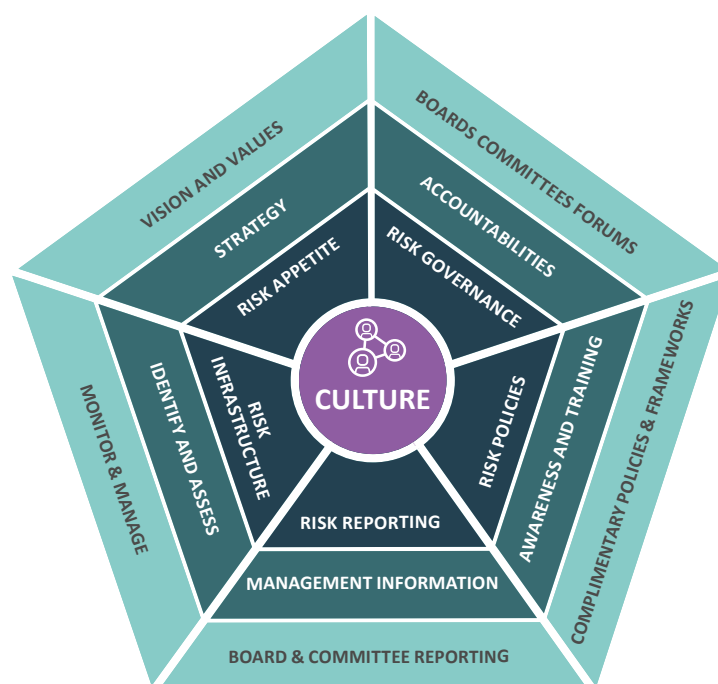
An overview of monitoring and assurance activities undertaken within LPF is provided to the Pensions Audit Sub-Committee on a quarterly basis, with a summary also provided to the Pensions Committee. In addition, an outline of the key risks that LPF is exposed to is reported to the Audit Sub-Committee each quarter, with a summary of the LPF risk register included in papers for both the Pensions Committee and Audit Sub-Committee.

LPF's risk management framework is underpinned by the 3 Lines of Defence model:



PRINCIPLE 5: REVIEW AND ASSURANCE

LPF's RMF brings together various component parts of individual risk arrangements, governance and operations:



The scope of the RMF covers both financial and non-financial risks, and is built around a 'top down' and 'bottom up' approach. Accountabilities for risk management are clearly communicated and reinforced to all employees through:

- A framework of delegations of authority
- Mandatory training and ongoing training
- Position descriptions and formal staff performance target setting and reviews
- Regular written and verbal communications from senior management
- Various assurance reviews and reports.

LPF is supported by numerous systems and tools available to assist with identification, measurement, management and monitoring its risk exposures.

The R&C team is responsible for managing and facilitating the risk management framework, monitoring risk and compliance levels across the business, and reporting on risk and compliance matters to management and governance forums. Monitoring includes themed reviews and spot checks. The R&C team is also responsible for oversight of incident management and issues management.

The internal control environment is subject to reviews throughout the year by both internal and external audit as defined in their respective audit plans. The results of all audit activity are independently communicated to management and the various governance forums. Findings arising from audit activity are assessed and remedial action monitored through the issue management process.

PRINCIPLE 5: REVIEW AND ASSURANCE

ASSESSMENT OF EFFECTIVENESS

PRI assessment

As a signatory to the Principles for Responsible Investment (PRI), a United Nations supported network of investors which works to promote sustainable investment through the incorporation of ESG, we agree to submit a comprehensive survey of our approach to responsible investment annually to the PRI. As part of this process, LPF is able to undertake a gap analysis to assess progress and highlight areas for further improvement towards areas of best practice highlighted by PRI, alongside our evolving responsible investment experience and supported by our internal assurance of our PRI survey response.

On our website, we provide our PRI transparency report, which details our responses to the 2024 signatory survey. Significant changes to the PRI Reporting Framework are planned for 2025 and 2026, with the introduction of more streamlined reporting and “Pathways” to help signatories advance and track progress in their responsible investment practices



UK Stewardship Code (2020)

As part of the process of producing our fourth Stewardship Code report in 2024, we addressed feedback on our successful previous submissions from 2021 and 2022 and internally assessed our stewardship policies, processes and reporting. We continue to develop better practice, such as the development of our new Climate Change Policy as part of our review of our SRIP.

Retaining our status as a signatory to the UK Stewardship Code (2020) in February 2025 with our latest submission (which was submitted in October 2024) itself provides external assurance that we're meeting the standard expected of an institutional investor of our scale.



In 2024/25 we participated in the FRC's consultation on proposed changes to the UK Stewardship Code (to be implemented in 2026). We welcome the aim to reduce the reporting burden for signatories while still supporting high quality and accountability in stewardship reporting.

PRINCIPLE 5: REVIEW AND ASSURANCE

Responsible Asset Allocator Initiative Award

In May 2025, LPF was delighted to be included in the 2024-25 Responsible Asset Allocator Initiative (RAAI) Leaders List, with a score of 97 (out of 100), which ranked us in the top quintile. The 2024 -2025 Leaders List is the fourth edition of this global ranking, which this year assessed 295 of the world's largest asset allocators from 66 countries, representing USD 29 trillion in assets under management.

Conducted in partnership with The Fletcher School at Tufts University, the RAAI Leaders List provides an independent benchmark of peer excellence by assessing how large asset owners integrate sustainability and long-term responsibility into their investment processes. It scores asset owners against 10 principles, each with 3 sub-criteria, including commitment to responsible investment, integration, implementation, accountability, disclosure and impact.

At LPF, our primary objective is to pay the pensions for our members, whilst aiming to reduce the costs to employers and investing responsibly for our members. Being assessed by external specialists helps to ensure that our stewardship reporting is fair, balanced and understandable while affirming that we're on the right path in terms of our continuous improvement efforts.



PRINCIPLE 5: REVIEW AND ASSURANCE

TRANSPARENCY AND REPORTING

LPF welcomes external scrutiny of its activities to support its assurance and review processes. In line with the expectations of a public sector organisation, many of our policies and procedures are available on our website. We also publish our PRI assessment results, our PRI transparency report, our Stewardship Report and our voting records on our website.

We recognise the importance of external reporting, which facilitates independent assessment of our practices. Internally, LPF commits senior resources to supporting the quality of such reporting. For example, related to responsible investment:

- Our HoRI has day-to-day ownership of our reporting commitments such as the PRI and the FRC Stewardship Code, with oversight from the Responsible Investment Group
- Our Risk and Compliance and Communications teams ensure accuracy, regulatory compliance, clarity of message and public communication of reporting, as necessary
- Our Senior Leadership Team, specifically our CEO and CIO, are chief sponsors and have responsibility for approving Responsible Investment communications and reporting.



Within our annual report we include information on our approach to climate-related risks and opportunities, following the guidelines produced by the Taskforce on Climate-related Financial Disclosures. In addition, we submit an annual UK Stewardship Code Report to the FRC.

As reflected in our governance structure, we have multiple layers of regulation and oversight. We prepare extensive internal reporting across all aspects of the organisation. Together, this reporting brings strong discipline in ensuring we review our policies, assure our processes and assess the effectiveness of our activities.

CONTINUOUS IMPROVEMENT

We continue to refine our ESG analysis and integration practices as best practice evolves. Our SRIP is reviewed and updated regularly, most recently in March 2025. At this time, we also adopted a new Climate Change Policy which enhances and extends LPF's approach to climate change.

In June 2024, two new dedicated responsible investment roles were created within our investment team, demonstrating organisational commitment and support from our senior leadership team to developing our resources and approach to responsible investment (as described in Principle 2). This extra resource enabled us to increase our participation in several collaborative investor initiatives in the year to March 2025. This included co-chairing the Asset Owner Council, endorsing of the PRI's nature initiative, Spring, and becoming a signatory to the 2024 Global Investor Statement to Governments on the Climate Crisis. Through our membership of the Local Authority Pension Fund Forum, we wrote to the chairs of 76 FTSE 100 companies detailing our expectations for companies to set out credible transition plans and provide investors the opportunity to vote to approve these plans, ahead of the 2025 AGM season. By encouraging an acceleration of decarbonisation of the global economy, we aim to drive the long-term value of our investment portfolio and contribute to the long-term health of the financial system.

PRINCIPLE 6: CLIENT AND BENEFICIARY NEEDS

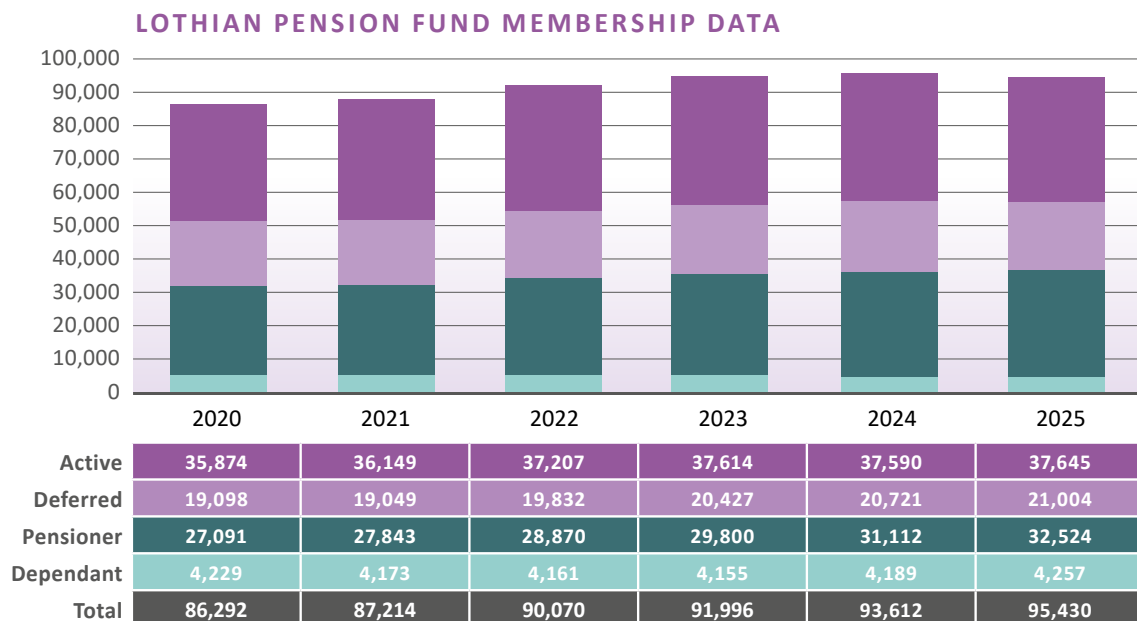
Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

As mentioned earlier in this report, LPF is the second largest Local Government Pension Scheme (LGPS) in Scotland, which is a funded, defined benefit, statutory occupational pension scheme. We refer to our stakeholders, rather than clients and beneficiaries. LPF's stakeholders are the people and entities with an interest in the assets and activities of LPF.

Our stakeholders include the members of the pension scheme (existing and future), their dependants and beneficiaries, as well as the participating employers who contribute to the assets of the fund, and our governing bodies.

OUR MEMBERSHIP

The table and bar chart below shows a breakdown of the membership of our defined benefit scheme. As at 31 March 2025, the number of members in the scheme was 95,430. As at 31 March 2025, the average age of our members is 56 years old.



PRINCIPLE 6: CLIENT AND BENEFICIARY NEEDS

Investment time horizon

The Pensions Committee considers the duration of LPF's liabilities when it sets the investment strategy to ensure that there's sufficient cash flow to pay pensions when they fall due. The Fund is open to new members and contributions which means that we'll be paying pension benefits to today's youngest members in several decades time. However, the Fund is a multi-employer fund, so we consider the different needs of those employers and offer different investment strategies to reflect their investment time horizons and cash flow needs, which vary significantly based on the maturity profile of their pension liabilities. These investment time horizons range from a few years to several decades. The different employer strategies are described on the following page.

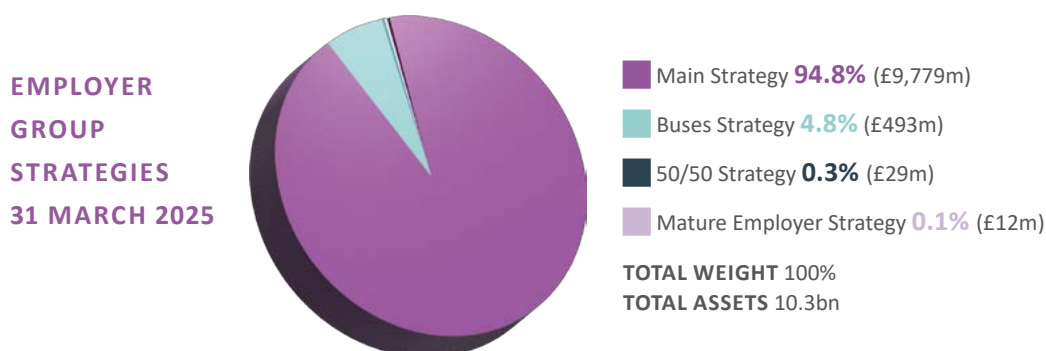


PRINCIPLE 6: CLIENT AND BENEFICIARY NEEDS

AN OVERVIEW OF OUR INVESTMENT APPROACH

Employer strategies

LPF is a multi-employer pension scheme and not all employers are alike. To address their differing funding requirements the fund operates four distinct investment strategies. The assets in each strategy are shown in the table below.



Employers fund their liabilities with the strategy that reflects their ability to tolerate risk within an appropriate time horizon, considering the maturity of their liabilities.

Most employer liabilities are funded under the Main Strategy, which adopts a long-term investment strategy, aiming to generate an investment return that will minimise the cost to the employer within reasonable and considered risk parameters. The Main Strategy maintains significant exposure to assets, such as Equities and Infrastructure, which have a history of protecting and growing purchasing power.

A small number of employers are funded in the Mature Employer Strategy, which invests in a portfolio of UK index-linked gilts to reduce funding level and contribution rate risk as they approach exit from the fund. The liabilities funded by the Mature Employer Strategy represent approximately 0.1% of total liabilities.

The 50/50 Strategy enables another small group of less mature employers to fund liabilities with a 50/50 mix of the Main Strategy and the Mature Employer Strategy. The liabilities funded by the 50/50 strategy represent a further 0.3% of total liabilities. These now include the Buses Strategy.

The Buses Strategy, which was created when the assets and liabilities of Lothian Buses Pension Fund were consolidated into the Lothian Pension Fund on 31 January 2019, is now a 50/50 mix of the Main Strategy and the Mature Employer Strategy following a recent strategy review (previously a 55/45 mix). At 31 March 2025, the Buses strategy represented approximately 4.8% of total assets.

"When joining LPF, I was attracted by the open and collaborative culture, clear strategy, and singular focus on delivering for LPF's members and employers. Since joining, I've enjoyed learning about our current investment portfolio as well as getting to know a highly capable team who work hard to provide benefits for LPF's members over the long-term."

Kenneth McMillan, Portfolio Manager



PRINCIPLE 6: CLIENT AND BENEFICIARY NEEDS

Policy groups

The investment strategies are described in terms of allocations to broad asset classes, or policy groups, which are the key determinants of risk and return. These policy groups are Equities, Real Assets, Credit, Sovereigns and Cash. Although individual investments within each group will have different risk and return characteristics, each policy group has a long-term return target, which provides perspective on the expected risk of each group in relation to Fund liabilities.

The table below presents the policy group target allocations of the four investment strategies at end March 2025 along with the total Fund strategy, which is the weighted average of the four employer strategies.

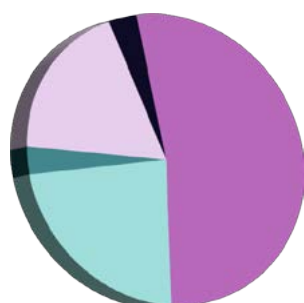
LOTHIAN PENSION FUND 31 March 2025	Main strategy	Mature Employer Strategy	50/50 strategy	Buses strategy	Total Fund Strategy
Equities	55.0%	0.0%	27.5%	27.5%	53.5%
Real Assets	20.0%	0.0%	10.0%	10.0%	19.5%
Credit	8.0%	0.0%	4.0%	4.0%	7.8%
Sovereigns	15.0%	100.0%	57.5%	57.5%	17.2%
Cash	2.0%	0.0%	1.0%	1.0%	1.9%
Total	100%	100%	100%	100%	100%

Note: In March 2024, the Pensions Committee reviewed and agreed a new Strategic Asset Allocation for the Main Strategy - to be implemented from 1 April 2024. It modestly reduced overall investment risk, via a 5% reduction in our equity investments and a 5% increase in our sovereign debt investments. As part of the review, two policy groups were renamed, the previous "Non-Gilt Debt" policy group is now "Credit", and the previous "LDI (gilts)" policy group is now "Sovereigns"

The Sovereigns policy group comprises index-linked gilts, nominal gilts (UK sovereign debt) and US Treasury inflation protected securities. This is the lowest risk, lowest expected return policy group, outside cash, as it's possible to match the cash flows of gilts with the pension payments that the fund expects to pay in the future. The purpose of the other policy groups is to generate a return in excess of the gilt return to make the fund affordable to employers. The other policy groups are expected to generate higher returns over the long term (the Actuary models 20 years into the future). These higher expected returns come with higher risk (also called volatility).

The Pensions Committee delegates implementation of investment strategy to the fund's officers, who are tasked with investing each policy group within specified ranges. These are laid out in the Statement of Investment Principles. The actual allocation at end March 2025 is presented in the pie chart below. The largest deviation from strategy is the underweight position in Credit (-4.6%) as credit spreads are deemed broadly unattractive at current levels given the associated risks. The fund's exposure to Equities (-0.5%) and Real Assets (+2.9%), which should help protect against inflation, is modestly above target in aggregate. Exposure to both Cash and Sovereigns is also above target at +1.3% and +0.9% respectively. The fund has operated comfortably within the prescribed ranges over the year.

