



employers' **SEMINAR**

23rd November 2023

Welcome

David Vallery

Chief Executive Officer

Agenda



9:30 – 9:45	Introduction	David Vallery
9:45 – 10:30	Valuation Summary (Q&A 15 mins)	Julie Baillie & Richard Warden
10:30 – 10:45	BREAK 	
10:45 – 11:15	Responsible Investment (Q&A 15 mins)	Gillian de Candole
11:15 – 11:45	Operational Updates	Karlynn Sokoluk
11:45	CLOSE	

Fund Achievements



- Fund of the Year 2023
- Lifetime Achievement Award – *Bruce Miller CIO*
- PASA Accreditation
- Customer Service Excellence
- CEM Benchmarking



Pension Committee



- Councillor Mandy Watt - *Convenor*
- Councillor Phil Doggart
- Councillor Vicky Nicholson
- Councillor Steve Burgess
- Councillor Neil Ross
- Richard Lamont - *Employer Representative*
- John Anzani - *Member Representative
and convenor of Audit sub-committee*

Pension Board

Union Representatives

- Jim Anderson
- Thomas Carr Pollock
- Brian Robertson
- Tom Howorth
- Tony Beecher

Independent Professional Observer

- Alison Murray

Employer Representatives

- Darren May *Scottish Water*
- Alan Williamson *Edinburgh College*
- Sharon Dalli *Scottish Police Authority*
- **Vacancy**
- **Vacancy**





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Lothian Pension Fund

2023 Actuarial Valuation

2023 Valuation Next Steps...

Event	Timescale
Indicative Contribution Results	23 November 2023 (PM)
Pensions Committee – Funding Strategy Statement	5 December 2023
Employer Consultations (FSS)	December – January 2024
Pensions Committee – Final Valuation Report and FSS	20 March 2024
New Contribution Rates Effective	1 April 2024

