Policy and Context Disclosure

THE STEWARDSHIP REPORT

Covering the period 1 April 2025 to 31 March 2026

LOTHIAN
PENSION FUND



LOTHIAN PENSION FUND

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SECTION A:

ORGANISATION, INVESTMENT BELIEFS AND STEWARDSHIP APPROACH



ABOUT US

Lothian Pension Fund (LPF) has existed in its current form since 1975, supporting more than 75,000 local government workers and their families in achieving a financially secure retirement. We expect to be supporting the beneficiaries of the youngest members of our fund for many decades to come.

Through our service and employment company LPFE, we administer the Local Government Pension Scheme (LGPS) in Edinburgh and the Lothians. LPF is the second largest LGPS fund in Scotland. We're an asset-backed and multi-employer scheme with around £11 billion of assets and we were 157% funded at our last valuation in 2023. We're proud to serve over 90,000 members and 53 contributing employers.



LPFI, our regulated asset management company, provides investment advice and management to partner LGPS funds, sharing costs and expertise to the benefit of both LPF and these partners.

LPF is a defined benefit occupational pension scheme and the benefits that we administer are protected by statutory provisions. That means earned pension benefits from past service are as secure as other Government-backed commitments.

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

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.

157%

OUR STRONG FUNDING POSITION AT MARCH 2023

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, other environmental, social and governance issues, geopolitics and the distribution of information and misinformation in this age of social media and artificial intelligence. We're committed to managing our investments responsibly and exercising our fiduciary duty with due regard for these complex dynamics. This approach supports the long-term value of our investment portfolio and helps ensure that we can continue to pay pensions and benefits as they fall due for many decades to come.

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.

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 climate change and the need to transition to a net zero world.

'Our Vision is to deliver outstanding pension and investment services for the benefit of our 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.



OVERVIEW OF OUR INVESTMENT APPROACH

Investment Strategy

Our primary investment objective is to generate sufficient long term returns to ensure that there are sufficient funds available to meet all pension and lump sum liabilities as they fall due for payment, thereby keeping the scheme affordable to employers and minimising the risk of having to increase contribution rates in the future.

We manage the vast majority of the fund's assets in-house through internal equities, sovereign bonds and our direct property portfolio. For private debt, indirect property infrastructure and timber (in aggregate representing around 20% of our assets) we manage fund-of-fund portfolios in-house, while the underlying investments are managed by specialist external managers. To aid diversification, we also have some external managers across equities, credit and cash, but in aggregate these account for less than 10% of our assets under management.

Our 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.

20-25% of our investments are indexed-based. This is the dominant style within our Sovereigns and Cash policy groups, and also features in Credit, while 100% of our Equities and Real Assets are actively managed.

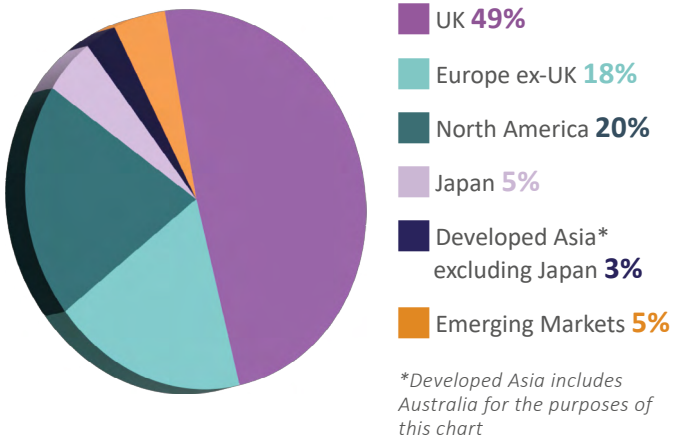
The Sovereigns policy group currently comprises of UK index-linked and nominal gilts (sovereign debt). This is the lowest risk, lowest expected return policy group, outside cash, as it's possible to match the cash flow of gilts with the pension payments that the fund expects to pay in the future.

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 (discussed in Section B) delegates implementation of investment strategy to the fund's officers, who are tasked with investing each policy group within specified ranges.