ACTUAL ASSET ALLOCATION TOTAL FUND 31 MARCH 2025



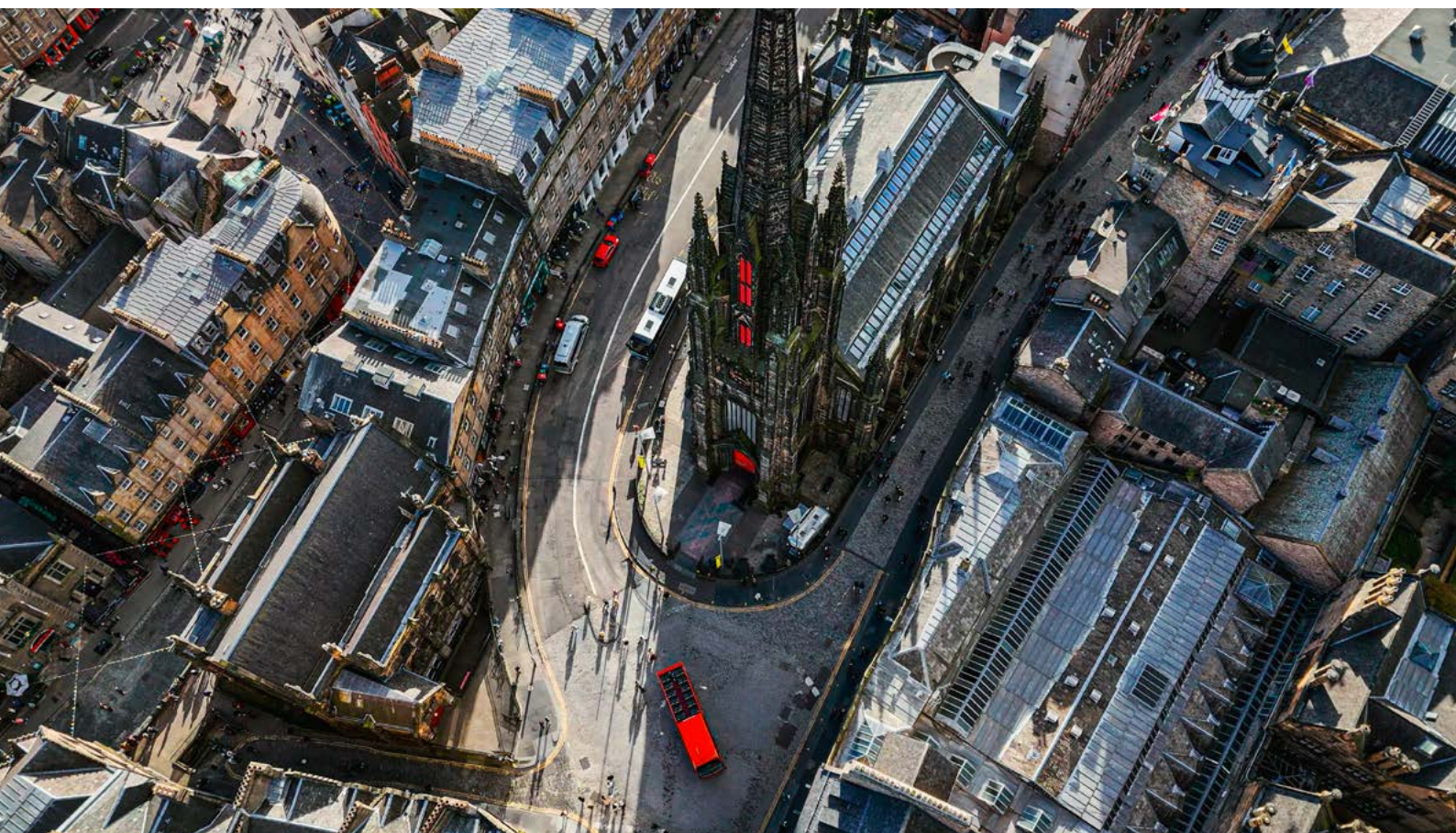
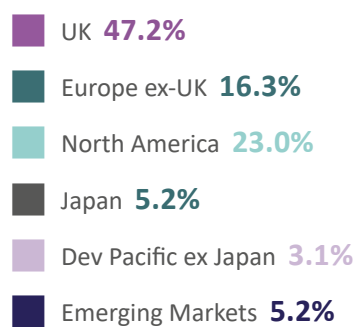
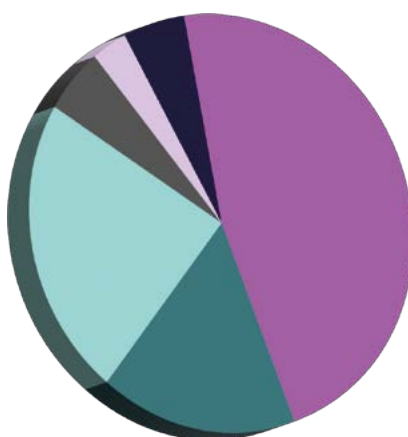
Equities 53.1%	Sovereigns 18.2%
Real Assets 22.3%	Cash 3.3%
Credit 3.2%	

PRINCIPLE 6: CLIENT AND BENEFICIARY NEEDS

OUR GEOGRAPHICAL EXPOSURE

The pie chart below show an estimated breakdown of the investments of the total fund by geography at 31 March 2025.

PORTFOLIO
ANALYSIS LPF
31 MARCH 2025



PRINCIPLE 6: CLIENT AND BENEFICIARY NEEDS

STAKEHOLDER VIEWS

Due to the complexity and breadth of responsible investment topics, we don't seek to directly survey our members' views on these topics. However, we benefit from deep integration of member representatives within our Pension Board and Pensions Committee, who provide the important insight that we require about our stakeholders' needs with constructive two-way dialogue.

The Pension Board's role is to provide oversight of the Pensions Committee to ensure that the pension scheme is meeting its legal and administrative requirements and is being operated in the best interest of its stakeholders. Our Pension Board consists of five member representatives and five employer representatives (there was a vacant member representative position, as at 31 March 2025, which has subsequently been filled). The member representatives are union representatives from different unions (who bring insight from their constituent members in different industries but represent all pension members when they sit on the board). We ensure both large and smaller employers are represented on the Pension Board.

We also have an employer representative and a member representative on our Pensions Committee, alongside the five elected members of City of Edinburgh Council (CEC). Pensions Committee members are quasi trustees. Committee papers and minutes are publicly available for all our stakeholders to read, with a link to the relevant [CEC website page](#) provided on the LPF website. Contact details for the Pensions Committee are also provided there. The Pensions Committee therefore acts as a conduit for stakeholder views.

Our Senior Leadership Team (SLT) engages with stakeholders (including employers, elected members, Scottish Scheme Advisory Board and The Pension Regulator) in listening exercises to understand their expectations.

Stakeholder needs

Through this stakeholder engagement, we believe our stakeholders' primary needs to be:

- The provision of a secure pension entitlement for members
- Affordable and stable contribution rates for employers
- Recognition of LPF as a Responsible Investor.



Our investment approach and operating plan is driven by what is required to meet these needs. Our strategic goal to "Earn an appropriate risk adjusted investment return as responsible investors" reflects our belief that Responsible Investment and stewardship should reduce the risk associated with the invested assets that the Fund owns to pay pensions when they are due.

LPF has been a signatory to the Principles of Responsible Investment (PRI) since 2008 and demonstrates good stewardship through maintaining our status as a signatory of the UK Stewardship Code (2020), most recently confirmed in February 2025.

As explained above, we have four different employer strategies to meet the needs of our different employers, reflecting their maturity profile and hence the needs of the underlying beneficiaries. This ensures investment is aligned with an appropriate investment time horizon.

PRINCIPLE 6: CLIENT AND BENEFICIARY NEEDS

COMMUNICATION

We believe that transparency in terms of investments, communication, access to information and cross-industry collaboration are key components in protecting our stakeholders' interests and ensuring we continuously improve.

At LPF, we support our stakeholders on both a proactive and a reactive basis. Considerable time and effort is spent on proactive engagement designed to support our stakeholders. It means that we can provide clear, carefully constructed responses to frequently asked questions, demonstrating understanding of the issues, and provide insights into the work that we do and the work that's done on our behalf by third parties and collaborative partners.

Specifically on the subject of proactive [responsible investment communications](#), we've created a library of publicly available resources on our website, including:

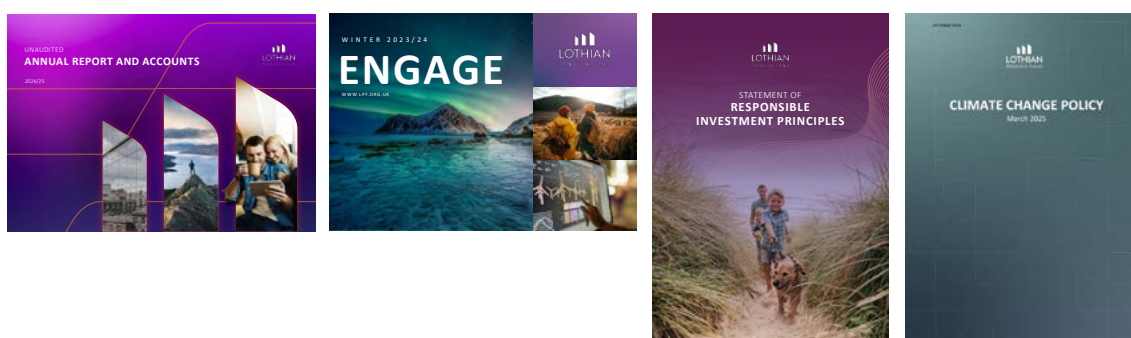
Statutory reporting:

- The Annual Report and Accounts (which voluntarily includes reporting aligned with Taskforce for Climate-related Financial Disclosures)
- The Statement of Investment Principles (SIP)

Voluntary reporting:

- The Statement of Responsible investment Principles (SRIP)
- Climate Change Policy
- PRI Transparency report
- Stewardship Report
- Voting data
- Engagement case studies
- The *ENGAGE* responsible investment newsletter

We encourage members to read, listen and understand these resources to be well informed about the nature of investing and LPF's approach to responsible investing.





PRINCIPLE 6: CLIENT AND BENEFICIARY NEEDS

THOUGHT LEADERSHIP

LPF is both responsive to, and proactive in its approach to media engagement and external communications. Our Head of Responsible Investment takes an active role in contributing thought leadership through media articles and industry events.

This included involvement in the following:

- Co-chairing the Asset Owner Council
- Speaking on a panel on the importance of integrating environmental, social and governance factors into investment decisions at the Mallowstreet LGPS Conference
- Providing the Keynote address on Climate Change & Stewardship – What to Expect in 2025 at the Mallowstreet Edinburgh Roadshow
- Guest lecturing at the University of Edinburgh Business School
- Signing the 2024 Global Investor Statement to Governments on the Climate Crisis
- Endorsing the Asset Owner Statement on Climate Stewardship
- Providing training to the internal investment team as well as the Pensions Committee and Pension Board on our approach to responsible investment
- Participating in the GAIN (Girls Are Investors Network) Empower Investment Internship Programme
- Participating in the Growing Future Assets Competition run by Future Asset through provision of judges/mentors and hosting teams of schoolchildren at the LPF office for insight days.

We also undertake reactive engagement in three broad categories:

- Freedom of information requests
- General and stewardship enquiries
- Indirect general enquiries through Councillors/MSPs/MPs.

PRINCIPLE 6: CLIENT AND BENEFICIARY NEEDS

Enquiries

Both the direct and indirect general enquiries typically follow a similar format. They're enquiries either generated by a website form or downloaded from a website, suggesting that it should be directed to a local political representative. Often these enquiries are from individuals unrelated to the pension fund.

In these instances, we support busy Councillors by providing standardised responses. This ensures consistent responses, speed, and greater efficiency and time savings for Councillors, committee members and officers alike, as well as upholding the levels of service our stakeholders expect.



We make a pledge to our members that, when they contact us, we'll:

- Deal with the query promptly, efficiently, fairly and in an easy-to-understand way
- Communicate our service standards
- Reply as quickly as possible with information if we can't answer the query on the spot
- Treat all queries with respect
- Treat our members as individuals.

EVALUATION OF EFFECTIVENESS

Through our proactive and responsive communication strategy combined with the make-up and role of the Pension Board and Pensions Committee in our governance structure we aim to engage with stakeholder representatives from all our key constituencies. This supports our understanding of stakeholders' needs.

Based on the enquiries from Councillors and the Pensions Committee about LPF, we also believe that our public communication channels are working effectively. While we recognise that some of these enquiries may be from individuals who aren't members of LPF, we note that this engagement can be useful in reflecting broader views on emerging issues.

Over the year to March 2025, we made great progress towards our vision of delivering outstanding pension and investment services. We retained the Pension Association Standards Award (PASA) accreditation, maintained our Customer Service Excellence award with increased scores, and reported 92.1% overall customer satisfaction in our annual surveys.

Our progress towards our vision of delivering outstanding pension and investment services was confirmed by CEM, an independent benchmarking service:

- CEM's pension administration analysis shows that LPF delivers a high level of above benchmark service at below benchmark cost
- CEM's investment benchmarking reports that LPF's investment costs are significantly lower than its global peer group and their UK Local Government Pension Scheme (LGPS) universe. Over the long-term, LPF has delivered investment returns above its peer group with a lower level of risk and at lower cost.

PRINCIPLE 6: CLIENT AND BENEFICIARY NEEDS



Customer Service Excellence (CSE)

We're proud to have held the Customer Service Excellence (CSE) Award (previously known as Charter Mark) since 2008.

The CSE Awards were established to provide a practical tool for service providers to drive customer-focussed change within their organisation. It's helped us to become even more efficient and effective and provide an excellent service to our members and employers.

Yearly formal assessments are carried out by a licenced certification body and we're delighted to have received successful inspections for the last 18 years.



PRINCIPLE 6: CLIENT AND BENEFICIARY NEEDS

LOOKING FORWARD

LPF follows a two-year strategic planning cycle, and our planning process begins and ends with a focus on our members through an ongoing feedback loop of listening to our members when we engage with them on administration matters, and in asking for feedback through our complaints and compliments process. The process to develop our 2025-2026 commenced in late 2024, with initial discussions reviewing and re-affirming the broad strategic priorities. The Strategy and Business Plan was formally considered and agreed by our Pensions Committee in March 2025 on behalf of our members and employers.

The plan centres around four broadly defined strategic goals, which have been rebranded but are largely consistent with previous years. Each strategic goal has more detailed objectives and accompanying measures which allow us to monitor our progress.

STRATEGIC GOALS 2025-2026

How we aim to achieve the sustainability that our multi-generational obligations require

STRATEGIC GOALS

Deliver service excellence for our members and employers



- Continue to target external validation including the Pensions Administration Standards Association (PASA) accreditation, the Customer Service Excellence (CSE) award and CEM Benchmarking
- Delivery of our digital strategy to further improve our service proposition for both members and employers
- Keep things simple by eliminating complexity and unnecessary friction in internal processes.

Invest responsibly for our members



- Delivering sufficient investment returns over the long term to meet funding targets
- Seeking to have a positive impact on the economy and society by continuing to integrate ESG into our investment processes and demonstrating good stewardship of our assets
- Maintain FRC Stewardship Code signatory status.

Collaborate for success



- Continue to collaborate through successful investment partnerships
- Offer reliable and impartial advice to policy makers including the Scheme Advisory Board.

Make LPF a great place to work



- Empowering a broad range of talents to meet our organisation priorities
- Cultivating leadership competencies and develop succession plans across the team
- Give our people capacity and encouragement to contribute to our communities.

PRINCIPLE 6: CLIENT AND BENEFICIARY NEEDS

Through engagement with stakeholders, we recognised the need for LPF to be recognised as a responsible investor and to demonstrate good stewardship meeting the requirements of the UK Stewardship Code (2020). We published our first Stewardship Report in Q4 2021. This document is our fifth Stewardship Report.

We have also recognised the views of our stakeholders by taking on board their need for additional information on specific ESG topics. In 2024 our Pensions Committee reviewed reports and attended training on our approach to responsible investment in conflict-affected areas and the feasibility of changing our investment mix to directly target the energy transition. The latter led to the development of our new Climate Change Policy, which was agreed by Pensions Committee in March 2025.

Implementation

Implementation of our investment strategy is achieved using both internal and external managers. We assess all our investments with a view to meeting a required level of financial return in the context of achieving an appropriate level of risk diversification. ESG issues are an integral part of that assessment. The benefit of having an experienced portfolio manager as our in-house Head of Responsible Investment is that we're able to integrate our stewardship and our investment decisions across the fund, according to asset type (see Principle 7).

Implementation of the climate change commitments and ambitions, which we set out in our new Climate Change Policy (see page 12), is our main stewardship priority for 2025 and 2026.



PRINCIPLE 7: STEWARDSHIP, INVESTMENT AND ESG INTEGRATION

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

The purpose of our pension fund is to pay pensions to members as they fall due over a multi-decade timeframe. As an early signatory to the PRI, we've incorporated environmental, social and governance issues into our investment decision-making since 2008. We see stewardship as an essential and integral part of our investment process.

- Our stewardship activities inform us about how companies are performing on specific ESG issues, about how proactively these issues are being managed, and about companies' wider approach to strategy and risk management
- Our stewardship activities often encourage better disclosures to support our investment research and decision-making on ESG issues
- Our investment process identifies risks and opportunities both at a stock and sector level, providing us with a prioritised list of issues to focus on in our engagement
- Our dialogue with companies often generates wider insights about trends, drivers, best practices, and relative company performance, informing ESG analysis.

"There is no such thing as a risk-free investment. ESG issues are central drivers of investment risk and return. Our job is to be aware of the relevant risks, to ensure that we're being paid for the risks we're taking, and to manage and mitigate these risks."

Gillian de Candole
Head of Responsible Investment, Lothian Pension Fund



PRINCIPLE 7: STEWARDSHIP, INVESTMENT AND ESG INTEGRATION

As discussed in Principle 2, our stewardship efforts are purposely managed within our investment team, so that they're embedded in the investment process systematically. We don't treat this as a separate activity. We encourage company management teams to improve their practices and give them time to do so. This support is not open-ended or unquestioning; if we feel progress is too slow, and the prospect of financial risk to us is increasing, we'll withdraw our support and reduce or exit an investment.

We integrate stewardship and ESG issues into our investment analysis and decision-making process.

ESG and stewardship integration

Implementation of our investment strategy is achieved using both internal and external managers. We assess all our investments with a view to meeting a required level of financial return in the context of achieving an appropriate level of risk diversification. ESG issues are an integral part of that assessment. The benefit of having a portfolio manager as our in-house responsible investment lead is that we're able to integrate our stewardship and our investment decisions across the fund, according to asset type. How ESG issues are incorporated into investment analysis and decision-making processes varies according to the asset category (but not geography) and whether the mandate is internally or externally managed. Further details are provided in our [Statement of Responsible Investment Principles](#) and our [Climate Change Policy](#).