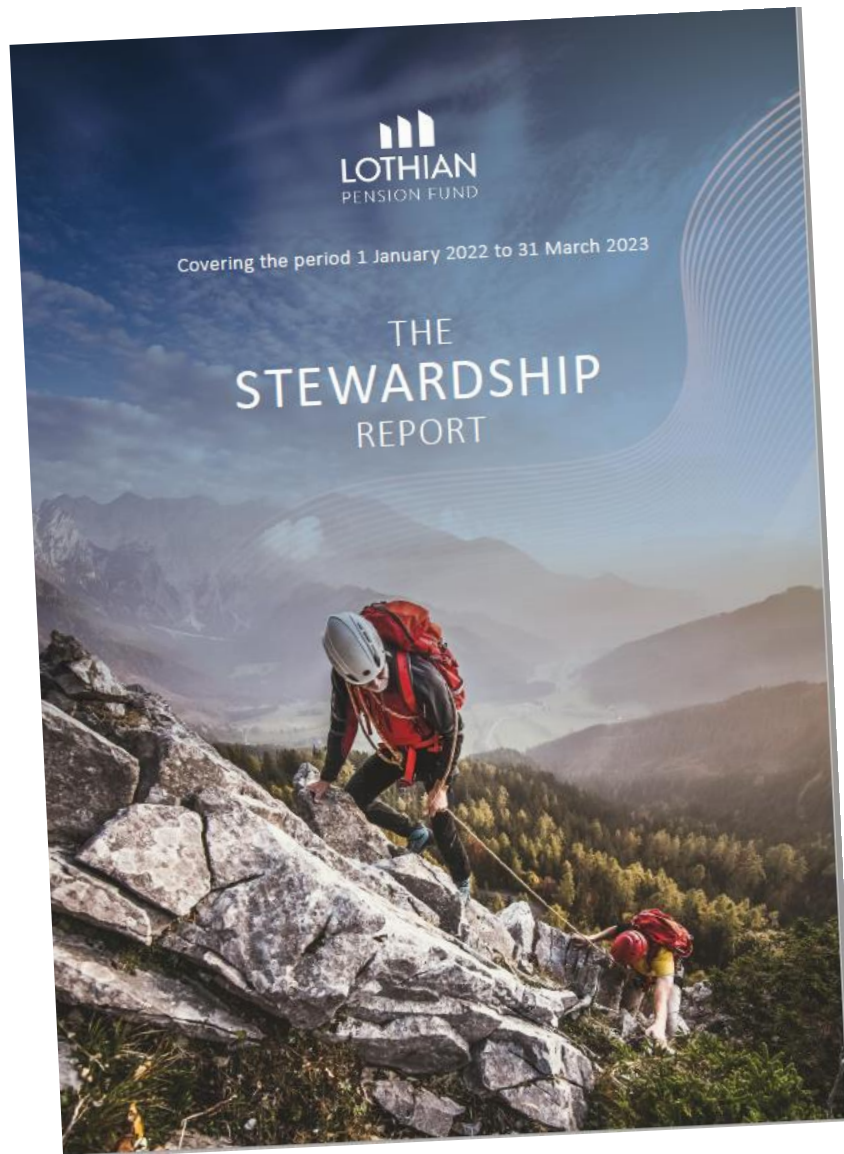


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Break

Responsible Investment

Gillian de Candole



“Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society”

– Financial Reporting Council

Stewardship Principles

Principle 1: Purpose, strategy and culture

Principle 2: Governance, resources and incentives

Principle 3: Managing conflicts of interest

Principle 4: Promoting well-functioning markets

Principle 5: Review and assurance

Principle 6: Client and beneficiary needs

Principle 7: Stewardship, investment and ESG integration

Principle 8: Monitoring managers and service providers

Principle 9: Engagement

Principle 10: Collaboration

Principle 11: Escalation

Principle 12: Exercising rights and responsibilities

Principle 1: Purpose, strategy and culture

Case study

CLIMATE CHANGE: OUR ROLE IN REAL WORLD CHANGE

As a pension fund with liabilities stretching out decades into the future, we believe that climate change is not only a defining issue of our time but also a threat to our ability to fund pension payments. For the sake of society and our portfolio of assets, we have a responsibility to mitigate the risks associated with global warming, which scientists attribute to greenhouse gas emissions caused by human activities. Ours is a small voice but we contribute it in an attempt to mitigate this systemic risk.

We believe that asset owners are uniquely positioned to drive changes in governmental and corporate behaviour to bring about an acceleration in the sustainable energy transition and a decarbonisation of the global economy. We recognise the critical importance of limiting climate-related emissions and the role that financial institutions can play in helping to achieve that goal, and how this will in turn, contribute to a well-functioning financial system.

Principle 2: Governance, resources and incentives

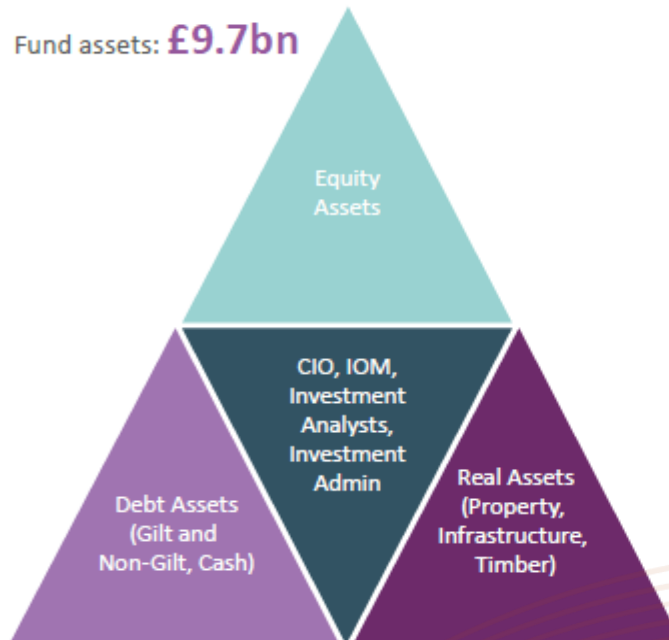
STAFF STRUCTURE

Senior Leadership Team (SLT) as at March 2023



Internal Investment Team as at March 2023

Fund assets: **£9.7bn**



Internal Investment Team of 20	
Chief Investment Officer (CIO):	1
Investment Operations Manager (IOM):	1
Portfolio Manager:	10
Deputy Portfolio Manager:	1
Property Asset Manager:	1
Senior Investment Analyst:	1
Investment Analyst:	3
Investment Administrator:	2