Our Equities policy group comprises global and regional mandates. Our direct and indirect property is fully concentrated in the UK. Whilst the majority of our infrastructure portfolio is invested in the UK, we also have assets in other regions including the rest of Europe and North America.

At 31 March 2026, the geographical breakdown of our assets were as follows:

GLOBAL ASSETS 31 MARCH 2026



**Developed Asia includes Australia for the purposes of this chart*

OVERVIEW OF OUR INVESTMENT APPROACH

The Employer strategies

The Pensions Committee (discussed in section B) 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, LPF 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. To address differing funding requirements, the fund operates four distinct investment strategies which are described in the table below.

Strategy name	Investment objective	Investment strategy description
Total Fund Strategy	A weighted average of the four individual strategies:	**Policy Group** / **Target Weight 2024-2027** / **Permitted Range** Equities 53.5% 45-65% Real Assets 19.5% 10-30% Credit 7.8% 0-20% Sovereigns 17.2% 5-25% Cash 1.9% 0-15% **Total 100% 100%**
Main	To generate returns sufficient to pay pensions as they fall due.	To invest in the following exposures: **Policy Group** / **Target Weight 2024-2027** / **Permitted Range** Equities 55% 45-65% Real Assets 20% 10-30% Credit 8% 0-20% Sovereigns 15% 5-25% Cash 2% 0-15% **Total 100% 100%**
MEG (Mature Employers Group)	To achieve a return in line with gilts that match the duration of the liabilities.	To invest exclusively in UK Gilts and Cash matching the duration of employer liabilities with the duration of the invested assets.
50/50	To achieve a return in line with a 50:50 investment in the Main Strategy and MEG Strategy and generate a return that pays pensions as they fall due.	To invest in the following exposures: **Policy Group** / **Target Weight 2024-2027** / **Permitted Range** Equities 27.5% 17-37% Real Assets 10% 5-15% Credit 4% 0-8% Sovereigns 57.5% 47-67% Cash 1% 0-10% **Total 100% 100%**

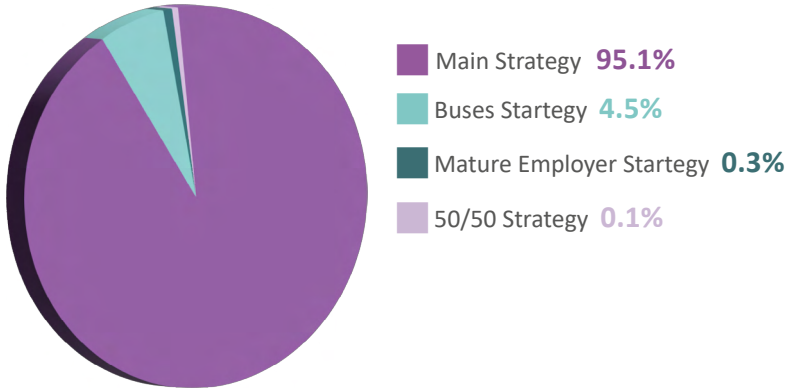
OVERVIEW OF OUR INVESTMENT APPROACH

Strategy name	Investment objective	Investment strategy description
Buses	To generate sufficient returns to pay pensions owed to members formerly employed by Lothian Buses as they fall due.	To invest in a proportion of the MEG Strategy and the Main Strategy that reflects the maturity of liabilities. From 1 April 2024, the strategic split is 50:50 (previously 45:55). Based on the Main Strategy, the Buses Strategy will have the following exposures:

Policy Group	Target Weight 2024-2027	Permitted Range
Equities	27.5%	17-37%
Real Assets	10%	5-15%
Credit	4%	0-8%
Sovereigns	57.5%	47-67%
Cash	1%	0-10%
Total	**100%**	**100%**

Most employers are funded via the main strategy. While the pie chart below shows percentage of assets in each strategy as of 31 March 2026, it acts as approximate guide for future years as any changes year to year tend to be marginal.

EMPLOYER GROUP STRATEGIES 31 MARCH 2026





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 about our approach to environmental, social and governance (ESG) issues. The SRIP, which was most recently updated in March 2025, sets out our responsible investment beliefs and commitments in more detail, and our strategy for integrating those with our investment activities. The review frequency of our SRIP is at least every three years which is aligned with the SIP review.