"Our new Climate Change Policy achieves the right balance between implementing our commitments on climate and ensuring we maintain an appropriately unconstrained investment universe to deliver the required risk-adjusted investment returns over the long term for our employers and members. Introducing a presumption against holding shares in laggard oil and gas companies increases our scrutiny of the overall sector and helps us identify and encourage those firms we view as better aligned with our goals."



Emmanuel Bocquet, Chief Investment Officer

PRINCIPLE 7: STEWARDSHIP, INVESTMENT AND ESG INTEGRATION

Our internal managers invest directly in listed markets and private market funds, and they monitor public and private markets with the benefit of having integrated ESG analysis into investment decision-making for many years. Our internal managers are ideally looking for investments where ESG-related improvements are in evidence with long term benefits likely to accrue to shareholders. Through our engagement activity, we encourage positive outcomes for asset owners through good capital allocation decisions.

We expect our appointed managers to demonstrate how they incorporate ESG issues into their ownership policies and practices, and material misalignment from our approach will lead to review. More details on how we monitor our managers and service providers are provide in Principle 8.

The following table explains our approach:

Internal Equity Investment	Our portfolio managers analyse ESG data as part of the stock selection process and, on an ongoing basis, monitor ESG developments at underlying investee companies. Data and rating changes from independent providers trigger stock reviews. We use indicators of climate risk management to identify asset specific climate-related risks (and opportunities), to assess the net zero alignment of the companies we invest in, and to identify climate leaders and laggards. We engage with existing portfolio companies to ensure ESG risks (including climate risk) are accounted for and to encourage the development of realistic transition plans. We aim to avoid subscribing to new financing for companies assessed as having a business plan that is incompatible with the aims of the Paris Agreement because of the investment risks we believe it presents. In March 2025, our Climate Change Policy introduced a presumption against continued investment in laggard oil and gas companies.
Internal Sovereign Bond Investment	Our portfolio managers analyse ESG reports and respond to government and market consultations, either directly or with our collaborative partners.
External Equity Managers	During the appointment process, we assess the managers' approaches to integration of ESG issues into their investment analysis and decision-making processes. We monitor the managers' implementation of their approach on a quarterly basis alongside all other investment matters. We engage regularly and review their PRI transparency reports and product-level Task for Climate-related Financial Disclosures (TCFD) reports, where available. Managers are encouraged to join PRI as signatories where they're not already members and also to be signatories to the UK Stewardship Code, where appropriate. Our ambition is to appoint managers who will not subscribe to new financing for companies assessed as having a business plan that is incompatible with the aims of the Paris Agreement.

PRINCIPLE 7: STEWARDSHIP, INVESTMENT AND ESG INTEGRATION

External Corporate Bond Managers	During the appointment process, we assess the managers' approaches to integration of ESG issues into their investment analysis and decision-making processes. We monitor the managers' implementation of the approach on a quarterly basis alongside all other investment matters. We engage regularly and review their PRI transparency reports and product-level TCFD reports, where available. Managers are encouraged to join PRI as signatories where they're not already members and also to be signatories to the UK Stewardship Code, where appropriate. Our ambition is to appoint managers who will not subscribe to new financing for companies or projects assessed as having a business plan that is incompatible with the aims of the Paris Agreement.
Internal Direct Property Investment	During the selection and monitoring process, we assess the environmental efficiency and sustainability credentials of properties, including physical climate risks and transition risks (investment needed to meet tightening energy performance standards). In conjunction with an appointed property manager, we ensure that ESG initiatives to mitigate risk and maximise opportunities are implemented at every stage of the ownership cycle. ESG improvement targets and performance will be incorporated into strategy through asset management plans for owned assets and all new investment acquisition appraisals. As part of our monitoring and review of direct property assets, we engage directly with tenants and build long-term relationships with them.
Real Asset (Infrastructure, Indirect Property and Timber) Investment	During the appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. We monitor the managers' implementation of the approach on a quarterly basis alongside all other investment matters, and review PRI transparency and GRESB reports of external managers, where available. Where appropriate, we seek improvement to both the management and implementation of that approach. Managers are encouraged to join PRI as signatories where they're not already members.

Case study

ESG INTEGRATION IN DIRECT PROPERTY

Background

One example of the financial materiality of ESG issues is provided by a series of legislation affecting the UK property sector, such as the Minimum Energy Efficiency Standards (MEES) for UK commercial property and the requirement for an Energy Performance Certificate (EPC).

The MEES restricts commercial landlords from letting (and hence generating an income or financial return from) energy inefficient buildings. The EPC rating is a measure of the notional energy efficiency of a building, based on its CO₂ emissions. These legislative initiatives support the drive to net zero as commercial buildings are estimated to contribute 20% of the UK's carbon footprint.

Initially introduced in 2015 in England and Wales, the MEES has the following implications for commercial property:

- 1 April 2018 – Unlawful to grant new leases of commercial property with an EPC rating of below E (the minimum standard)
- 1 April 2023 – Unlawful to "continue to let" commercial property with an EPC rating of below E (the minimum standard)
- 1 April 2025 – Requirement to register a valid EPC for let, commercial property
- 1 April 2028 (previously 2027) – The minimum standard raised to EPC rating C (proposed regulation, which is now not expected to come into force)
- 1 April 2030 – The minimum standard raised to EPC rating B (proposed regulation)

It is anticipated that the 1st April 2028 regulation will no longer be brought in, however, the ultimate deadline of an EPC rating of B or higher remains anticipated for 2030. With that in mind, continuing to improve the EPCs throughout our direct property portfolio is a key focus and a fundamental consideration in all our asset management and transactional decisions.

Actions taken

Across England & Wales, all our direct property assets are fully compliant with the 2023 MEES Regulations, with no F or G rated properties. In terms of the overall portfolio, 52% is either A or B rated with a further 30% rated C. Improvements continue to be made via direct liaison with the occupational tenants and on lease events and vacant properties.



Case study

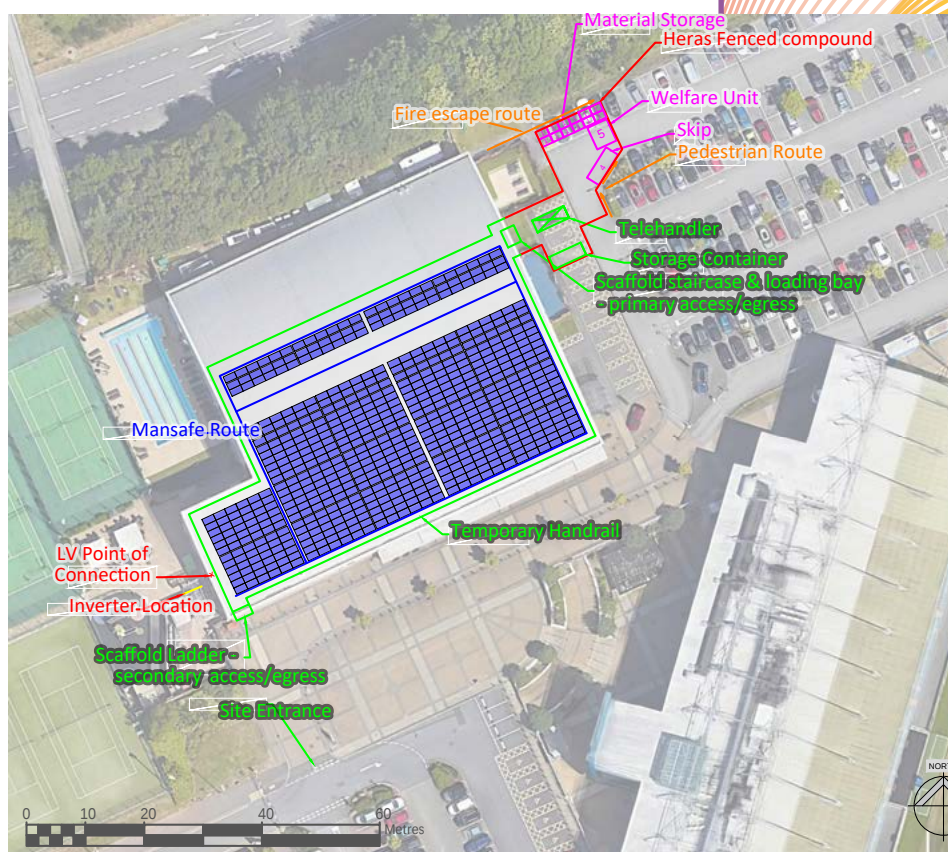
ESG INTEGRATION IN DIRECT PROPERTY (CONTINUED)

A good example of tenant engagement is at the purpose-built leisure centre in Exeter. The tenant, David Lloyd, made an application to install photovoltaic (solar) panels on the building. A full structural, technical and electrical review was undertaken allowing consent to be granted to David Lloyd to install 648 solar panels onto the roof. David Lloyd is proposing to roll out further ESG initiatives including L.E.D. lighting and electric vehicle charge points and is seeking to phase out gas consumption prior to 2030, all of which will continue to improve the current EPC rating of B.

Market demand also drives improvement with new tenants seeking the most efficient and ESG focussed buildings. During vacant unit refurbishments, changes from gas to electric and improvements to L.E.D. lighting has delivered some positive improvements to EPC ratings.

Following the launch of the Better Building Partnership's new Green Lease Toolkit in January 2024, we conducted a review of our property leases with our external solicitors to consider how best to adopt elements of the toolkit and incorporate them within the LPF portfolio. Following this review, adjustments to the fund's adopted standard form of lease were made to expand the green lease clauses where appropriate. We also agreed to incorporate green lease clauses within Heads of Terms for all new lease transactions, to ensure that these clauses are agreed early in negotiations and incorporated into the lease.

This promotes greater alignment between the fund, as landlord, and the tenant, as occupier. The overall objective is to identify areas of mutual value where co-operation between the stakeholders will improve the sustainability of commercial buildings.



Case study

ESG INTEGRATION IN DIRECT PROPERTY (CONTINUED)

Outcome

The fund was fully compliant with the MEEs regulations ahead of the 1 April 2023 deadline, with the improvements made since December 2021 and more recently shown in the table below:

		Dec 2021	Dec 2022	May 2024	July 2025
EPC Risk Rating	Red 	24	0	0	0
EPC Risk Rating	Amber 	76	93	68	58
EPC Risk Rating	Green 	19	26	46	65

(Numbers reflect sales and acquisitions over this period)

Assessment and Looking Forward:

Our proactive approach enabled us to meet the 2023 and 2025 standards ahead of the deadline. However, we continue to improve the EPC ratings of the assets within our direct property portfolio, both through refurbishment and through engagement with tenants, to improve how efficiently the buildings are used and to ensure compliance with proposed regulations anticipated to come into force in the future.

We continue to expand our ESG initiatives in direct property to address social issues. In conjunction with our dedicated property management team, we continue to review the building services contracts to ensure that all suppliers' employees are paid the Real Living Wage. With an increase taking place on 1st April 2025, contractors were contacted to ensure that any changes were implemented, and we have confirmation that all employees are being paid the Real Living Wage.

The Living Wage Foundation asserts that earning the Real Living Wage, as opposed to the minimum wage, makes a huge difference to workers' productivity, mental health and family relationships.



PRINCIPLE 7: STEWARDSHIP, INVESTMENT AND ESG INTEGRATION



PRIORITY ESG ISSUES

We've identified 12 financially material ESG issues or themes that represent our engagement priorities for 2024-26. These guide our voting and engagement activity both internally and through our external engagement provider, EOS (for more information, see Principle 9). We believe they're important issues that will impact shareholder value and so deserve focus in any investment analysis.

• Climate change • Circular economy and zero pollution • Natural resource stewardship • Human and labour rights • Human capital • Wider societal impacts		• Board effectiveness • Executive remuneration • Investor protection and rights • Business purpose, strategy and policies • Risk management • Corporate reporting
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Within this, we prioritise what we assess to be the most material drivers of long-term value: climate change action, human and labour rights, human capital, and board effectiveness. We also identify increasing materiality to issues related to biodiversity (within natural resource stewardship), digital rights (within human and labour rights), and responsible tax practices (within wider societal impacts).

OUR TOP PRIORITY: CLIMATE CHANGE

Complex, global systemic risk.

We identify climate change as our top priority for integration within our stewardship and investment processes, as this is a key systemic risk with potentially far-reaching consequences across all sectors and regions. The need for an energy transition is creating change that represents both risks to, and opportunities for, LPF. We aim to address climate change risks in two ways:

Through our investment decision making processes:

- We use indicators of climate risk management and net zero alignment (from a variety of data sources) to identify asset specific climate-related risks (and opportunities) and to assess the net zero alignment of the companies we invest in, to identify climate leaders and laggards
- We avoid subscribing to new equity and fixed income issuance from companies whose business plans are assessed as incompatible with the aims of the Paris Agreement because we recognise that primary market issuances are more associated with new production capacity assess.

Through our engagement and voting activities:

- In our meetings with company management, we routinely discuss how they'll align their businesses with the aims of the Paris Agreement. We encourage our external managers to do likewise and to report on their engagement activity
- Our ambition is that over the next five years (i.e. by end 2029), primarily through engagement and advocacy, we will increase the alignment of our investee companies to a future low carbon world
- We engage with climate laggards with a presumption against continued investment in laggard oil & gas companies, given our recognition of the need for the world to phase out the vast majority of fossil fuel use by 2050
- We escalate engagement with climate laggards through our voting.

We align our stewardship activities to achieve shared outcomes

Carbon intensity metrics are currently treated as outputs of our investment process rather than targeted inputs into the investment process. This is because data quality remains variable, these metrics are backwards-looking, and they can be easily manipulated. For investors, reported portfolio carbon intensity metrics could easily be lowered simply by selling the most carbon intensive stocks and replacing those investments with lower emission stocks. This may be optically attractive, but companies will continue to emit carbon in the same manner whether we sell or retain the shares.



We need good data to build a clear roadmap of risks, opportunities and implications of climate change, so we can make informed decisions in the long-term interests of our stakeholders. Strengthening corporate reporting on climate change has therefore been a key focus of our engagement efforts. We work with Climate Action 100+ and the Transition Pathway Initiative (TPI) to encourage better, more meaningful reporting on carbon emissions and climate transition plans from companies.

Using our voting rights to support and encourage credible transition planning

Through EOS we've had a formal climate change voting policy in place since 2019 targeting climate laggards. This policy was strengthened in 2021 with the emergence of formal shareholder votes on companies' responses to the climate crisis: we support proposals that demonstrate robust target-setting, and that are aligned with external frameworks and accreditations such as the Science-Based Targets initiative; we also want to see a credible strategy in place to achieve the stated targets. In 2022 and 2023, further specificity was introduced as to how TPI assessments are used to identify climate laggards in key sectors such as Oil & Gas, Electricity Utilities, Oil & Gas Distribution and Autos, and we consider voting against the reappointment of relevant directors if a company does not adequately consider material climate risks (see Case Study in Principle 11 for examples).

PRINCIPLE 7: STEWARDSHIP, INVESTMENT AND ESG INTEGRATION

Our approach is nuanced

While we assess and manage climate-related risks and opportunities for all our assets, our approach differs by asset class. Above, we highlight how we use available data and tools to assess climate change risks and engage, often in collaboration with like-minded investors, to address this systemic risk. On page 66 we provide a Case Study on our ESG Integration in Direct Property and on page 74 we provide a spotlight on how we integrate ESG considerations, including climate risk, in infrastructure investment.

Within our equity and corporate bond portfolios we differentiate between:

- Secondary investment activity (the trading of shares) - this rarely affects the capital position of a company
 - o We have a policy of engagement rather than exclusion and divestment. This enables engagement to exert influence on companies to improve their business practices, align with the Paris goals, and disclose internal management of climate-related risks and opportunities through TCFD compliant reporting. Finance theory indicates that exclusions may result in lower risk-adjusted returns while the body of empirical research reaches different conclusions depending on the time period chosen. Our inference is that divestment is a sub-optimal strategy as it provides no incentives for management to change. On climate change specifically, divestment may be having the unintended effect of shifting ownership to less climate-aware investors and directing finance-streams into "pollution-havens"
 - o Our ambition is that over the next five years (i.e. by the end of 2029) we will increase the alignment of our investee companies to a future low carbon world. Initially our scope for this is limited to the CA100+ target companies that we own. These companies are our focus as they operate in sectors which are currently a significant source of greenhouse gas emissions and where transition is critical to achieving net zero. We are also able to assess their alignment progress using the Net Zero Investment Framework 2.0 alignment criteria
 - o LPF's approach is to consider investments on a case-by case basis: in the energy sector, we consider the risk and returns available for companies with the capability to direct capital into renewables or back to shareholders, as well as to fossil fuels, and we engage to encourage robust transition planning. We recognise that the world needs to phase out the vast majority of fossil fuel use by 2050 and in March 2025, we introduced a presumption against continued investment in laggard oil and gas companies, together with an ambition to position the fund to benefit from the energy transition by having more exposure (across the fund) to climate solutions than in companies whose primary business is related to fossil fuels. Further details are provided in our [Climate Change Policy](#).



PRINCIPLE 7: STEWARDSHIP, INVESTMENT AND ESG INTEGRATION

- o Where analysis of climate risk (or any other risk) points to poor financial outcomes we would expect to escalate engagement (including through our voting) and we retain the ability to selectively divest (see Principle 11 for more details of our approach to escalation)
- Primary investment activity (subscribing to new bonds or new equity issuance) - this provides companies with funding
 - o We avoid subscribing to new issuance from companies whose business plans are assessed as incompatible with the aims of the Paris Agreement because we recognise that primary market issuances are more associated with new production capacity
 - o We apply extra scrutiny to assessing whether to participate in initial public offerings or rights issues for our internally managed equity portfolios and we've communicated our expectations of our external equity managers to do likewise
 - o Our ambition is to appoint managers who will not subscribe to new financing for companies or projects assessed as having a business plan that is incompatible with the aims of the Paris Agreement - this was a key consideration throughout the review and evaluation process for appointment of a new corporate bond manager
 - o We continue to engage with our external corporate bond managers and review alternative strategies/benchmarks to support the implementation of our debt denial policy.