Principle 3: Managing conflicts of interest

IDENTIFICATION AND MANAGEMENT OF POTENTIAL CONFLICTS IN EXERCISING VOTING RIGHTS

Context

LPF manages over 85% of its equities in house and retains voting rights for the majority of its externally managed equities. Where a stock is held in more than one portfolio, there's potential for a diversity of views to be held by the different portfolio managers (PMs) on the prospects for a stock, including different assessments of the financial materiality of identified ESG issues for a specific stock. These different views can be expressed through taking different investment decisions related to the stock in the context of different portfolio mandates. However, when it comes to exercising our voting rights, we seek to maximise benefits to members through consistent application of voting policies and by avoiding dilution/off-setting of our votes.

In Q1 2023 we formalised our Equity Voting Process:



Principle 4: Promoting well-functioning markets

Case study

THE ASSET OWNER DIVERSITY CHARTER - UPDATE

Background

In mid-2021, we were delighted to be part of a group of UK asset owners inviting others to sign the new Asset Owner Diversity Charter to tackle a lack of diversity across the fund management industry.

By signing the Charter, signatories commit to take account of diversity and inclusion records from fund managers when choosing new partners. Diversity questions form part of the overall assessment scores for each bidder. Fund managers have to disclose information and demonstrate how they're tackling diversity and inclusion within their workforce.



Case study

NAVIGATING GEO-POLITICAL AND MACRO-ECONOMIC CRISES

Assessment of the effectiveness of our approach

2022 was a challenging year for many investors, as fixed income and property investments provided little counterweight to weakness in global equity markets. While we don't attempt to predict short-term market movements, our long-term approach and focus on delivering good risk-adjusted returns as a responsible investor enabled us to navigate these stormy waters.

Our long-standing focus on good governance, consideration of relative value across asset classes (which was the basis for our underweight position to LDI), and deliberate bias to low volatility and value equities supported performance. Our actions to assess and mitigate exposure to geopolitical risk, while also retaining the agility to seek out opportunities during market dislocations served us well.

While past performance is no guide to the future, we continue our approach to responsible investment which is informed by our investment beliefs, policies, and priorities, together with regulations and statutory guidance. We note that there are multiple facets to responsible investment. Sometimes it appears to be reactive, coalescing collaborative engagement or implementing new policies after an event has occurred (with the laudable aim of reducing a recurrence). The process of identifying environmental, social and governance risks (and therefore avoiding or minimising exposure) before they lead to material financial events or impacts is harder to evidence, particularly for risks that are expected to play-out over the longer term, and we remain humble in the knowledge that we can't predict all geopolitical or macroeconomic crises.

Principle 5: Review and assurance

Case study

GREEN APPLE AWARDS



Context & objectives

LPF has a direct property portfolio of around £400m, which we actively asset manage. This means we work closely with our consultants, facilities managers and tenants on a wide array of matters including environmental initiatives. During 2022, we submitted two of our direct property assets for [Environmental Best Practice assessment by The Green Organisation](#), which is an independent, international, non-political, non-profit environment group dedicated to recognising, rewarding and promoting environmental best practice around the world.

Outcome

LPF were Green Apple Environment Award winners for the following direct property assets:

- Bishops Court Retail Park, Exter – Gold Award
- Neptune Business Park – Bronze Award.

The awards were granted for biodiversity improvements, including installations of bird boxes, insect hotels and planting wildflowers.