In terms of principles, that enable stewardship and 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.



We consider Climate Change as a systemic risk and our top priority for integration within our stewardship and investment processes. It's also a priority for many of our stakeholders. To reflect this, we launched a Climate Change Policy (CCP) in March 2025. The CCP enables a more comprehensive articulation of our approach and incorporates our commitments to climate monitoring and action, these are detailed in section C.

APPROACH TO STEWARDSHIP

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. To this end, our approach to responsible investment centres on effective stewardship of all our assets, with a particular focus on climate change and good corporate governance to deliver sustainable value.



Our 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.

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.

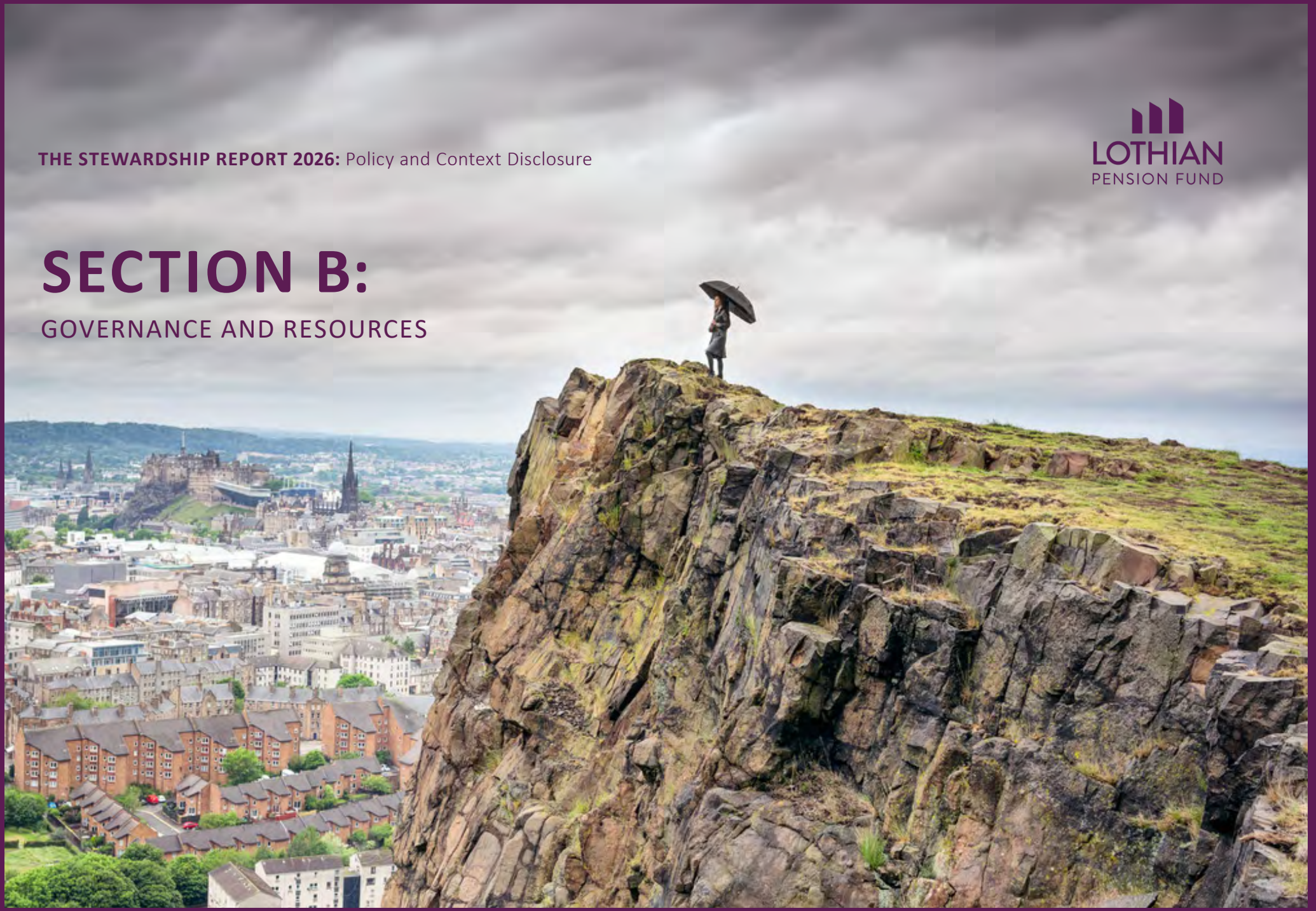
Our approach to stewardship therefore includes:

- 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 our voting and engagement service provider, EOS at Federated Hermes (EOS), which derives considerable influence from representing owners of assets worth approximately $2.4tn (as of December 2025).

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SECTION B:

GOVERNANCE AND RESOURCES



A ROBUST GOVERNANCE FRAMEWORK

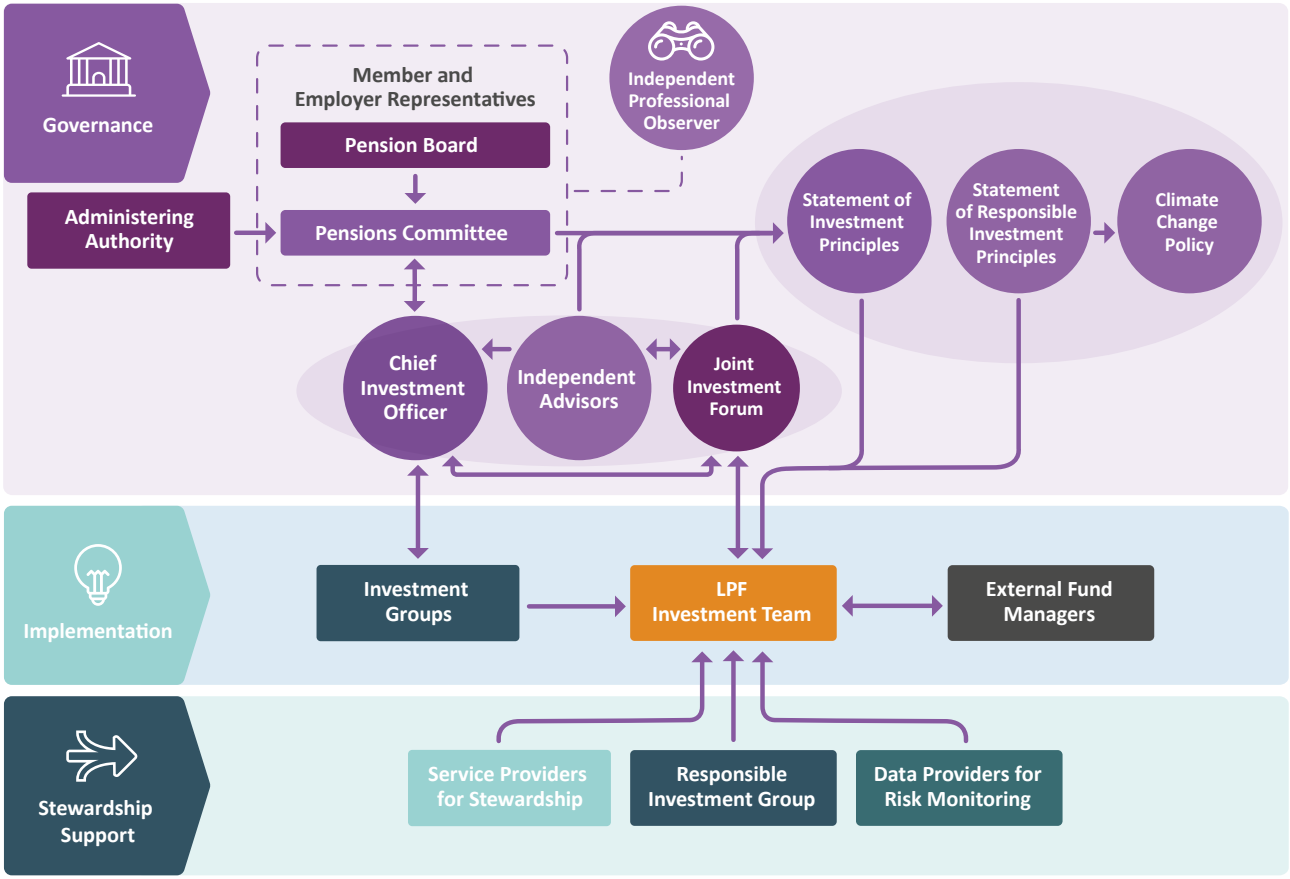
We've set out an overview of LPF's governance framework on the right. Upholding and maintaining sound corporate governance supports the long-term success of LPF, leading to better outcomes for our members, employers and partners. We're also committed to enhancing our governance.