"We recognise the contribution that some specific sectors and industrial activities make to climate change. While there's a tendency to label companies in carbon-intensive industries as 'bad' and those in low-carbon and alternative energy businesses as 'good', investment is more nuanced than this. We summarise our approach as deny debt, engage equity"

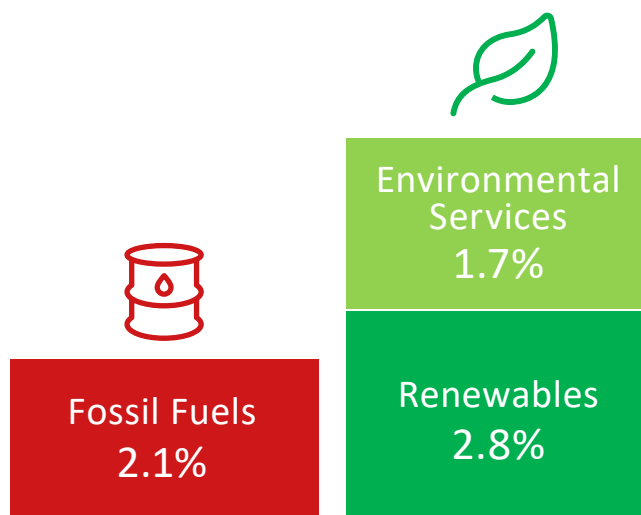
Gillian de Candole
Head of Responsible Investment, Lothian Pension Fund



PRINCIPLE 7: STEWARDSHIP, INVESTMENT AND ESG INTEGRATION

CLIMATE SOLUTIONS

We also invest in climate solutions, mainly through our infrastructure portfolio, which can be a more efficient route to access renewables exposure than through listed equities. Our ambition is to position the Fund to benefit from the global energy transition by having greater exposure to climate solutions than to companies whose primary business involves fossil fuels. As at 31 March 2025, our exposure to climate solutions was approximately 2.1 times greater than our exposure to fossil fuel holdings. We conservatively only consider the renewables and environmental services investments in our infrastructure portfolio in this comparison. More details on our infrastructure portfolio is provided on page 74.

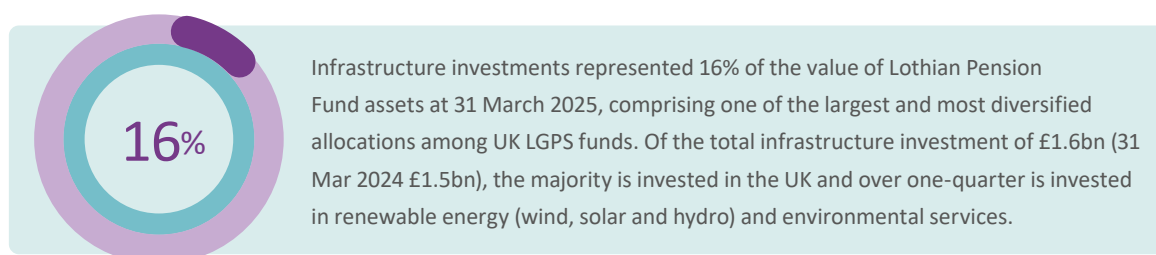


We expect the transition of our portfolio away from fossil fuels to continue over the coming decades as the real-world energy transition progresses. Additionally, we recognise that opportunities for investment returns exist across all market segments and that the Just Transition requires encouraging companies across all sectors and regions to transition their business models. This is why we also engage with governments and policymakers to support systemic change (see Case Study in Principle 4).

PRINCIPLE 7: STEWARDSHIP, INVESTMENT AND ESG INTEGRATION

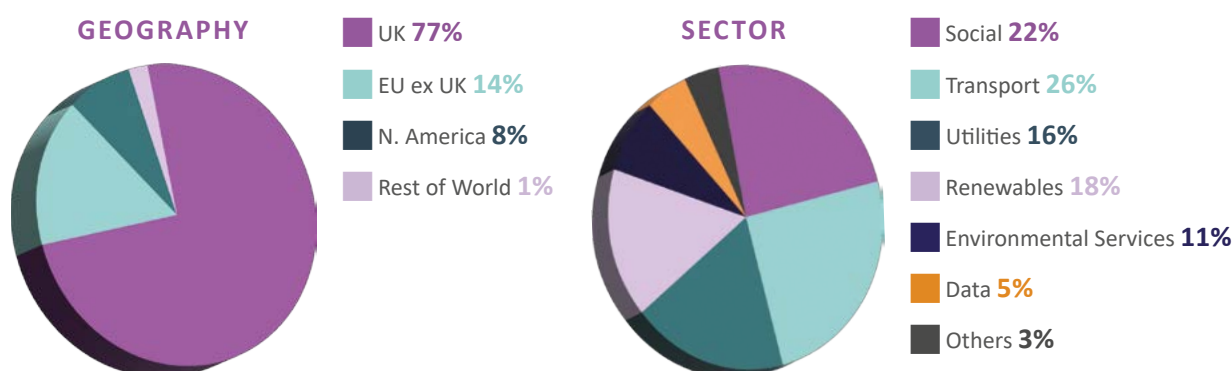
SPOTLIGHT ON RESPONSIBLE INVESTMENT IN INFRASTRUCTURE

Our infrastructure investments have the potential to generate attractive risk-adjusted returns, with cash flows often linked to inflation.



Climate Solutions

We actively monitor our investments in climate solutions, which include companies and assets that contribute to the global effort to achieve net zero emissions. The most direct examples of these investments are found in our infrastructure portfolio. Although the portfolio is diversified, it includes targeted investments in renewable energy (currently 18% of the portfolio) and energy transition assets, such as electricity transmission infrastructure (within the utility sector), electric trains (transport sector), and energy-from-waste facilities (environmental services).



Furthermore, as of 31 March 2025, LPF held over £100 million in forestry investments. While these holdings are primarily in commercial forestry, all are certified as sustainable under recognised forestry standards.

We also consider social factors

We recognise the role of infrastructure investment in providing facilities for a range of civic purposes as well as to address environmental challenges related to climate change. Approximately 22% of the infrastructure portfolio is invested in social assets, such as hospitals and schools.

PRINCIPLE 7: STEWARDSHIP, INVESTMENT AND ESG INTEGRATION

Monitoring ESG factors in infrastructure investment

In addition to being a PRI signatory, we also subscribe to GRESB (an investor-led, sustainability benchmarking provider for real assets, covering real estate and infrastructure assets) to further enhance our analysis of ESG issues. We use the PRI and GRESB annual surveys of managers' ESG policies and activities to support our engagement with our managers, which drives improvements and implementation of best practice.

At 31 March 2025, 87% of the infrastructure portfolio value was invested in assets/funds which were also signatories of the PRI. A small percentage of our funds participated in the 2024 GRESB Infrastructure Assessment, but most of our infrastructure funds 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 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. We use the GRESB scores to benchmark performance of these funds and assets against their peer groups.



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 our portfolio.

Assessment and forward look

LPF's infrastructure portfolio is one of the largest and most diversified allocations among UK LGPS funds and already meets the ambition set out in the UK Government's Fit for the Future consultation to boost investment in local areas and regions of the UK: within the 77% of our infrastructure portfolio (over 12% of the fund) invested in the UK, this is spread across the regions and home nations, including approximately 15% in Scotland, which benefits from some of the best renewable resources, reliable wind and rainfall patterns, plus the topography to harness these resources.

During the year to 31 March 2025, the fund invested over £200m to new investments in social infrastructure, transport, renewables, utilities, environmental services and data infrastructure. The outlook for infrastructure investment remains favourable, supported by four big themes: Decarbonisation, Digitalisation, De-globalisation, and Deficits. New opportunities continue to be appraised.



PRINCIPLE 8: MONITORING MANAGERS AND SERVICE PROVIDERS

Signatories monitor and hold to account managers and/or service providers.

LPF's Supplier Management Framework sets out our consistent approach to the management and oversight of third-party suppliers in a manner which is proportionate to the contract value and importance of the service.

Before engaging with a supplier, contractual protections which allow us to exercise effective oversight are incorporated into the legal terms. For example, LPF secures:

- Clear performance and quality standards applicable to specified services, and measurement of these using 'key performance indicators' where appropriate
- Regular review meetings/calls
- Documented escalation procedures applicable where standards aren't met, with specified supplier personnel dedicated to our client relationship
- Continuous improvement initiatives to improve the efficiency and effectiveness of the service.

Key suppliers relevant to our stewardship of assets include our JIF, our global custodian, the provider of our order management system software, our engagement and voting service providers, and the providers of data and research services, including ESG information.



PRINCIPLE 8: MONITORING MANAGERS AND SERVICE PROVIDERS

MONITORING OUR ENGAGEMENT AND VOTING SERVICE PROVIDERS

We use EOS for the provision of engagement work and as our proxy voting advisor across the bulk of our listed investments. We frequently discuss voting-related issues with EOS, especially during voting season when there's a concentration of activity. We also review global developments in governance standards with them each year so we can be sure our engagement and voting policies are updated and aligned as appropriate.

EOS provides regular updates on its voting recommendations and progress on engagement activity with companies, regulators and public policy makers:

- Confidential alerts and reports provide timely updates for use by our internal portfolio managers
- Quarterly reports and an Annual Review of our voting and engagement activities are provided which we publish to our website to enable us to keep our stakeholders informed
- We participate in EOS' biannual client advisory meetings, which are an effective means of reviewing current practices, monitoring performance and providing meaningful input into engagement priorities

We undertake frequent update calls/meetings with our client team at EOS to ensure services have been delivered to meet our needs and strive for further improvements. Key Performance Indicators include:

- On demand access to EOSi portal
- Timely and proactive provision of voting alerts, thematic ESG alerts, engagement progress updates and individual company case study reports
- Execution of voting rights in line with our policy to vote 100% of our shares. We monitor voting reports on a monthly basis to verify that votes have been cast as expected
- Scale of engagement programme coverage: details enable us to prioritise our direct and other collaborative engagements (e.g. through CA100+) on holdings not covered by EOS

100% of LPF's ballots were voted in 2024/25 (on par with the prior period). This was supported by EOS's procedures for votes that require an administrative declaration.

Following a review and streamlining of our internal processes in 2021/22, we haven't missed any votes due to share-blocking the last three years: in certain markets investors can't trade shares in the period between registering a vote and the shareholder meeting taking place. This can create liquidity issues for investors if the voting process becomes protracted.

In addition, a small proportion of our equity investments are managed by Baillie Gifford, who carry out their own voting and engagement. As well as providing information in a quarterly questionnaire, Baillie Gifford include voting, governance and engagement information within their quarterly reporting. We meet with Baillie Gifford on a quarterly basis where we discuss in more detail various elements of their voting and engagement – in particular, areas which at first glance appear to be deviating from their stated policy. Notes of these meetings are written up for the investment team to view and any areas of interest are discussed at a formal quarterly meeting and followed up if required.

In 2024 EOS engaged with 155 companies in our portfolio on

942

environmental, social, governance, strategy, risk and communication issues and objectives

– see Principle 9

EOS also provided LPF with voting recommendations for

484

company meetings (7,367 resolutions)

– see Principle 12

PRINCIPLE 8: MONITORING MANAGERS AND SERVICE PROVIDERS

INTERNAL MANAGER MONITORING

Portfolios managed by the in-house investment team are monitored at different levels and at different intervals. Daily reconciliations of assets between custodial and front office systems confirm that portfolios are being managed within the relevant constraints. Systems are coded to prevent managers from breaching those parameters and to alert the Risk & Compliance function of potential or actual breaches, which could occur. The Chief Investment Officer attends regular meetings of our investment groups, which are arranged by policy group, providing oversight and scrutiny of portfolio construction and transactions. The Chief Executive Officer and the Chief Investment Officer review all mandates and reports on a quarterly basis.

All quarterly reports include detail on portfolio risk and return, portfolio construction, transactional activity, ESG analysis and engagements. The external independent advisers on the JIF review all reports every quarter and meet with each of the portfolio managers annually to provide assurance that the mandates are being managed in-line with expectations. At the annual review meeting the external independent advisers on the JIF expressed satisfaction with the internal management over 2024, including ESG integration.

The benefit of managing a substantial proportion of assets internally is that we have full transparency and that our internal managers are fully cognisant of and aligned with our policies.

EXTERNAL MANAGER MONITORING

We monitor all our external managers to ensure they continuously maintain their own responsible investment and stewardship commitments. We expect our appointed managers to demonstrate how they incorporate ESG issues into their ownership policies and practices, and material misalignment from our expectations will lead to review.

Equities and debt

- During the appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes and in their active ownership activities
- We monitor our managers' implementation of their approach on a quarterly basis alongside all other, investment matters. Some of the content which our managers must include in their quarterly reports is specified by regulations, but we agree the extent of additional content we require to be included in such reports upon appointment. In addition to the quarterly reports that managers provide, we issue a quarterly questionnaire to address other material points, including ESG issues
- Members of our internal investment team meet with our external managers quarterly to understand any changes that might affect the management of the mandates. Both the Chief Executive Officer and the Chief Investment Officer review all external mandates with the internal investment team after these meetings.

PRINCIPLE 8: MONITORING MANAGERS AND SERVICE PROVIDERS

Private markets fund managers

- To monitor our diversified portfolio of private market funds, the largest portion being infrastructure assets, we review each manager's quarterly updates of activity, performance and portfolio construction to demonstrate adherence to the fund's agreed strategy. Monitoring includes performance, risk, ESG issues and portfolio construction relative to diversification constraints
- Our portfolio managers are in regular contact with our fund managers, attending annual investor meetings and reviewing the periodic reporting and updates received. In some cases, an LPF representative sits on the advisory board of the fund to review matters such as management of conflicts of interest which require investors' consent. This can provide greater transparency and a forum for challenge.

General

- Where available, we review external managers' PRI transparency reports, GRESB reports and/or TCFD reports
- Internal reports on our external managers are submitted for senior oversight, with any issues and escalation actions discussed at the quarterly JIF meetings.

We don't always expect external fund managers to be the "finished article". In some instances, we'll consider selecting fund managers with less-developed approaches to responsible investment if we can be assured that there's a demonstrable road map towards improvement and development. One example where this may be the case is in relation to infrastructure and real estate investments, where ESG and responsible investment reporting may not be as established as in other asset classes. We believe we can add value in working with managers at this level if we're confident in the investment case and their overall philosophy.



PRINCIPLE 8: MONITORING MANAGERS AND SERVICE PROVIDERS

HOLDING MANAGERS AND SERVICE PROVIDERS TO ACCOUNT

Over the past year, we made some tactical allocation decisions to reduce exposure to strategies/segments of the market where we had relative valuation concerns and we also implemented the change in our strategic asset allocation, which was agreed at end March 2024, to reduce our exposure to equities (see Principle 6 for more details). In aggregate, this led to the termination of two external manager mandates and a switch between two products offered by one manager. However, all of our contracts with our managers and service providers were fulfilled to our expectations, and we continue to engage with our providers on how their service provision can further improve. For example, since late 2023 we have encouraged our engagement and voting provider to provide more information on escalation (linking voting to engagement) and to increase the focus on outcomes in their engagement progress-monitoring and reporting. This required our provider to undertake technical development work with enhanced reporting launched in early 2025. We have been pleased by the results of their work to develop enhanced reporting, which supports our investment team to understand where engagement activity is producing results or stalling.

We also engaged with one of our ESG data suppliers to understand changes they were making to their product/service offering and to ensure we would still have cost-efficient access to the most relevant data for our needs. The supplier was responsive and further supported us with some bespoke training, which has led to an overall improved relationship and more efficient access to problem resolution and implementation of improvements.

Evolving expectations on climate stewardship

Our monitoring (and selection) processes for external managers incorporate ESG assessments, which continue to be refined as industry practices evolve. Our policies and expectations change over time, and this is no more evident than in the climate-related commitments that we've made in our updated SRIP and Climate Change Policy. Our approach is to work with managers, requesting change where required, and we've found a willingness to evolve alongside us, through reporting on ESG analysis and engagements, followed by discussions to gain a better understanding to ensure we're aligned. Where we're not aligned, we would ultimately terminate the mandate.

We recognise that our ambition (as described in our SRIP and Climate Change Policy) to avoid providing new financing to companies or projects that are incompatible with the aims of the Paris Agreement is a leadership position for asset owner climate policy. Substantial research is taking place across the investment industry on how to determine whether certain companies or specific projects are aligned (or aligning) with the aims of the Paris Agreement. Some frameworks and tools exist (such as the [Transition Pathway Initiative](#) and the Science Based Targets initiative), but their coverage is incomplete.



We've been engaging with our managers on steps that they could take to align their practices with our aims and objectives. In 2022 we reviewed our manager monitoring process and devised additional questions for our quarterly manager questionnaire to support alignment/assessment of alignment with our ambition. This was implemented for our external equity managers through 2022/23 and for our external debt managers through 2023/24. In 2024 we initiated a review of credit strategies with a focus on managers' approaches to net zero alignment. This led to the appointment of a new corporate bond mandate with customised ESG rules in July 2025. We intend to continue our review of approaches to net zero alignment in corporate bond strategies/benchmarks through 2025/26.

We monitor private market funds in a similar way, engaging to promote higher standards of reporting and identifying managers with whom we won't invest in the future due to concerns over their approach to managing climate risk.

PRINCIPLE 8: MONITORING MANAGERS AND SERVICE PROVIDERS

Monitoring our managers' diversity performance

Another area we seek to address relates to the lack of diversity within the fund management industry. This is an ESG issue that we as asset owners and responsible investors feel strongly about, both in terms of our values and our role as a manager of managers. It also links to our commitment to promoting well- functioning markets, with a better investment industry. This is why we worked with other asset owners to establish the Asset Owner Diversity Charter (see Principle 10 for more details on the collaborative initiative). As a signatory to this initiative, we've recognised that diversity for asset managers is at a critical tipping point, and asset owners have a crucial role in holding them to account. We've committed to:

- Incorporate diversity questions into manager selection
- Incorporate diversity into ongoing manager monitoring
- Lead and collaborate with others in the investment industry to identify diversity and inclusion best practice.

Charter signatories will increase the pressure on fund management firms to share information about diversity, so that industry progress can be benchmarked.

"Diversity, Equity and Inclusion is increasingly being considered a business imperative in the investment and savings industry to better reflect society at large, create better financial outcomes through diversity of thought; and build a pipeline of diverse talent for the future."