Principle 6: Client and beneficiary needs

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

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

LOTHIAN PENSION FUND 31 March 2023	Main strategy	Mature Employer strategy	50/50 strategy	Buses strategy	Total fund strategy
Equities	60.0%	0.0%	30.0%	33.0%	58.3%
Real Assets	20.0%	0.0%	10.0%	11.0%	19.4%
Non-Gilt Debt	10.0%	0.0%	5.0%	5.5%	9.7%
LDI (Gilts)	10.0%	100.0%	55.0%	50.5%	12.5%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100%	100%	100%	100%	100%

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.



Principle 7: Stewardship, investment and ESG integration

- 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.

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, including the Minimum Energy Efficiency Standards (MEES) for UK commercial property and the requirement for an Energy Performance Certificate (EPC).



“There’s 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 we’re being paid for the risks we’re taking and to manage and mitigate these risks.”

Principle 7: Stewardship, investment and ESG integration

Our top stewardship priority: Climate change

We address climate change risks in two ways – through our investment selection process and through our engagement and voting activities. As part of the stock selection process for the fundamentally managed portfolios, any material climate-related risks and opportunities (such as carbon pricing and the low carbon transition) are individually assessed by the managers before acquisition and monitored once they're portfolio holdings. Both the fundamental and quantitatively managed equity funds utilise engagement with investee companies to improve practices.

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. We believe that accurate measurement and disclosure of corporate emissions and clarity of strategic direction are key to accurately assessing the climate risk and return potential of company shares. Encouraging better disclosure remains a standard part of our dialogue with companies. Data quality remains variable depending on geography and publicly listed companies are generally more transparent than private companies.

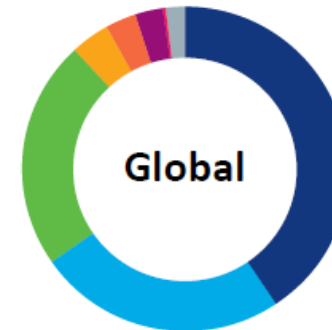
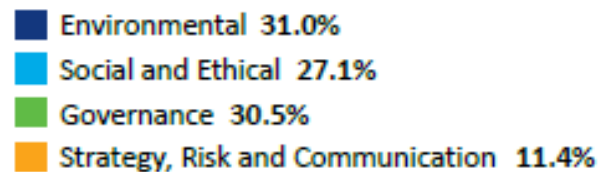


Infrastructure investments represented 13.8% of the value of Lothian Pension Fund assets at 31 March 2023, comprising one of the largest and most diversified allocations among UK LGPS funds. Of the total infrastructure investment of £1,324m (31 Mar 2022: £961 million), the majority is invested in the UK.

Principle 8: Monitoring managers and service providers

In 2022, our voting and engagement provider:

- Engaged with 227 companies in our portfolio on 1,137 issues
- Provided us with voting recommendations for 552 company meetings (8,002 resolutions)



Principle 9: Engagement

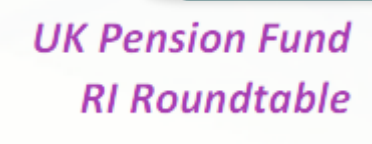


- Climate change action
- Circular economy and zero pollution
- Natural resource stewardship
- Human and labour rights
- Human capital
- Wider societal impacts

- Board effectiveness
- Executive remuneration
- Investor protection and rights
- Business purpose, strategy and policies
- Risk management
- Corporate reporting

We have a policy of engagement with companies and policymakers rather than a policy of exclusion or divestment. By engaging with the companies in which we own shares, we strive to improve the sustainability of corporate strategy to the benefit of shareholders, and to the benefit of wider society. We believe that a policy of divestment potentially passes shares to less responsible or less active share owners, who are less likely to hold the company's managers to account on planning for and managing significant transitions in their businesses over the next decades. In our view, this achieves nothing in terms of real-world sustainability.