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.



A ROBUST GOVERNANCE FRAMEWORK

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. This also applies to stewardship activities. The Pensions Committee has overall accountability for stewardship by having oversight of and responsibility for approving LPF's Stewardship Report.

The Pensions Committee has also established a separate Pensions Audit Sub-Committee to review and scrutinise certain delegated matters, including the pension fund's control and assurance environment, internal control framework, and internal audit plans. The Sub-Committee also helps ensure sound financial procedures are in place and supports the development of effective 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.

Joint Investment Forum

LPF collaborates with Falkirk Council Pension Fund and Fife 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

LPF's assets are managed day to day by internal and external professional portfolio managers. Pension Fund officers monitor mandate and policy group performance quarterly, with support and advice from 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.

Fiduciary responsibilities

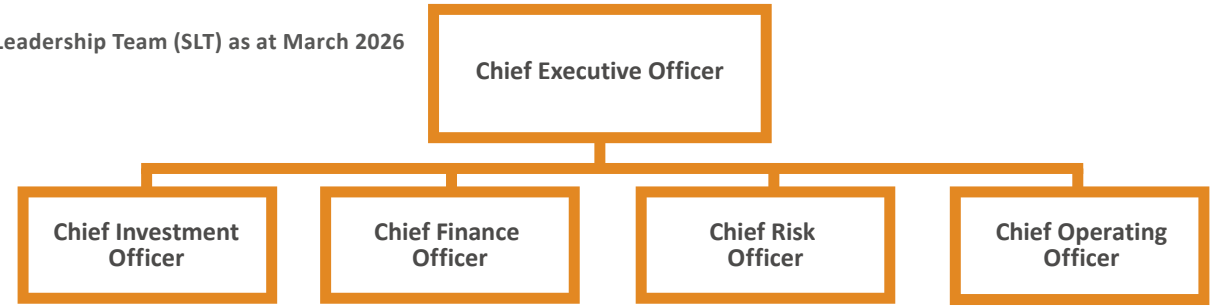
LPF's activities are guided by the legal principle of fiduciary duty. A legal opinion on the nature and extent of LPF's fiduciary responsibilities was obtained by the Scheme Advisory Board for the Scottish LGPS in 2016. LPF regularly reviews this analysis and monitors legal and regulatory developments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

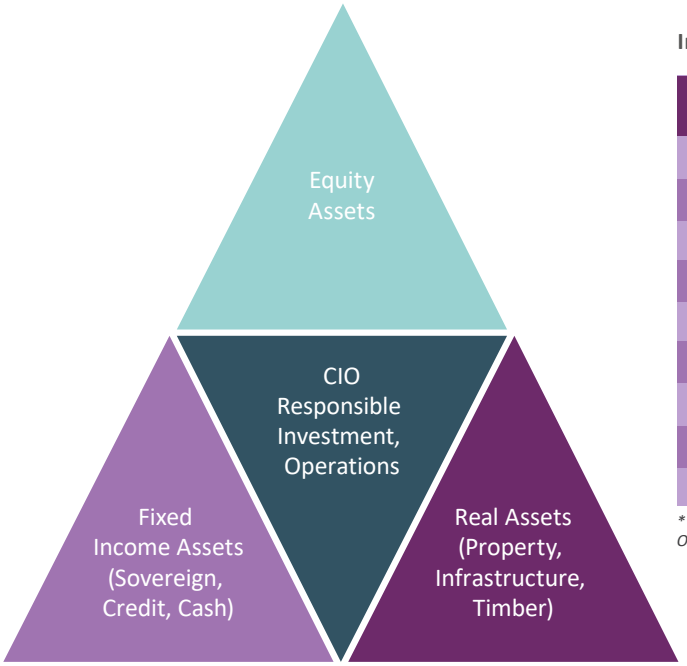
STAFF STRUCTURE AND RESOURCES

LPF's senior leadership team have oversight and accountability of the implementation of our responsible investment principles.