Gillian de Candole

Head of Responsible Investment, Lothian Pension Fund





PRINCIPLE 9: ENGAGEMENT

Signatories engage with issuers to maintain or enhance the value of assets.

As discussed in Principle 7, we believe that a proactive combination of collaboration, engagement and voting supports our mission to pay pensions over the long term. We believe that successful engagement adds value to the investment process by promoting best practice governance and by highlighting and promoting best practice in dealing with environmental, climate change and social issues.

Also discussed in Principle 7 are the 12 key ESG issues or themes which we focus on in our engagement and in our investment research. We've chosen these because of their actual or potential financial significance to our portfolios.

Where material risks remain following engagement activity, we retain the ability to reduce our position size or sell to mitigate our exposure to these risks on a case-by-case basis.

PRINCIPLE 9: ENGAGEMENT

OUR APPROACH TO ENGAGEMENT

We commit significant resources to engagement activity, which we divide into four distinct elements as shown in the table, below.

We use a variety of engagement approaches, including written correspondence, face-to-face meetings, voting and public communications. Our preference is for direct engagement as it allows us to set out our expectations and to fully explain our interests and motivations. Irrespective of the engagement approach, the goal is always to achieve good financial outcomes for our stakeholders and to encourage positive corporate behaviour.

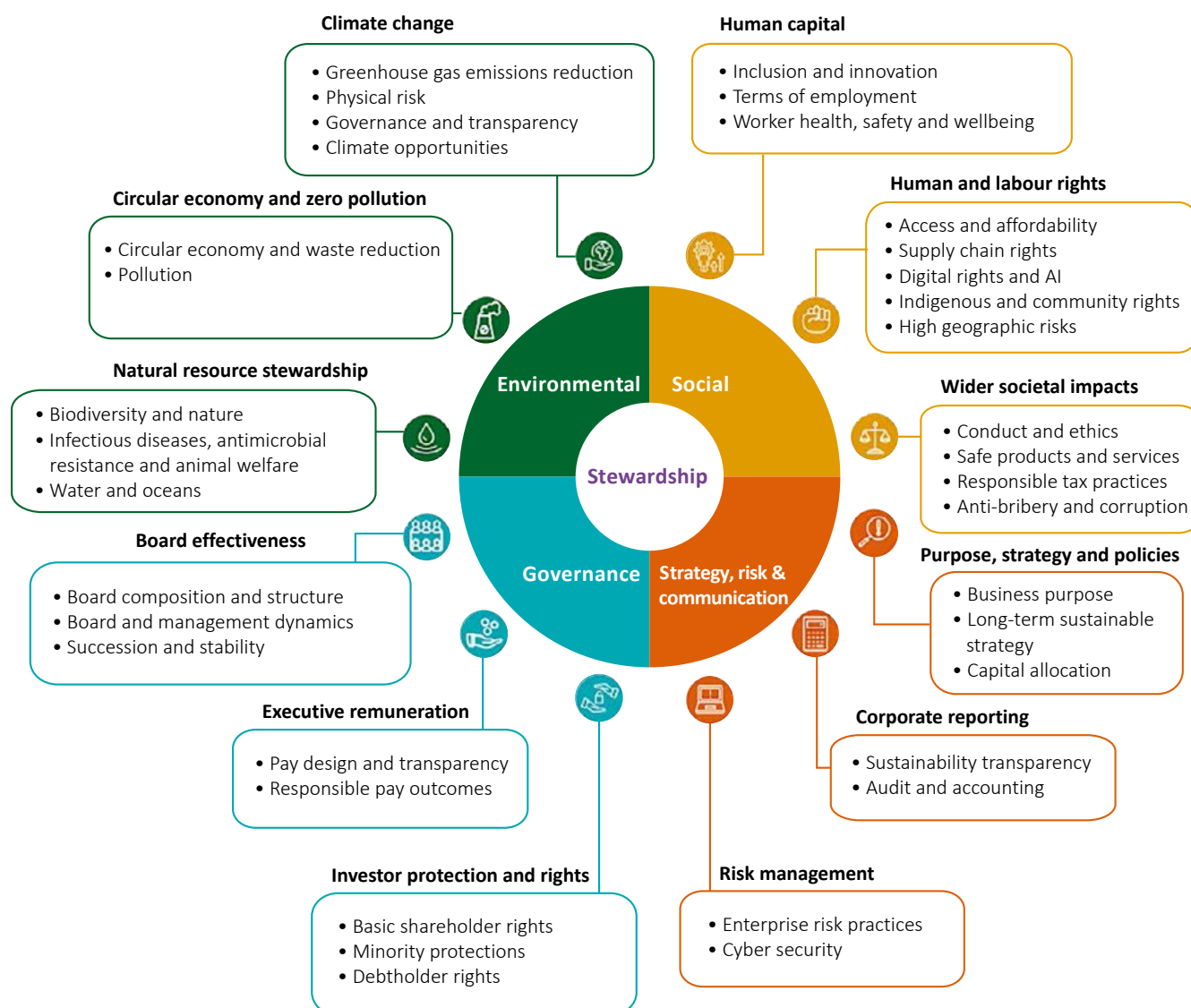
Direct engagement with companies and issuers	In situations where we have significant holdings or where companies have financially significant ESG issues, we'll look to engage directly with these companies to understand their approach. In Principle 12 we discuss how we vote our shareholdings, including how we engage with companies on proposals relevant to ESG issues that have been the subject of either direct or collaborative engagement.
Indirect engagement with companies and issuers through our investment managers	We encourage our external investment managers to engage with the companies and other entities in which they invest. As we discuss in Principle 7, we assess external managers' approaches to engagement and stewardship as part of the manager selection process. We then review each manager's approach on a quarterly basis alongside all other investment matters, and we also review the PRI transparency reports and Stewardship Reports of these external managers, where available. We regularly challenge our managers on their approach, to understand the goals and effectiveness of their engagement activities. We routinely ask our managers to sign up to the same efforts that we sign up to. This includes PRI (as required in PRI Principle 4), and Climate Action 100+.
Collaborative engagement with other investors	We recognise that there are limits to the influence that we can achieve as a single investor and the resources that we can reasonably commit. We therefore collaborate with other investors to raise awareness of and to encourage systemic change on a range of ESG issues. We provide more detail in Principle 10.
Indirect engagement with companies through an engagement service provider	We recognise that engagement can bring important benefits to our investment portfolio and the wider market. We also recognise that we, our investment managers, and the collaborations that we support, cannot cover every ESG issue at every company, with the detail and care that's needed to ensure that engagement is effective in driving improvements in company practice and performance. Working with EOS provides us with a breadth and depth of coverage that we couldn't achieve alone. In 2024, EOS engaged with 155 of the companies in which we're invested, on 942 environmental, social, governance, strategy, risk and communication issues and objectives. We present some data and examples of engagement by EOS below, including the outcomes that have resulted from this engagement.

PRINCIPLE 9: ENGAGEMENT

WE HAVE AN AGREED ENGAGEMENT PLAN WITH EOS

Each year, we consult with EOS to develop an engagement plan that aligns our priority issues and supports the wider goal of driving higher standards of corporate behaviour. EOS engagement themes for 2025-2027 expand on the 12 main priority themes set out in Principle 7 and are illustrated below, with 36 related sub-themes. We agreed that we would support EOS's public policy engagement (explained later in this section), as we recognise that many ESG and sustainability issues require policy interventions.

ENGAGEMENT THEMES



Case study

EOS ENGAGEMENT REPORT ASTRAZENECA

AstraZeneca is one of Europe's leading multinational pharmaceutical and biotechnology companies. Its headquarters is in Cambridge, UK. It has a portfolio of products covering several major disease areas including oncology, cardiovascular, gastrointestinal, infection, neuroscience, respiratory, and inflammation.

Objective

We've held regular meetings with AstraZeneca between 2015 and 2024, engaging with them on the robustness of succession planning and compensation alignment. We encouraged the company to disclose performance against confidential metrics in the long-term incentive plan (LTIP), noting that this would provide transparency and accountability while protecting commercial interests.

By 2019, the company had made notable improvements, including the simplification of the bonus structure and greater disclosure on targets, thresholds, performance and outcomes. We also discussed succession planning for the CEO. With the chair also likely to reach the end of his tenure, we raised concerns about the senior independent director's capacity to effectively support the CEO succession, given his additional roles as remuneration committee chair, and CEO of another company.

We believe that robust succession planning at the CEO and board level is essential to ensure strategy consistency. While the CEO's departure was still a few years away, we highlighted our concerns but heard that the company was confident in its internal talent pool, and that the CEO was focused on ensuring business performance post-departure.

Discussion

We met the outgoing chair in 2021 and reviewed the progress on CEO succession planning, again hearing that the company was confident in its internal pipeline given that the CEO had retained a strong executive team. In 2023, we requested greater clarity over the progress made, including how far the company had gone to identify and develop internal candidates, especially with the CEO's 11-year tenure coming under the media spotlight.

Early in 2024, we met the new chair to gain an understanding of the strength of the internal pipeline for the CEO succession. We were pleased to hear that the chair was working to ensure that candidates for the role had gained experience across the business ahead of the formal selection process. We obtained reassurance over the diversity of this pipeline and that the company was also looking at external candidates.

"We selected this engagement case study as AstraZeneca is a well-known company in the UK, so likely to be of interest to our stakeholders. We consider executive remuneration and succession planning important aspects of good governance to support delivery of a company's long-term strategy."

- Gillian de Candole, Head of Responsible Investment

Case study

EOS ENGAGEMENT REPORT ASTRAZENECA (CONTINUED)

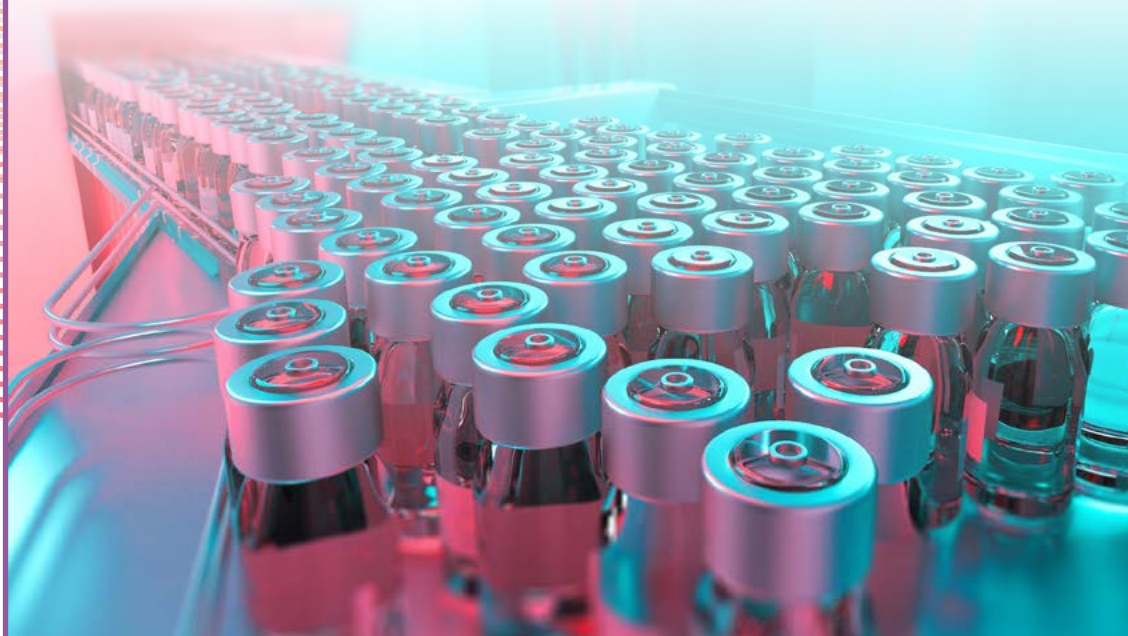
Throughout our engagement on CEO succession planning, we raised concerns about the high level of variable pay, which increased significantly as recently as the 2024 Annual General Meeting (AGM). The company had consistently justified such pay levels to retain a high-performing incumbent in a competitive global environment. We recognised the global competition for talent but were not convinced that delivering such significant pay increases was warranted, especially if a robust internal CEO pipeline was available, as the company claimed.

Outcome and Next Steps

This led EOS to recommend voting against the proposed remuneration policy at the April 2024 AGM. Lothian Pension Fund voted against the remuneration policy, along with 35% of the voting shareholders (65% voted in favour of the policy).

As a notable portion of shareholders didn't support the remuneration policy, AstraZeneca was required to publish a statement. They commented that they believed, as result of continued engagement, that some shareholders were unable to support the remuneration resolutions due to the size of the increase to the maximum opportunity within the Performance Share Plan (PSP) and how it compared to the FTSE 100. In addition, they noted some shareholders were also uncomfortable with the decision to increase the maximum opportunity for both the PSP and the Annual Bonus at the same time.

After the 2024 AGM, EOS met with the AstraZeneca's chair and obtained reassurance that a future CEO wouldn't necessarily be remunerated under such a generous performance plan.



Case study

BAILLIE GIFFORD ENGAGEMENT REPORT CATL

Contemporary Amperex Technology Company Limited (CATL) is a leading Chinese battery manufacturer and technology company specialising in development and production of lithium-ion batteries for electric vehicles and energy storage systems.

Objective

To discuss CATL's recent addition to the US Chinese Military Company (CMC) list and the potential impact that geopolitical tensions may have on the business. Additionally, we sought an update on progress towards net zero commitments made by the company and battery recycling initiatives.

Discussion

We met with the investor relations representative who oversees environmental, social and governance matters. The company asserted that its internal analysis showed that CATL's inclusion on the CMC list has had no material effect on its operations. The company actively engages with legal teams and overseas customers to ensure smooth communication and consultation. CATL is optimistic about being removed from the CMC list. The confidence comes from a robust supply chain management system which ensures compliance and safety with traceability mechanisms. It's also diversifying its raw material suppliers to mitigate geopolitical risks, including investments in mining operations.

Regarding carbon management, CATL has significantly increased its green power ratio, with nine manufacturing bases reaching net zero. The company is committed to carbon neutrality across its value chain by 2035, focusing on reducing offset dependency and promoting research and development (R&D) in carbon-light battery materials. Battery recycling is also a key focus. The company is enhancing recovery rates and developing tailored recycling equipment for different battery types, aiming to reduce reliance on primary ores and save resources.

Outcome

The meeting provided a useful update on CATL's strategic initiatives in supply chain management, carbon neutrality, and battery recycling. We'll continue to monitor the company's progress, particularly its efforts to be removed from the CMC list and planned net zero updates, ensuring alignment with long-term growth prospects.

"While the addition of the company to the CMC list reflects heightened US scrutiny of the company regarding potential national security implications, it doesn't immediately impose sanctions or trade restrictions. It could be seen as a guide for potential future actions, however, so it's relevant for Baillie Gifford to be engaging on this topic (as well as its green power ratio), as it could have future material financial implications."

– Natalie Drysdale,
Responsible Investment Analyst

PRINCIPLE 9: ENGAGEMENT

LPF ENGAGEMENT WITH MANAGERS

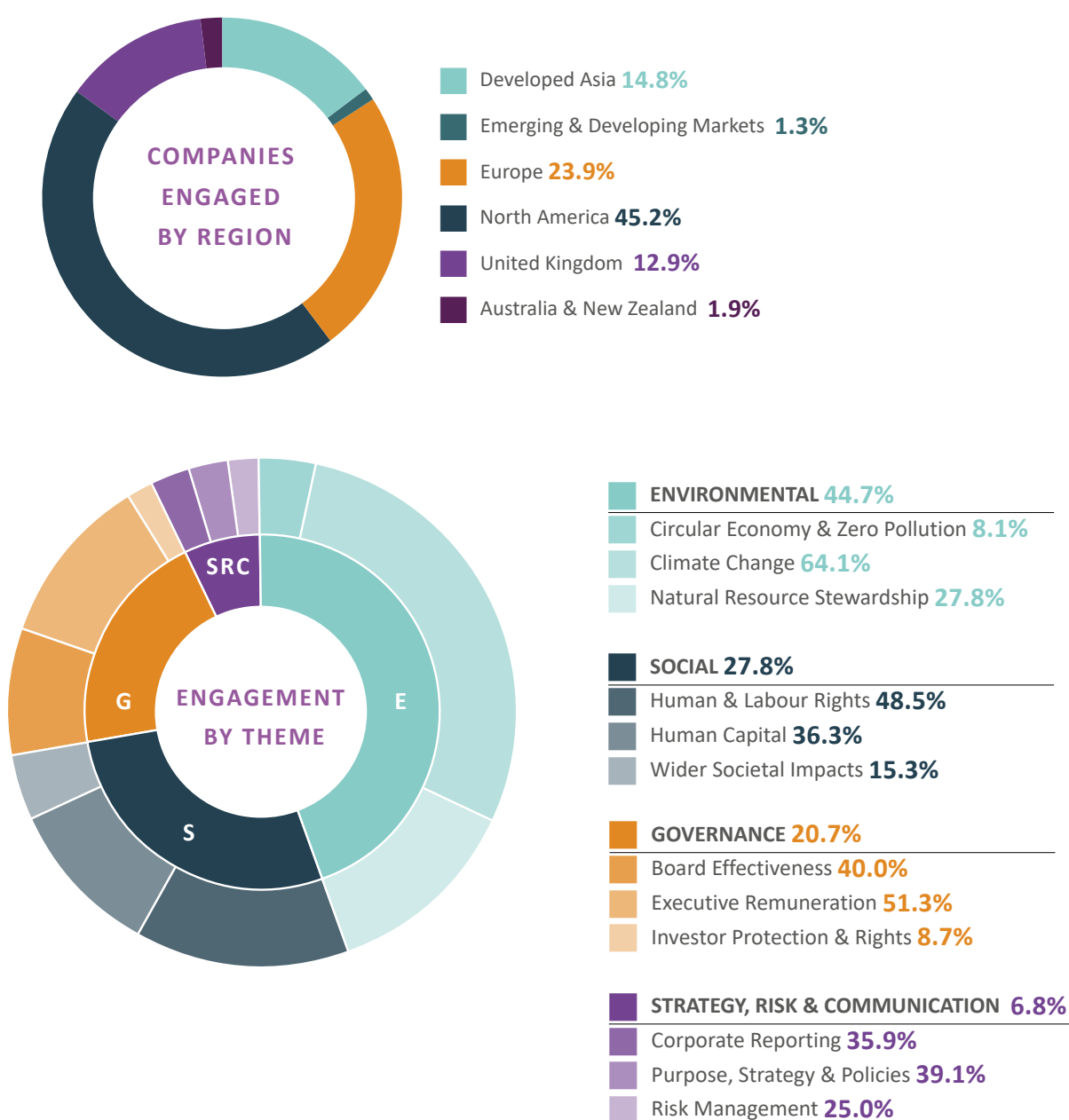
As mentioned in Principles 7 and 8, over recent years we've been engaging with our managers on steps that they could take to align their practices with our Responsible Investment aims and objectives, in particular, our ambition to avoid funding companies whose business models aren't aligned with the goals of the Paris agreement. This ambition was a key consideration throughout the review and evaluation process for appointment of a new corporate bond manager.