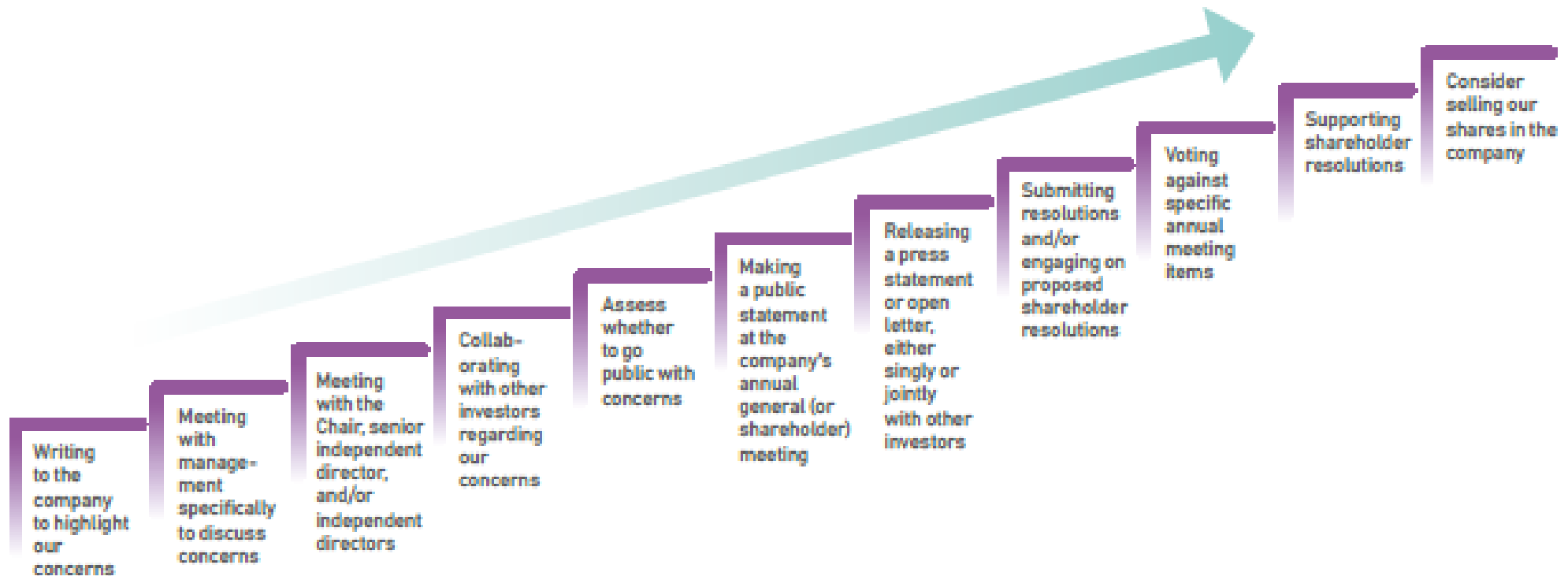
Principle 10: Collaboration



Global Investor Commission on Mining 2030



Principle 11: Escalation



Principle 12: Exercising rights and responsibilities

	Management proposed "Say on Climate " vote	LPF Vote	Vote Result	Follow This Vote	LPF Vote	Vote Result
Mining companies						
Rio Tinto	Climate change report	For	84% support	n/a		
Glencore	Climate change progress	Against	76% support	n/a		
Energy companies						
TotalEnergies	Sustainability and climate change transition plan	Against	89% support	n/a		
BP	Climate change report	For	88% support	Yes	Against	15% support
Shell	Energy transition progress report	Against	80% support	Yes	For	20% support
Equinor	Energy transition plan	Against	98% support	Yes	For	4% support
Chevron	n/a			Yes	For	33% support
ConocoPhillips	n/a			Yes	For	39% support
Exxon Mobil	n/a			Yes	For	28% support

More information



Questions?