Staff Structure

Senior Leadership Team (SLT) as at March 2026





Internal Investment Team as at March 2026

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	2
Investment Operations & Business Support Analyst:	3
Project Manager:	1

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

STAFF STRUCTURE AND RESOURCES



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, ensuring FCA standards are applied more widely than to LPFI activities alone.

Staff resourcing

We've built out a staff structure to best resource our activities and allow us to enhance the exercise of our stewardship. LPF's headcount of 115 (as at 31 March 2026) 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.

INTERNAL STEWARDSHIP RESOURCE AND RESPONSIBLE INVESTMENT GROUP

At LPF we primarily view 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+ (CA100+) 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 resources on page 18).

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 perspectives.

The SLT oversees the RIG, which is comprised of:

- Chief Investment Officer
- Head of Responsible Investment
- Heads of Investment Policy Groups
- Responsible Investment Analyst
- 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

INTERNAL STEWARDSHIP RESOURCE AND RESPONSIBLE INVESTMENT GROUP

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. Each year, members of the RIG log continuing professional development across a range of themes that can include climate, biodiversity and nature, executive remuneration, diversity, human rights in conflict-affected and high-risk areas, responsible mining and corporate governance/stock market listing rules. The HoRI also leads training sessions for the internal investment team and the Pensions Committee on responsible investment topics. The combination of skill sets, backgrounds and practical experience within the RIG 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.

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).

Every year, the Pensions Committee receives 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 from our external stewardship resources (see page 18).

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.

EXTERNAL STEWARDSHIP RESOURCES

To adequately resource our stewardship activities, LPF utilises a range of ESG providers, tools and technologies (see table opposite).

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 $2.4tn (as of 31 December 2025), 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 approximately 32 people (supported by six client and business development professionals).

ESG Providers, Tools and Technology
ESG research: MSCI ESG ratings and research, Transition Pathway Initiative, GRESB (a provider of sustainability benchmarks and insights for real estate and infrastructure)
Proxy voting analysis: Intstitutional Shareholder Services (ISS), EOS at Federated Hermes
Business involvement research: MSCI ESG research
Trade Associations: Pensions UK, Investment Association
Investor Initiatives: Local Authority Pension Fund Forum (LAPFF), Institutional Investors Group on Climate Change (IIGCC), Climate Action 100+ (CA100+), Asset Owner Council, PRI (including Principles for Responsible Investing (PRI), Advance and SPRING), Global Investor Commission on Mining 2030
Technology Enablers: Bloomberg, Factset, MSCI One

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 of experienced and international professionals who have the expertise, language skills 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. Additional details on our voting and engagement policies are provided in Section C.

External managers

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. We encourage our external managers to enhance stewardship by participating in collaborative engagements and to support best practice disclosure. We receive quarterly updates from our external fund managers, which include updates on company engagements and stewardship initiatives.

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SECTION C:

POLICIES, PROCESSES AND REVIEW



STATEMENT OF RESPONSIBLE INVESTMENT PRINCIPLES

We have a formal policy management framework which helps ensure we regularly review our policies and their effectiveness. We follow an ethos of continuous improvement and seek out improved ways of doing things wherever possible. In line with the expectations of a public sector organisation, many of our policies and procedures are available on our website.

As detailed in Section A, the Statement of Responsible Investment Principles (SRIP) sets our responsible investing beliefs and our strategy for integrating them within our investment activities.