PRINCIPLE 9: ENGAGEMENT

2024: AN OVERVIEW

In 2024, EOS engaged with 155 of our portfolio companies on 942 environmental, social, governance, and strategy, risk and communication issues and objectives. The charts below show the breakdown of companies engaged by region and the spilt of engagement by theme.



PRINCIPLE 9: ENGAGEMENT

Milestone status of engagement

To measure progress and achievement of engagement objectives, EOS use a four-stage milestone strategy.

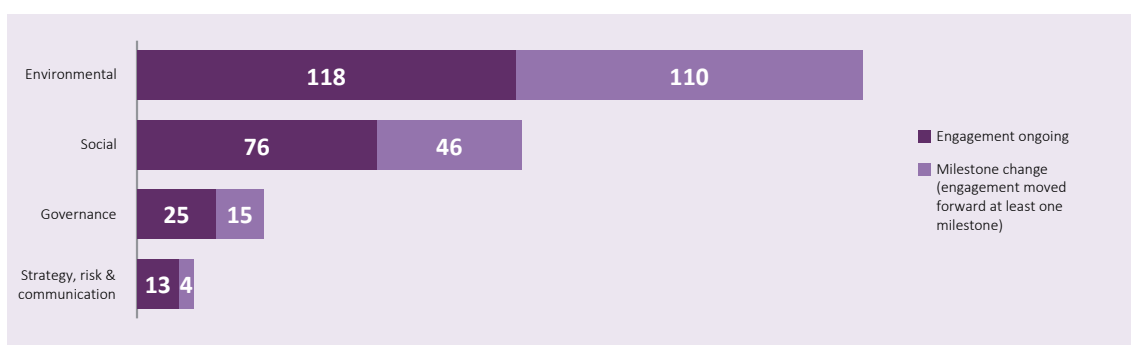
MILESTONE 1: Concern raised with the company at the appropriate level

MILESTONE 2: The company acknowledges the issue as a serious investor concern, worthy of a response

MILESTONE 3: Development of a credible strategy/stretching targets set to address the concern

MILESTONE 4: Implementation of a strategy or measures to address the concern.

EOS made solid progress in delivering engagement objectives across regions and themes. At least one milestone was moved forward for about 43% of its objectives during the year. The following chart describes how much progress has been made in achieving the milestones set for each engagement.



PRINCIPLE 9: ENGAGEMENT

ENGAGEMENT WITH REGULATORS AND POLICYMAKERS

EOS engages with policymakers for a more sustainable financial system. This is achieved through engagements and meetings with government officials, financial regulators, stock exchanges, industry associations and other key parties. It also participates in public consultations. In 2024 EOS undertook several public policy engagements, including submitting a further response to the UK Financial Conduct Authority's Consultation on Listing Rules.



LPF supports EOS's public policy engagement, recognising that many ESG and sustainability issues require policy interventions. In 2023, LPF supported EOS' response to proposed changes to the UK listing rules reiterating our view that standards for governance and minority shareholder protection rights shouldn't be lowered. In 2024, EOS submitted a further response following the publication of the finalised changes, highlighting that the removal of requirements for historical financial information for companies seeking to list, and the removal of shareholder votes on related party transactions have a negative impact on overall shareholder rights and protections.

We recognise that there's an increased focus on the competitiveness of the UK market to support UK companies to grow and succeed in their home territory. We'll continue to engage (either directly or through EOS) in discussions on the UK market as we're supportive of initiatives to help drive competitiveness, while noting that this shouldn't need to come at the cost of shareholder rights and protections.

EOS utilises its significant sector/thematic expertise to participate in policy advocacy working groups. In April 2024 the Finance for Biodiversity (FfB) Foundation published a paper called Aligning Financial Flows with the Global Biodiversity Framework: Translating Ambition into Implementation. EOS contributed to the paper in its capacity as co-chair of the FfB's policy advocacy working group. The paper provides four recommendations, 13 actions and existing examples from around the world, with the aim of supporting implementation of the Global Biodiversity Framework and encouraging governments to create an enabling environment, to help financial institutions manage their nature-related risks and opportunities. The paper was used in engagement with governments in the lead up to the 16th United Nations Conference on Biological Diversity (COP16), with the policy expectations generally well reflected at the Finance Day in October 2024.

LPF also participated directly in advocating for regulators to ensure system-wide resilience. (More detail on the 2024 Global Investor Statement to Governments on the Climate Crisis and on consultations we responded to, is provided in Principle 4.)





PRINCIPLE 10: COLLABORATION

Signatories, where necessary, participate in collaborative engagement to influence issuers.

LPF is committed to working collaboratively to increase the reach, efficiency and effectiveness of our Responsible Investment activities. We work with a host of like-minded partner funds, service providers and related organisations striving to attain best practice in the industry and to improve industry standards.

We work with others towards common goals

There are limits to the influence that we can achieve as a single investor and the resources we can reasonably commit. We recognise that progress can be best achieved on ESG issues through collaboration with other investors and organisations and we take a very active role in several of the Responsible Investment initiatives below.

Collaborative Initiatives and Industry Bodies



We've been a signatory of the UN-backed PRI since 2008 and align our practices and processes to their six principles and definition of Responsible Investment. Our SRIP formally acknowledges the role and integration of the PRI's six principles within our investment process.

PRI Principle 5:

"We will work together to enhance our effectiveness in implementing the Principles."



Advance was launched in December 2022 aiming to protect and enhance risk-adjusted returns by advancing progress on human rights through investor stewardship. LPF is an endorser of this PRI-led collaborative initiative.



Spring is a PRI stewardship initiative for nature, addressing the systemic risks of biodiversity to protect the long-term interests of investors. LPF became an endorser of SPRING in October 2024 (it was launched in June 2024).



CA100+ is an investor-led engagement initiative that seeks to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change to mitigate financial risk and to maximise the long-term value of assets. LPF is an investor participant signatory to the initiative and co-leads engagements with a focus company.

IIGCC

The Institutional Investor Group on Climate Change (IIGCC) is the leading European-focused investor membership organisation for collaboration on climate change with a network of over 400 members across 27 countries, representing over €65 trillion in assets. LPF joined IIGCC in 2020 to further the work we do alongside other like-minded asset owners. The workstreams at IIGCC include: the Policy Programme; the Corporate Programme; the Investor Strategies Programme.

Pensions UK

Pensions UK, previously known as PLSA, is a trade association for those involved in designing, operating, advising and investing in all aspects of workplace pensions.

THE INVESTMENT ASSOCIATION

The Investment Association (IA) is the trade and industry body for UK Investment Managers. LPF became a member in November 2023, providing access to a range of resources to support us in our day-to-day roles, including Sustainability & Responsible Investment.

Transition Pathway Initiative

The Transition Pathway Initiative (TPI) was created in 2017 by a group of asset owners and other investors who wanted to understand how companies were managing the transition to a low carbon economy. It's now a global initiative with over 150 investor supporters representing more than \$80 trillion in assets. It provides open access data with independent assessments of how companies are transitioning. LPF is an investor supporter and uses TPI data to identify climate leaders and laggards.

G R E S B[®]

GRESB is an investor-led, sustainability benchmarking provider for real assets, covering real estate and infrastructure assets. It's a key driver of transparency regarding energy consumption data, particularly for standing real estate. We support this collaborative initiative as an investor member.

Federated Hermes

EOS at Federated Hermes has been our main voting and engagement service provider since 2008. Our Internal Equities team work closely with EOS in our collective approach to engagement, reflecting the areas of stakeholder interest and concern. Through working collaboratively with EOS, and alongside EOS's international client base, we're able to have a stronger voice when engaging with our investee companies. We provide more details on this within Principle 9.



LAPFF is a collaborative shareholder engagement group, comprising over 80 UK local authority pension funds and seven of the LGPS pension fund pools in England and Wales. It promotes the highest standards of corporate governance to protect the long-term value of local authority pension funds.



Global Investor Commission on Mining 2030 - in 2023 we became an investor supporter of this initiative, which seeks to develop a socially and environmentally responsible mining sector by 2030, recognising that the sector poses a range of ESG issues, while also providing critical minerals for society and the low carbon transition.

Asset Owner Council

Formed in early 2024 by the merger of the UK Asset Owner Responsible Investment Roundtable (also known as the UK Asset Owner Roundtable) and the Occupational Pensions Stewardship Council, the Asset Owner Council (AOC) aims to be a forum for sharing best practice on investor stewardship and responsible investment implementation and to support engagement with regulators in a coordinated way. LPF is an active participant with our Head of Responsible Investment co-chairing the AOC since January 2025 (previously on the steering committee).



The Asset Owner Diversity Charter aims to build an investment industry that better reflects diverse societies and strives to deliver a stronger, fairer financial system with enhanced decision-making and better risk mitigation by standardising diversity metrics, improving disclosure, fostering collaboration and promoting accountability and transparency. As a signatory, LPF invites its external managers to contribute through completing an annual questionnaire. It's part of the Diversity Project, which aims to accelerate progress toward a more inclusive culture in the investment and savings sectors.

And supporting charities:



Working with high school girls throughout Scotland to promote careers in investment management, Future Asset strives to open up the industry to poorly represented pools of talent. The investment industry has a well-known gender diversity problem, and LPF's investment professionals support Future Asset events acting as mentors for the girls, as well as providing insight days.



Girls Are INvestors (GAIN) is a charity set up by investment professionals to improve gender diversity in investment management by building a talent pipeline of entry-level female and non-binary candidates. In 2024, our Head of Responsible Investment took on a mentorship role and we launched our 2025 summer investment internship programme through GAIN.

Case study

COLLABORATIVE ENGAGEMENT FOR CLIMATE STRATEGY VOTES

Background

As investors we expect companies to set out credible transition plans that include Paris-aligned targets and detailed strategies for achieving those goals. To enable shareholders to make informed investment and stewardship decisions, companies should outline their climate strategies within these transition plans and include material climate related impacts in their financial statements.

Around a fifth of FTSE 100 companies (excluding investment trusts) have provided their investors with the opportunity to vote to approve their climate strategy and/or transition plan and this is now being viewed as good practice. Providing a resolution on the climate transition plan at the company's Annual General Meeting (AGM) enables shareholders to signal support for the plan and associated capital expenditure requirements. Conversely, it also allows investors scope to express concern through a dedicated vote. Under the UK Corporate Governance Code where there's significant shareholder dissent (20% or more), such companies should engage with shareholders about their concerns.

Action

In September 2024, Lothian Pension Fund (LPF) joined a group of investors led by the Local Authority Pension Fund Forum (LAPFF) and CCLA Investment Management, to write to the chairs of 76 FTSE 100 companies that hadn't held a vote on their climate transition plans in the past three years. The letter detailed our expectations for companies to set out credible transition plans and provide investors the opportunity to vote to approve these plans, ahead of the 2025 AGM season.

The letter noted that the Transition Plan Taskforce recommends that companies should update their transition plans every three years, and shareholders should be provided with a vote on this at least as frequently.

Outcome

64% of the targeted FTSE 100 companies responded:

- One company committed to an AGM vote in 2025, and another responded that it expects to include a vote on its transition plan in 2026
- The majority of companies stated that a transition plan vote is something they'll keep under review, indicating an increasing focus on accountability to shareholders.



The letter
was co-signed by
41 investors representing
aggregate assets under
management of

£1.6 trillion

Case study

COLLABORATIVE ENGAGEMENT FOR CLIMATE STRATEGY VOTES (CONTINUED)

Reflection

LPF's ability to influence investee companies through voting and engagement is limited as a relatively small minority investor. However, by collaborating with like-minded investors on engagement initiatives such as this letter, we amplify our voice to have a more significant influence to encourage companies to develop, publish and execute their plans to transition their business models. By encouraging an acceleration of decarbonisation of the global economy, we aim to drive the long-term value of our investment portfolio and contribute to the long-term health of the financial system.

This illustrates the collective scale of support for companies to demonstrate that they're adequately planning for the decarbonisation of their business models and to give shareholders a vote on their transition plan. LPF is committed to transparency on voting. When exercising our equity voting rights, we consider both global best practice and regional governance requirements. Our voting and engagement service provider applies a rigorous case-by-case approach to assessment of transition plans, only recommending support of plans that demonstrate robust targets and a clear and credible strategy to achieve the stated targets.

Next Steps: Engagement and Escalation with BP

In February 2025, LPF was part of a group of 48 institutional investors, representing around £5 trillion in assets, who wrote to the Chair of BP calling for the company to give shareholders a vote on its climate strategy and to improve its disclosure on how any ongoing fossil fuel capex will be resilient through the transition. This was intended as constructive engagement, as long-term investors trying to help the company survive and thrive through the transition by asking for consistent climate governance and making practical suggestions for how BP can demonstrate their capex is resilient. LPF re-iterated these asks in a meeting with BP's Chief Financial Officer of BP, Kate Thomson, following the Capital Markets Day where BP announced its strategy re-set.

We escalated our engagement by voting against the re-election of the Chair of BP (Helge Lund) at the AGM on 17 April 2025 due to governance concerns related to the Chair's lack of response to shareholder requests to allow a "say on climate" vote despite the scale of BP's strategy re-set (which reduces visibility on their decarbonisation strategy). While we viewed the announcement of Helge Lund's intention to step down as Chair positively, we were concerned about the timeframe proposed by the company for the succession process.



ROBUST MEASURES

Where we assess a company's climate strategy to be insufficient to meet the goals of the Paris Agreement and no opportunity is provided for a shareholder vote on the company's climate strategy and/or transition plan, we may:

- Vote against the reappointment of relevant directors
- Vote against the company accounts for failing to include material climate impacts within the financial statements
- Vote against remuneration policies that appear misaligned to incentivising transition
- File/co-file or vote for shareholder resolutions that call for robust target-setting, and a clear and credible strategy in place to achieve the stated targets.



PRINCIPLE 11: ESCALATION

Signatories, where necessary, escalate stewardship activities to influence issuers.

We aim to engage proactively and constructively in public and private markets, with companies directly or via external managers. As we illustrate in this report, our stewardship activities include:

- Direct engagement with investee companies and issuers
- Collaborative engagement with companies, including via CA100+
- Abstaining or voting against management (including against specific directors and against the annual report and accounts)
- Requiring our external managers and/or engagement service provider to undertake engagement with investee companies and issuers
- Engaging with policymakers and regulators to support companies' long-term planning
- Using the media and other forums to challenge companies
- Using the insights from engagement to inform our investment research and decision-making.

Given the range of assets in which we invest, we don't have a universal escalation policy. Instead, we tailor our approach to the investment type and the scale of the issues identified. We prefer to engage through dialogue for improvement, but we'll escalate our concerns if necessary improvements aren't forthcoming.

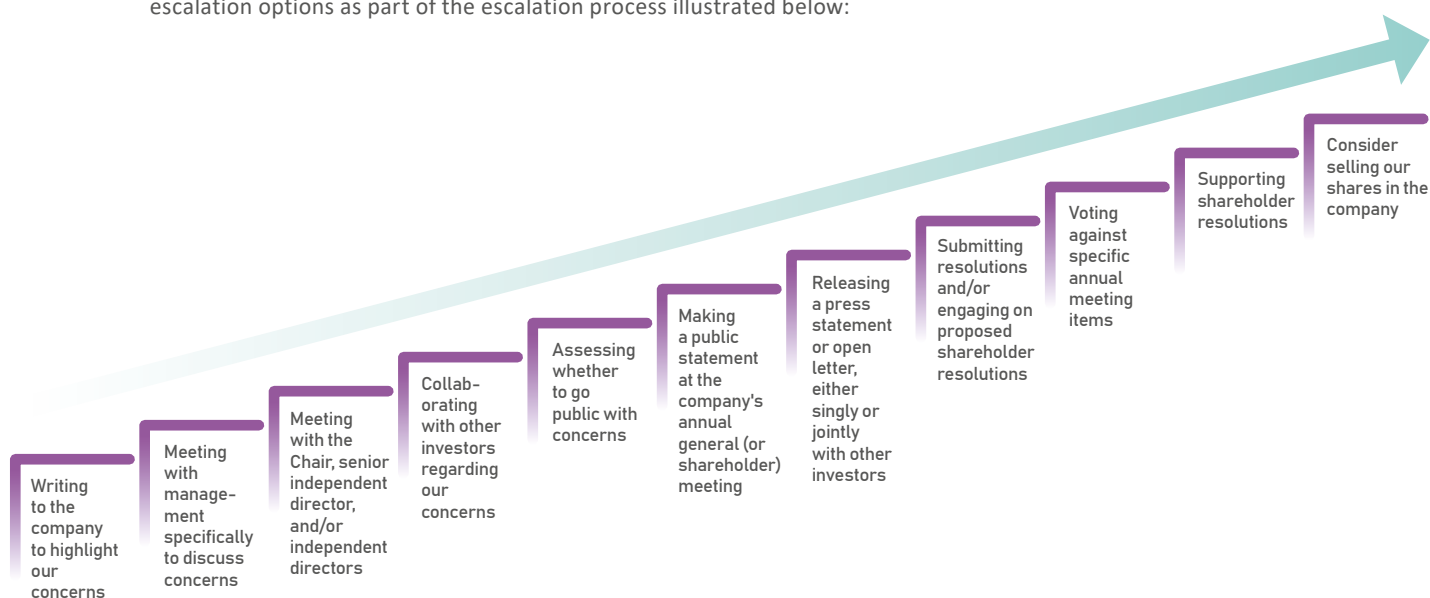
PRINCIPLE 11: ESCALATION

Escalating concerns with companies in which we invest

We expect companies to advise us when there are material changes and issues which impact long term shareholders. Our initial position is to support the board and management to improve their corporate strategy to the benefit of shareholders.