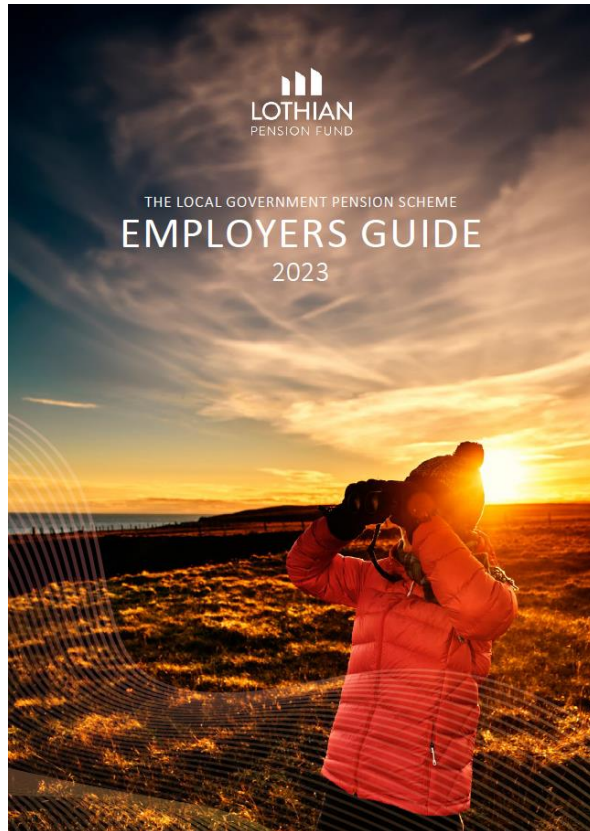


Operational Updates

Karlynn Sokoluk

Employer Guide


employers'
SEMINAR



We have been listening to the feedback from many of our employers and members to design a useful employer guide that helps us all work more effectively together.

We are developing a new employer guide that provides you with detailed information on a variety of topics, including:

- New starts
- Redundancy
- Ill health retirement
- Employer discretions
- Timescales for different processes and the information required

We are also working on a separate guide and training sessions to help with annual allowance complexities using worked examples to help with this essential activity.

McCloud Remedy

It was determined that all main public pension schemes allowed for transitional protections for older members that were not given to younger members, resulting in age discrimination.

The ruling stated that a comparison will be made between the benefits payable under the current rules and the entitlements which would have been paid if the scheme hadn't changed in 2015.

Qualifying members will not need to take any action and any increases will be applied automatically. Many members will not see a change, due to low salary growth since 2015.

**Thank you to our employers
for working with us, and
supplying the essential
information needed**



**The
McCloud
Remedy**
for the lgps

McCloud Remedy

- Extends the 'transitional protections' underpin to other active members, not just those approaching retirement
- Underpin gives the member the better of CARE or final salary benefits using different accrual rates.
- Eligibility is restricted only to members who were active in the LGPS on 31 March 2012 and have accrued benefits since 1 April 2015
- Underpin applies to benefits earned between 1 April 2015 and 31 March 2022 (or earlier if the member leaves active membership or dies in service)
- Legislation in place from 1 October 2023
- Consultations continue as they establish protocols given the complexity of changing regulations over the years
- Extensive work for the administration teams even though it is anticipated that a very small number will result in a positive underpin



Pension Dashboard

- Pension dashboards will help individuals to plan for retirement
- Providing access to their pension information online, securely and all in one place.
- Dashboards will provide clear and simple details about an individual's multiple pension savings, including their State Pension.
- Can reconnect members with any lost pension pots.
- Will educate members on all options available so they can make informed decisions

The Government has advised more time is needed to deliver this complex build and connect a wide range of IT systems; the proposed launch date is now 31 October 2026. We are using this time to continually improve the quality of our data in readiness and to explore the best platform provider.



Digital Enhancements

Year-End Process / Annual Benefit Statements

Every member of the pension scheme should receive an annual pension forecast. Once employee membership data is fully updated, benefit statements can be produced by the statutory deadline of 31 August.

This year using enhancements in our systems providing insights and now having the ability to issue statements securely using our technology, we were able to issue statements by 31 July, a month ahead of the expected deadline. A great example of working together.

Recent I-Connect Developments

- Member forms upload
- Reconciliation of employer contributions and dashboard
- Removal of AB1 forms
- Increased reporting on monthly data to identify issues earlier

Online developments (Member Self Service Portal)

- Retirement on line journey only 7 days on average
- Refunds from request to payment only 13 days on average
- Uploading of documents

Biometric Facial Recognition

- Proof of life annual exercise

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Thank you for listening

We welcome
your feedback