Our SRIP explains how we oversee and monitor our investment activities from a Responsible Investment (RI) and Stewardship perspective, incorporating environmental, social and governance (ESG) factors into investment decisions to manage risk and generate sustainable, long-term returns. It supports communication with our stakeholders by setting out our approach. It explains how we implement our approach on an asset class by asset class basis, as well as how we utilise the tools at our disposal to achieve our stewardship aims.

Our SRIP sets out our high-level approach to being active owners and incorporating ESG issues into our ownership policies and practices. This includes:

- **Voting:** we aim to vote on all the resolutions at Annual General Meetings and Extraordinary General Meetings of the fund's equity holdings
- **Shareholder resolutions:** we may also file or co-file shareholder resolutions on important issues at the fund's investee companies in the interests of achieving better governance
- **Corporate engagement:** we engage with our investee companies on material ESG issues. We use all methods at our disposal, including direct letters, open letters, company calls, company meetings, speaking at shareholder meetings, filing/co-filing of shareholder resolutions and proposing board members. We do this directly, through collaborative partners / service providers or alongside them
- **Government engagement:** we engage with government officials and regulators to ensure that markets run efficiently, and that rules and regulations proportionally protect the interests of the various market participants. This is done using all methods at our disposal, including direct letters, open letters, responding to consultations, working collaboratively with government departments, regulators and industry working groups. We do this directly, through collaborative partners / service providers or alongside them
- **Manager monitoring:** we actively monitor the approach of our investment managers to ESG issues, and what portfolio activity has occurred as a result of managing ESG risks. 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.

Our SRIP also 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.



We continue to refine our ESG analysis and integration practices as best practice evolves. Our SRIP is reviewed and updated at least every three years, most recently in March 2025. The Pensions Committee is responsible for reviewing and approving any updates to the SRIP which are recommended by LPF officers. Our Statement of Investment Principles is also reviewed at least every three years.

CLIMATE CHANGE POLICY

In March 2025, LPF adopted a Climate Change Policy (CCP) which is considered an appendix to LPF's SRIP. As a new policy, the CCP and its implementation progress is reviewed regularly. The Pensions Committee is responsible for reviewing and approving any updates annually.

Our CCP 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 strengthen the resilience of our investment strategy, as well as how we support the real-world transition to net zero.

Implementing our CCP represents a strengthening of our approach to climate change and lays the groundwork for future potential transition plan reporting requirements. Our climate change commitments and ambitions are summarised below. Our full CCP is available on our website.

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 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**
   We've introduced a presumption against continued investment in laggard oil and 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:
   - We identify climate leaders and laggards
   - 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
   - We avoid subscribing to new equity and fixed income issuance from companies whose business we assess as incompatible with the aims of the Paris Agreement

   Portfolio Alignment: We focus on efforts on engagement and advocacy to drive real word decarbonisation:
   - Our ambition is that over the next five years we'll 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:
   - 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

**Indicator for 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 Transition Pathway Initiative (TPI) Management Quality assessment at <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.*

ENGAGEMENT POLICY

EOS at Federated Hermes (EOS), our voting and engagement partner, undertakes much of LPF's engagement activity. EOS typically sets its broad, thematic Engagement Plan on a three-year cycle, but they conduct a formal review every year. LPF provide feedback to EOS as part of the annual review to develop an engagement plan that aligns our priority issues and supports the wider goal of driving higher standards of corporate behaviour. EOS's engagement plan is centred around 12 key themes, as shown in the image opposite. EOS's current engagement plan which expands on these themes with 36 related sub-themes, can be found in Principle 6 of our Activities and Outcomes Stewardship Report.

We support EOS's public policy engagement efforts as we recognise that many systemic ESG and sustainability issues require policy interventions.

Environmental

- Climate Change
- Circular Economy and Pollution
- Natural Resource Stewardship

Social

- Human Capital
- Human and Labour Rights
- Wider Societal Impacts

Governance

- Board Effectiveness
- Executive Remuneration
- Investor Protection and Rights

Strategy

- Purpose, Strategy and Policies
- Corporate Reporting
- Risk Management



VOTING POLICY

EOS also provides proxy voting recommendations to us which cover approximately 96% of our listed equities (the remainder are in a fund where our external manager undertakes 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.