When appropriate and where we have concerns, we'll begin a dialogue (either directly or through EOS, our engagement and voting service provider, or other collaborative initiatives) and put forward proposals for the board's consideration. If our concerns aren't adequately addressed, we may consider a range of escalation options as part of the escalation process illustrated below:



As no two engagement escalations are the same, different steps may be taken in a different order for different cases. However, selling our shares isn't among the first steps. It's often the last step on the long escalation ladder, as engaging and addressing an issue in an undervalued firm, can create financial returns for long-term investors.

PRINCIPLE 11: ESCALATION

Escalating ESG concerns with external managers

We also set clear expectations of stewardship in our mandates with external investment managers. We challenge them if we feel that they're not delivering on the stewardship commitments they've made to us. If we're concerned about an investment manager's performance (which we'll capture in our monitoring reports), and if the investment manager hasn't improved following feedback from us, we have a range of escalation options available to us, as outlined below.

Typical escalation options:

- Notifying the external manager about their placement on a watch list
- Engaging the external manager's board or investment committee
- Reducing our exposure to the external manager until any non-conformances have been rectified
- Terminating the contract with the external manager (or not reappointing them) if failings persist over a period of time.



Escalating concerns through our engagement and voting provider

As we discuss in Principles 9 and 12, EOS provides us with an engagement and voting service which involves engaging with the publicly listed companies in our portfolios and providing us with voting recommendations for these holdings. Generally, EOS' preference is to engage with companies and to only escalate by recommending voting against management in situations where engagement is proving to be ineffective. However, in 2021 EOS introduced a more proactive voting policy with minimum expectations on climate change and in 2022, they introduced another policy to consider voting against relevant directors where there are significant concerns about a company's actions relating to human rights. We strongly support this approach. We generally support EOS' voting recommendations, but we scrutinise their recommendations and do, infrequently, vote in a different way (e.g. if we think it's premature to escalate or if we think that it's time to escalate and EOS hasn't recommended it). Over the 12 months to end of March 2025, we voted differently from EOS' recommendation for only two votes at a single AGM (see Case Study in Principle 12).

Escalating concerns in private markets

While the options available to us in terms of escalation of stewardship activities to influence issuers in closed ended investment funds (private equity, private debt, infrastructure and indirect property asset classes) are more limited, we do make it clear that concerns or a lack of transparency will feed into the assessment of subsequent investment opportunities presented by that manager.

Case study

ENGAGEMENT ESCALATION THROUGH VOTING

Background

Engagement is a key part of Lothian Pension Fund's (LPF) responsible investment strategy. By engaging with the companies in which we own shares and exercising our voting rights, we strive to improve the sustainability of corporate strategy for the benefit of shareholders, our stakeholders and wider society.

Engagement with company management routinely includes discussion of how they'll align their businesses with the aims of the Paris Agreement, which aims to limit global warming to well below 2°C and encourages actions to be taken to limit the global temperature increase to 1.5°C. We believe that accurate measurement and disclosure of corporate emissions and clarity of strategic direction are key to accurately assessing the climate risk and potential for financial returns from our investments

While climate change presents risks and opportunities across all sectors of the global economy, we pay particular attention to companies in sectors which have structural challenges to transition. Where we assess the company's existing climate strategy to be insufficient to meet the goals of the Paris Agreement, we may consider the following actions:

- Voting against the reappointment of relevant directors
- Voting against management climate strategies/progress reports
- Voting against remuneration policies that appear misaligned to incentivising transition
- Filing/co-filing or voting for shareholder resolutions that call for robust target-setting, and a clear and credible strategy in place to achieve the stated targets.

2024 voting activity and outcome

The table summarises how we applied our policy to escalate engagement through voting on climate related items at Shell, TotalEnergies and Exxon Mobil's 2024 Annual General Meetings (AGM). Further information on our voting rationale is provided on the next page.

	Shell		TotalEnergies		Exxon	
	LPF	Vote Result	LPF	Vote Result	LPF	Vote Result
Climate strategy/progress	Against	78%	Against	80%		
Shareholder resolution	For	19%	Attempted co-filing	n/a		
Director re-appointment	For (Chair)	90%	Against (Lead Independent Director)	89%	Against (Lead Independent Director)	87%
Governance/remuneration	Against	95%	Against	92%		

Vote result indicates the percentage of votes recorded in favour of the item.



Shareholder resolutions



Shareholders can request the inclusion of a shareholder resolution at an AGM. This could require the company to take certain actions or respond to specific concerns, for example, to set comprehensive greenhouse gas emissions targets that are consistent with the goals of the Paris Agreement. However, the company only has to respond to the shareholder resolution if sufficient shareholders support it. In addition, the rules on filing shareholder resolutions vary across countries. In the UK the concerned shareholder, or more commonly a group of shareholders, is required to meet one of the following thresholds:

- 100 members, who hold, on average shares with a nominal value of at least £100, or
- Members representing at least 5% of all voting rights.

Case study

ENGAGEMENT ESCALATION THROUGH VOTING (CONTINUED)

Shell (21 May 2024)

- We pre-declared and voted against Shell's Energy Transition Strategy 2024 and in favour of a shareholder proposal requesting that Shell aligns its medium-term emissions reduction targets (including greenhouse gas emissions from the use of its energy products) with the goals of the Paris Agreement. We did this as we were concerned about Shell's scaling back of ambition in its medium-term transition targets and the lack of indicators regarding alignment of its strategy to the Paris Agreement goals
- While we're concerned that Shell has fallen behind other European majors in terms of the range and ambition of its climate targets, we voted for the re-appointment of Shell's Chair, based on the existence of ongoing engagement and the ability to escalate these concerns via specific votes on the Energy Transition Strategy and the shareholder proposal
- We voted against Shell's remuneration report due to our assessment that the Energy Transition component of its long-term incentive plan isn't aligned to overall performance in this area. We were also concerned about the inclusion of growth in liquefied natural gas volumes as a new indicator under the future Energy Transition Strategy component of its awards.



TotalEnergies (24 May 2024)

- We pre-declared and voted against the company's Sustainability and Climate Progress Report. Although we recognised progress with some operational emissions reductions and investment in renewable energy generation, we were concerned about the continuing lack of disclosure related to project economics for the company's gas portfolio and pipeline which hinders investors' ability to assess alignment with credible decarbonisation pathways
- We participated in an initiative to co-file a consultative shareholder resolution at Total Energies AGM. The draft resolution called on the board to consider improving corporate governance by splitting the positions of Chair and Chief Executive Officer as we believe a more independent board could help to strengthen the company's approach to its climate change strategy and management of human rights risks. Unfortunately, the board didn't agree to include this consultative resolution on the AGM agenda, which raised concerns about the erosion of shareholder rights
- We pre-declared and voted against the re-appointment of the Lead Independent Director, holding him to account for the Board's refusal to allow shareholders a consultative vote on the above governance topic
- We voted against both the remuneration report and policy as we had several concerns about the details, including the potential for overachievement in one year being used to offset underperformance in other years and the energy transition metrics in the policy not being ambitious enough.



Case study

ENGAGEMENT ESCALATION THROUGH VOTING (CONTINUED)

Exxon (29 May 2024)

- Exxon didn't offer a vote on its climate strategy or progress
- We voted against the re-appointment of the Lead Independent Director, who chairs the company's governance committee, for inadequate management of climate related risks and to demonstrate our concern about the curtailment of shareholder rights due to Exxon's decision to sue Arjuna Capital (an investment firm) and Follow This (a non-governmental organisation of activist shareholders) for filing a shareholder resolution urging Exxon to increase action to reduce its greenhouse gas emissions. The lawsuit was subsequently dismissed following the withdrawal of the shareholder proposal and a commitment by Arjuna not to file similar climate resolutions at future Exxon AGMs
- However, we voted in favour of the environment, safety and public policy committee members (who received 96% support on average) to signal support for a number of positive climate-related actions including Exxon's withdrawal from the Independent Petroleum Association of America due to the organisation's lack of alignment with the company's climate policy, and publishing the 2024 Advancing Climate Solutions Report, which is a meaningful advancement in Exxon's reporting that includes a Scope 3 emissions disclosure.

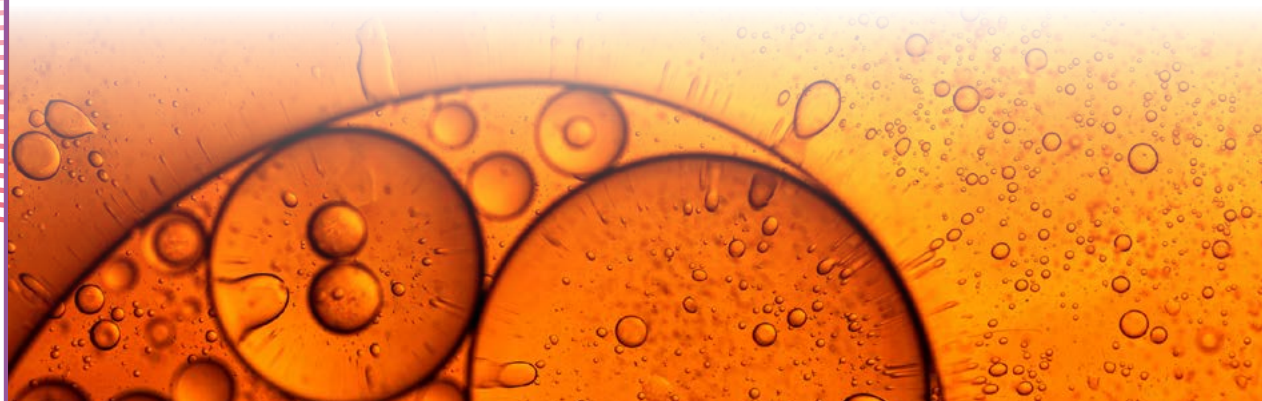


Assessment

We decided to pre-declare some of our votes for Shell and TotalEnergies to increase transparency. It enabled us to immediately communicate our positions to our stakeholders and the wider public (in the news section on LPF's website), including the rationale for our voting decisions.

Our voting record shows that LPF is part of a significant minority of "climate aware" investors pushing for more ambitious transition planning by oil and gas companies. While much more progress is needed on these companies' business transformation, their recent commitments (and actions) to reduce operational methane emissions reductions are still important to recognise as important positive outcomes of engagement activities.

If all climate aware investors were to divest from all oil and gas stocks, there's a risk that there would be little further progress due to a lack of accountability to climate aware investors.



PRINCIPLE 12: EXERCISING RIGHTS AND RESPONSIBILITIES

Signatories actively exercise their rights and responsibilities

We believe that responsible investment involves exercising our rights and responsibilities as an active owner. We consider voting to be an integral part of our engagement with companies.

We aim to vote on all resolutions tabled at the General Meetings of our investee companies (listed equity) and also on all LPF consent matters within the funds we've invested in (across private market asset classes). We also hold our managers to account on how they exercise rights and responsibilities on our behalf, for example, how our debt managers exercise their responsibilities to integrate ESG in credit investment through the negotiation of ESG-linked ratchets into loan documentation.

In Principle 8, we explain how the practice of share-blocking in certain geographies (e.g. Norway) can impact our ability to fully exercise our rights and responsibilities in these markets due to potential liquidity constraints. However, following a review and streamlining of our internal process for approving votes in share-blocking markets in 2021/22, we haven't missed any votes due to share-blocking in the last three years.

In Principle 4 we provide examples of exercising our rights and responsibilities by engaging with policymakers and responding to industry consultations. In Principle 7 we provide a case study on ESG integration in direct property which includes exercising of our rights and responsibilities to meet increasingly stringent minimum energy efficiency standards as a commercial landlord.

Our voting policy for listed equity investments

Voting, in combination with engagement, can reinforce the message we send to company management about how they're running their businesses. While much focus tends to be on controversial votes and votes against management, we think it's equally important to signal our support for management in situations where they're doing a good job of navigating risks, challenges and complexities. As can be seen from our voting data below, we recognise that, in many cases, boards are managing these issues effectively and we continue to support them in their endeavours.



We subscribe to a specialist third party service (EOS) to provide engagement (see Principle 9) and to provide proxy voting recommendations to us which covers approximately 96% of our listed equity investments (the remainder of our equity assets are in funds where our external managers undertake voting in accordance with their voting policies, which we monitor quarterly). Through EOS we monitor what shares and voting rights we have and apply an ESG lens informed by active engagement over the top of proxy voting recommendations provided by Institutional Shareholder Services Inc. (ISS), a proxy voting service provider whose primary research and proxy voting infrastructure is utilised by EOS.

PRINCIPLE 12: EXERCISING RIGHTS AND RESPONSIBILITIES

[EOS' Global Voting Guidelines 2024](#) acted as the policy to inform EOS' voting recommendations during the period under review. Due to different governance conventions across global markets, EOS applies local market conventions in 20 markets around the world as an additional overlay in the voting decision-making process. EOS reviews its region-specific guidelines at least annually. These set out the fundamental expectations of companies, including on business strategy, communications, financial structure, governance and the management of social and environmental risks in each region. Generally, we follow EOS's voting policy and voting recommendations which are informed by their engagement with companies.

In recognition of the value of active engagement, EOS works with our internal and external fund managers to co-ordinate and execute voting instructions. We require EOS to provide our portfolio managers with notice of voting instructions and allow them to override any EOS recommendation.

Significant consideration is given to each issue, with EOS voting alerts reviewed by our equity team and escalated to the Responsible Investment Group where necessary. Whenever there's a controversial vote (e.g. a recommendation to vote against management) or when there's an issue that we're concerned about (e.g. a governance risk identified through our own investment research and direct engagement activities), we'll communicate with EOS about the resolution, to understand the context and their reasons for the recommendation being made. In practice the number of voting recommendations that we override each year is minimal. During 2024, after careful review, we chose to execute our right to vote differently from EOS' recommendation for two votes at a single annual general meeting (as detailed in case study below).



Case study

THOUGHTFUL VOTING: ASHTEAD GROUP

Background

Ashtead is a UK-listed international equipment rental company with national networks in the US, the UK and Canada. It rents a range of construction and industrial equipment across a wide variety of applications to a diverse customer base. Lothian Pension Fund (LPF) have been shareholders of Ashtead since early 2012.

At LPF we believe that Responsible Investment includes exercising our rights and responsibilities as shareholders, so we aim to vote on all resolutions tabled at the General Meetings of our investee companies. We subscribe to a specialist third party service, EOS at Federated Hermes (EOS), to provide engagement and voting recommendations to us on our internally managed listed equity investments. Generally, we follow EOS's voting recommendations, however, we reserve the right to override them based on our internal team's investment research and direct engagement with companies.

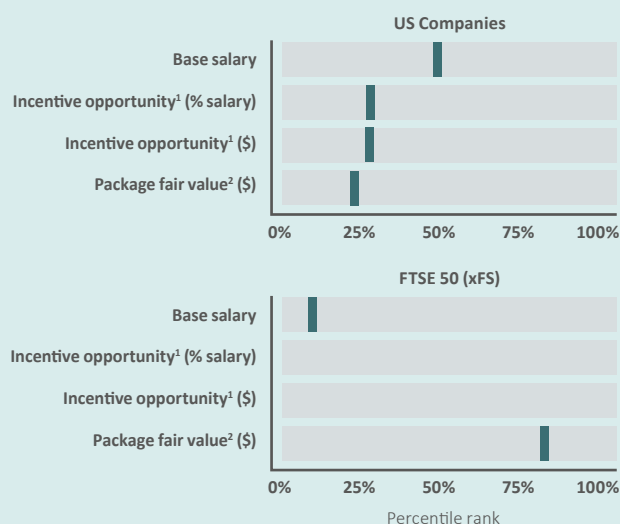
Voting considerations

In August 2024, we became aware that potentially controversial changes to Ashtead's remuneration policy and its long-term incentive plan (LTIP) were being proposed, for voting on by shareholders at the company's Annual General Meeting (AGM) in September 2024.

We reached out to EOS to discuss their vote recommendation intentions, and they responded that they'd be recommending a vote against the company's proposed remuneration policy and amendments to the LTIP, due to concerns about the scale of the proposed variable pay opportunity which significantly exceeded UK peer comparisons. In addition, EOS recommended a vote against the chair of the appointments committee due to concerns about a lack of diversity below the board level.

We joined a call with the CEO of Ashtead ahead of the AGM to discuss these issues. Ashtead's rationale for the proposed remuneration policy and LTIP amendments centred on its aim to bring remuneration more into line with relevant competitive market norms in the markets in which the group competes for talent and to reflect the CEO's experience and strong track record over the last five years. The call did not provide any additional information in respect of gender diversity.

Comparative assessment of proposals vs market norms



1 Maximum bonus + maximum long-term incentive opportunity [valued on the basis of PSU equivalents]. 2 Base salary + target bonus + fair value of long-term incentives.

Case study

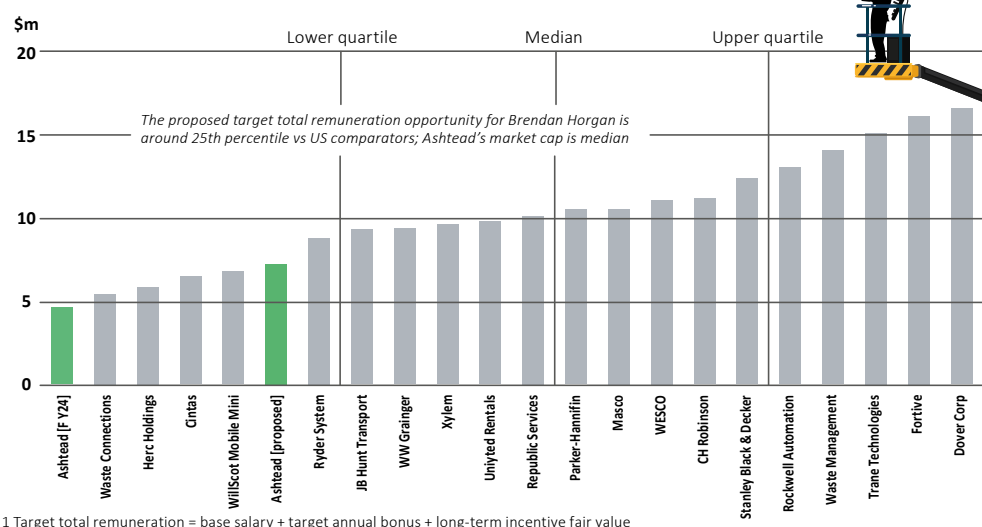
THOUGHTFUL VOTING: ASHTEAD GROUP (CONTINUED)

While Ashtead is listed in the UK, we noted that Ashtead is somewhat unusual in that the vast majority of its operations and workforce are located in the US. Given this and the fact the CEO is also US-based, we considered US peers to provide a more appropriate comparison. The chart on above page illustrates that from a UK perspective Ashtead pays a relatively low CEO salary, but the overall remuneration package is relatively large. However, using US market norms as the comparator suggests the salary is close to median, while the overall package is lower quartile. We also noted that this package only pays in full if targets are met and delivering on these targets means management are aligned with the interests of shareholders.

Further context provided in the chart below, which shows the unchanged Ashtead target total remuneration (furthest left green bar) as well as the newly proposed one (the second green bar from the left). With the new proposal, target total remuneration is “only” approaching lower quartile versus Ashtead’s median market capitalisation. This compares to the most obvious direct peer (United Rentals) who are close to median.

Chief executive target total remuneration¹: Ashtead vs US comparators

[market data as available at 31 May 2024]



¹ Target total remuneration = base salary + target annual bonus + long-term incentive fair value

Voting Action and Outcome

After thoughtful consideration we decided to execute our right to vote differently from EOS's recommendations on two items by supporting the proposed remuneration policy and LTIP. However, we agreed with EOS' recommendation to vote against the re-election of the Chair of the Nomination Committee, due to concerns about insufficient diversity in the below-board level management team.

Case study

THOUGHTFUL VOTING: ASHTEAD GROUP (CONTINUED)

At the AGM on 4 September 2024, all the resolutions put to shareholders were passed. However, in accordance with the UK Corporate Governance Code, the level of shareholder dissent (>20%) required the company to make an explanatory statement in its AGM results announcement. Ashtead committed to engage with shareholders in respect of the implementation of its remuneration policy and publish an update within six months.

On 10 December, Ashtead announced plans to move its primary listing to New York in the next 12-18 months, while retaining a secondary UK listing in the International Companies segment. The board said it will discuss the proposal with shareholders before putting forward a formal resolution for approval.

Reflection

In alignment with LPF voting policy, we conducted our own research into potentially controversial proposals and voted accordingly. The reason we “disagreed” with EOS’s recommendation on Ashtead’s remuneration policy and LTIP was on the scale of excess after adjusting for regional market norms.

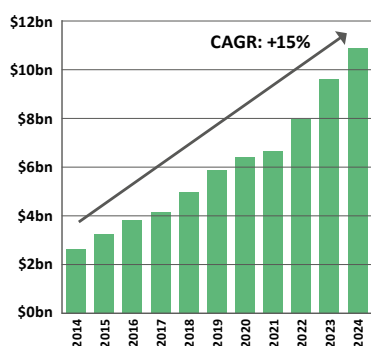
We consider executive compensation structures as a critical governance tool for aligning the activities of management with a company’s purpose, strategy and incentivising long-term value creation, including wider social and environmental outcomes. Where we consider there to be a disconnect between pay and the broader stakeholder experience, we’re prepared to vote against remuneration policies and/or the director of the remuneration committee: 30% of our votes against management in 2024 were on remuneration concerns.

We think very highly of Ashtead’s current CEO, Brendan Horgan, and strongly believe that longevity of senior management is important to the success of most businesses. Brendan is only the company’s second CEO since we invested in early 2012, and he was an internal appointment. A snippet of their recent track record is shown below.

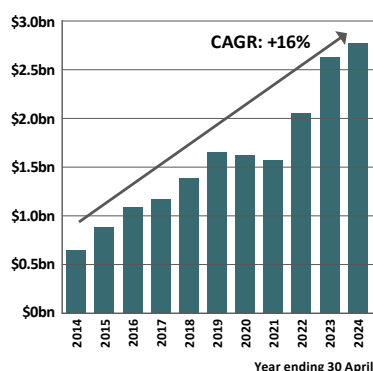
We’ll continue to engage with the company, particularly on the proposed listing change.

A strong and sustained performance track record

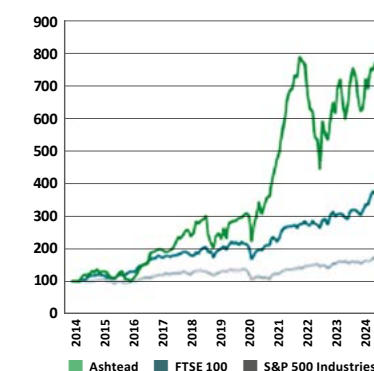
Revenue:
a 3x increase since 2014



Adjusted operating profit:
a 3x increase since 2014



Total Shareholder Return:
Value of £100 invested on 30 April 2024



PRINCIPLE 12: EXERCISING RIGHTS AND RESPONSIBILITIES

Stock lending

Our stock lending programme uses our existing asset base to generate an additional source of income. The programme is managed in accordance with our responsible investment policies. During 2020 we updated our policy for securities lending. We now automatically recall all securities on loan for voting purposes. This enables us to vote 100% of our holdings for our entire holding at 100% of the relevant meetings, which adds significant weight to the influence we exercise as shareholders.

Co-filing activity

We're prepared to file or co-file shareholder resolutions on important topics at our investee companies. While our activities didn't lead to any shareholder resolutions being included on the agenda of AGMs in 2024/25, we were involved in some preparatory activity and note that this stimulated meaningful engagement and progress. For example, in April 2024, alongside other like-minded investors, we co-filed a draft consultative shareholder resolution to TotalEnergies, requesting the separation of the roles of Chair of the Board of Directors and Chief Executive Officer (CEO). The draft resolution did not question the CEO's role but aimed to introduce better governance. In general, we consider that having a separate Chair and CEO promotes good governance and supports improved shareholder rights. Ultimately the board did not accept to include the resolution on the AGM agenda. As detailed in the case study on page 101, we pre-declared and voted against the re-appointment of the Lead Independent Director, holding him to account for the Board's refusal to allow shareholders a consultative vote on this governance topic.

Voting transparency

In line with best practice voting disclosure in the UK, we report quarterly on our voting activities via our website: www.lpf.org.uk/publications/lpf-quarterly-voting-records. This consists of details on the votes cast by stock name and includes rationale for votes against management, abstentions and shareholder resolutions. We also provide quarterly summary statistics on the voting recommendations provided by our service provider, EOS, by region. Alongside this we publish quarterly information on the engagement activities undertaken by EOS on our behalf because we believe that the two activities work together, not as discrete stand-alone activities. We also provide quarterly voting and engagement reports from one of our external managers, as a small percentage of our equities allocation is invested through a pooled fund where the manager retains voting rights.

We continue to provide additional information on our rationale for voting positions at high profile AGMs in our Engage publication. In May 2024 we further improved the timeliness of the communication of our stewardship activities to stakeholders by pre-declaring our voting intentions for certain high-profile vote (see Case Study on page 101).

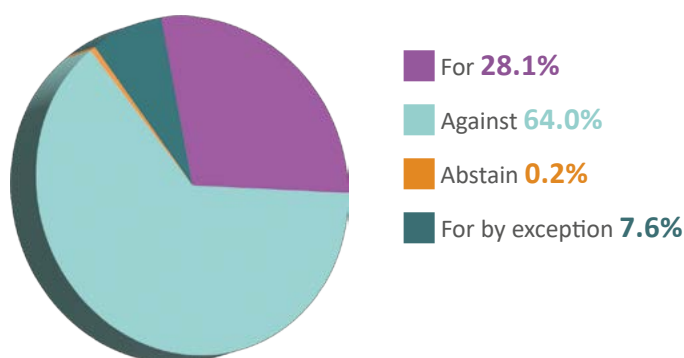
We also supported industry efforts to address misalignment between asset owners and asset managers on voting (see Case Study in Principle 3).

PRINCIPLE 12: EXERCISING RIGHTS AND RESPONSIBILITIES

DATA AND STATISTICS: INTERNAL EQUITIES

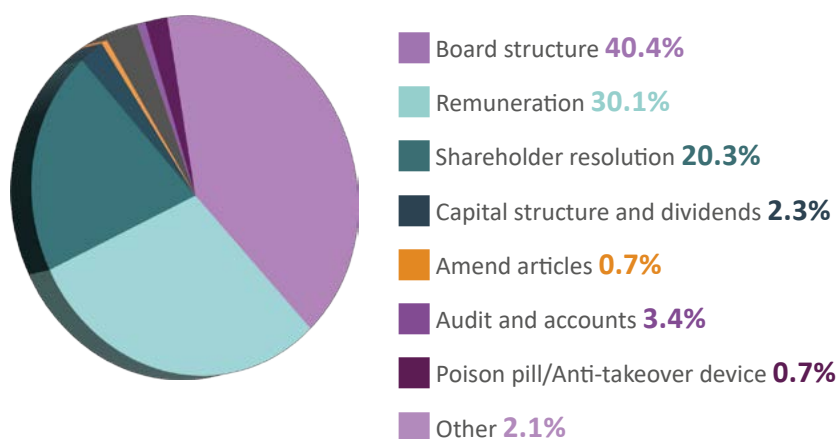
100% of LPF's ballots were voted in 2024. This meant we voted on 7,367 resolutions at 484 meetings. At 310 of those meetings (64%), we opposed one or more resolution. At one meeting we abstained from voting on re-election of one board member due to concerns of over boarding/too many time commitments .

MEETINGS INSTRUCTED



The issues on which we voted against management (in-line with EOS recommendations) are presented below.

RESOLUTIONS INSTRUCTED AGAINST MANAGEMENT



PRINCIPLE 12: EXERCISING RIGHTS AND RESPONSIBILITIES

Reflections on the 2024 voting season

Climate and biodiversity themes dominated the 2024 proxy season. It was positive to see more bio-diversity related proposals, which covered a range of sub-themes including plastic pollution, pesticide use, deforestation, deep-sea mining, antimicrobial resistance and animal welfare. We also saw a range of climate-related shareholder proposals at financial services companies, addressing their role in financing carbon intensive sectors. However, the 2024 season was also filled with frustration for many shareholders attempting to exercise their rights as some companies resisted investor proposals, with prominent legal disputes at some fossil fuel companies (e.g. ExxonMobil).

A growing number of shareholder proposals addressed digital rights issues such as privacy, freedom of expression, and responsible artificial intelligence. EOS Digital Rights Principles informed our decisions on these proposals. For example, we supported a proposal filed at Amazon requesting a report on customer due diligence. The company has processes in place for this and policies relating to the responsible deployment of artificial intelligence. However, there is room for improved transparency on how human rights are considered in the company's relations with governments as customers.

We also maintained our voting attention on more traditional governance areas, as we continued to see excessive CEO remuneration packages and questionable governance structures in various sectors and markets. We offer further reflections on these topics below.

Executive remuneration

We benefit from EOS' specialist skills and resource to analyse complex pay packages, however, we may also undertake our own analysis (see Case Study on page 106). We consider executive compensation structures as a critical governance tool for aligning the activities of management with a company's purpose, strategy and incentivising long-term value creation, including wider social and environmental outcomes. Where we consider there to be a disconnect between pay and the broader stakeholder experience, we're prepared to vote against remuneration policies and/or the director of the remuneration committee: 30% of our votes against management in 2024 were on remuneration concerns. For example, we voted against the remuneration packages at Exxon Mobil and Chevron, due to the high quantum and other structural concerns.



PRINCIPLE 12: EXERCISING RIGHTS AND RESPONSIBILITIES

Board composition

We support board composition characteristics which, in our view, improve governance and the effectiveness of management in pursuit of long-term value creation. Our voting is informed by diversity and inclusion voting policies (via EOS's Voting Guidelines).

- In Europe, we support a goal of 50% overall board diversity, including gender (with at least 40% representation of the minority gender, including those who identify as non-binary). Where best practice or listing rule obligations exist in a country, such as the Parker Review targets in the UK (see Case Study on page 113), we expect companies to disclose whether they comply – or, if not, why. We also support diversity at the management team level and carefully consider our voting approach for companies of significant size where there appears to be insufficient diversity at the top levels of executive management.
- In the US, our guideline is for companies to demonstrate 40% or more overall diversity across a range of indicators as available, reflective of good management of inclusion.
- For 2024, we tightened our board gender diversity criteria to 15% in Japan and South Korea. This was to signal our minimum expectation of around two female directors and in anticipation that companies achieve the long-term ambition of 30% women on boards by 2030. In Japan, we observed progress in the appointment of mostly outsider female directors, due to the government target and increasing investor pressure, but note a continuing scarcity of female executive directors. We noted that all-male boards in Hong Kong are becoming rare, as companies listed on the Hong Kong stock exchange needed to have at least one female board director by the end of 2024.



Where companies don't meet our minimum expectations for board diversity, we consider voting against the reappointment of the Chair and/or the board member responsible for governance and nominations. Notable examples where we did this included Alphabet and Mizuho Financial Group. Ashtead was an example of where we voted against the reappointment of the board member responsible for nominations due to concerns about insufficient diversity in the below-board level management team.

We also look for appropriate levels of independent/non-executive board members to achieve effective governance. As detailed in on page 101, TotalEnergies is a notable example of where we voted against the Lead Independent Director due to board independence concerns.



Case study

PARKER REVIEW ON IMPROVING THE ETHNIC DIVERSITY OF UK BUSINESSES - UPDATE

Background

In its first report, published in 2017, the Parker Review made a series of recommendations setting a “One by 2021” target for all FTSE 100 boards to have at least one director from an ethnic minority background by December 2021 and a similar “One by 2024” voluntary target for all FTSE 250 boards.

Outcome

The 2024 voluntary census (carried out jointly with the Department for Business and Trade and sponsored by Ernst & Young) revealed good progress on ethnic diversity for FTSE 250 companies in 2024:

- 95% of FTSE 100 companies had ethnic minority representation on their board as of 31 December 2024, which is in-line with the prior year’s level. The percentage of ethnic minorities in these companies’ UK-based senior management was 11%. The latter is not comparable to last year’s data due to a change in the basis of reporting to focus on those working in the UK only.
- 204 of the FTSE 250 companies (82%) met the “One by 2024” target. This is an increase from 175 (70%) in 2023, demonstrating significant progress during the year.
- 48% of the UK’s largest 50 private companies had at least one ethnic minority director on their board.

Assessment

This year’s Parker Review shows that progress continued to be made to increase the representation of ethnic minority talent, particularly across the FTSE 250. We’ve already incorporated the Parker Review targets into our minimum expectations for FTSE 100 and FTSE 250 companies, and we’ll continue to monitor progress through the evolution of market norms towards the targets set by the Parker Review.

With c.16% of our equities allocation in UK listed stocks, we recognise the importance for UK businesses to secure the best talent – irrespective of ethnicity – into boardrooms and senior management teams, reflecting the diversity of our society.



PRINCIPLE 12: EXERCISING RIGHTS AND RESPONSIBILITIES

SHAREHOLDER ACTION

We describe our approach to shareholder action in relation to Principle 4: Promoting a well-functioning financial system. We consider participating in class actions to be another way that we exercise our responsibilities as asset owners. Taking action to recover assets lost through investments in companies as the result of corporate mismanagement or wrongdoing is an aspect of our duty to stakeholders.

Exercising rights and responsibilities in private markets

For our private market investments across private equity, private debt, infrastructure, forestry and property funds, we scrutinise corporate actions which require investor approval (such as fund term extensions) and vote in accordance with our fiduciary duty. We engage with our external managers to understand their rationale for such requests. Where we're able to obtain a position on the investors' advisory committee for a fund (e.g. through the size of our investment) we'll secure additional rights and responsibilities (such as being consulted on proposed changes to the fund's investment guidelines, approving certain matters such as changes to key executives, scrutinising potential or actual conflicts of interest and the related mitigating actions). We aim to use our rights and responsibilities to improve the value of the assets in our portfolio, in line with our fiduciary duty



Exercising rights and responsibilities in direct property

For our direct property portfolio, we aim to improve the value of the assets in our portfolio in line with our fiduciary duty. This includes consideration of health and safety issues and other regulations to ensure we're a good landlord. As detailed in the case study in Principle 7, we took a proactive approach to meeting the 2023 and 2025 Minimum Energy Efficiency Standards and we continue to improve the energy performance of our assets to ensure future compliance with proposed regulations.

GLOSSARY	
AGM	Annual General Meeting - a yearly company meeting where shareholders can vote on key issues and elect board directors
CA100+	Climate Action 100+ is a collaborative initiative by institutional investors to engage with companies identified as the largest (or systemically important) emitters to take necessary action on climate change
CEC	City of Edinburgh Council - administering authority for LPF
COP	Climate Change Conference of Parties - 'the parties' refers to the 197 nations that agreed to a new environmental pact, the United Nations Framework Convention on Climate Change, at a meeting in 1992
DWP	Department of Work and Pensions
EOS	EOS at Federated Hermes - engagement and voting provider for LPF
ESG	Environmental, Social and Governance
FCA	Financial Conduct Authority
FRC	Financial Reporting Council - an independent regulator responsible for setting the UK's Corporate Governance and Stewardship Codes
FTSE 100	Financial Times Stock Exchange 100 Index - comprised of the 100 most highly capitalised well-established companies listed on the London Stock Exchange
FTSE 250	Financial Times Stock Exchange 250 Index - comprised the 101st to 350th well-established companies (after the FTSE 100) listed on the London Stock Exchange. They are referred to as mid cap companies.
HoRI	Head of Responsible Investment
IIGCC	Institutional Investors Group on Climate Change - a leading global investor membership body and the largest one focusing specifically on climate change
ISS	Institutional Shareholder Services - a proxy voting service provider
JIF	Joint Investment Forum (of advisers to the Fund)
LAPFF	Local Authority Pension Fund Forum - a collaborative shareholder engagement group, comprising UK local authority pension funds and most of the LGPS pension fund pools
LGPS	Local Government Pension Scheme
LPF	Lothian Pension Fund
OPSC	Occupational Pension Stewardship Council - UK initiative to promote and facilitate high standards of stewardship of pension assets
PLSA	Pensions and Lifetime Savings Association
PRI	Principles for Responsible Investment - an international network of investors, supported by the United Nations, working to promote sustainable investment through the incorporation of ESG
R&C	Risk and Compliance
SIP	Statement of Investment Principles
SRIP	Statement of Responsible Investment Principles
TCFD	Task Force on Climate-related Financial Disclosures



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