EOS's Global Voting Guidelines 2025 acted as the policy to inform EOS' voting recommendations during the period that this Stewardship Report covers. 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. In certain circumstances, EOS allows clients to select which voting policy they'd like to adopt. When this occurs LPF officers (primarily those in responsible investment function and equity asset class) review and carefully consider which policy best reflects our responsible investment beliefs.

Generally, we follow EOS's voting policy and voting recommendations which are informed by their engagement with companies. We require EOS to provide our portfolio managers with notice of voting instructions and allow them to override any EOS recommendation. In practice the number of voting recommendations that we override each year is minimal. Significant consideration is given to each case, including review by our equity team and escalation to the Responsible Investment Group where necessary. More information can be found in Principle 4 of our Activities and Outcomes Stewardship Report.

TRANSPARENCY, REPORTING AND ASSURANCE

We recognise the importance of external reporting, which facilitates independent assessment of our practices. We publish our PRI transparency report, our Stewardship Report and our voting records on our website.

Internally, LPF commits senior resources to supporting the quality of external 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.

Assurance

An internal audit of LPF's Responsible Investment process was conducted by the City of Edinburgh Council in 2025/26 as part of the internal audit plan approved by the Pensions Committee in March 2025. The review was designed to help LPF assess and refine its internal control environment. It identified a sound system of governance, risk management and control, providing substantial assurance (with a green overall assessment) that internal controls are operating effectively and are being consistently applied, with only minor findings identified to enhance documentation of such controls. It noted that RI and ESG factors are fully integrated into investment decision making, ongoing monitoring and existing risk management processes.

LOTHIAN PENSION FUND

SECTION D:

MANAGING (STEWARDSHIP-RELATED) CONFLICTS OF INTEREST



MANAGING (STEWARDSHIP-RELATED) CONFLICTS OF INTEREST

Our commitment to managing

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 employees
- 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.

How we manage Conflicts of Interest

Our approach to Conflicts of Interest is published on our website. 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
- **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 and 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.

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.



MANAGING (STEWARDSHIP-RELATED) CONFLICTS OF INTEREST

LPF also has a Gifts and Entertainment policy and Personal Account Dealing policy that all employees are required to follow. These policies are maintained by our Risk and Compliance team. All employees annually attest to requirements covering Conflicts of Interest management and mitigation.

Review and Oversight

Our approach to Conflicts of Interest is reviewed regularly 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, via our Conflicts of Interest Register, with regular reporting on conflicts management provided to senior management to maintain transparency and accountability.

There were no potential investment-related conflicts of interest that couldn't be mitigated during the reporting period. Similarly, there were no actual conflicts of interest recorded in relation to stewardship activities.



POTENTIAL STEWARDSHIP-RELATED CONFLICTS

Our structure as an asset owner, with the majority of our assets managed in-house, minimises owner-agent related conflicts of interest. We control for policy divergence by actively monitoring the approach of our investment managers to ESG issues, and what portfolio activity has occurred as a result. We expect our appointed managers to demonstrate how they incorporate ESG issues into their ownership policies and practices.

'Our Statement of Responsible Investment Principles communicates our expectations, and material misalignment from our approach will lead to review.'

Diverging views between different portfolio managers within our internal investment team has been identified as a possibility. As our portfolio managers may override proxy voting recommendations for finely balanced issues, misalignment of voting could result in conflicting votes cancelling out where a stock is held in more than one portfolio. To mitigate this, we have a procedure where our portfolio managers flag if they have a differing view from the voting recommendation and, if required, LPF's Head of Responsible Investment and Chief Investment Officer are involved in forming a house view, which is logged and published in our vote reporting rationales.



Where a stock is also held in portfolios managed by LPFI on behalf of clients, any proxy voting override is communicated timeously to clients to support them in forming their own view. LPFI's clients engage their own voting and engagement provider, which minimises the potential for stewardship conflicts of interest between LPF as an asset owner and LPFI as an asset manager. Potential conflicts are managed transparently with clients to ensure decisions are consistent with fiduciary duty.

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SECTION E:

DIALOGUE WITH CLIENTS AND/OR BENEFICIARIES



DIALOGUE WITH CLIENTS AND/OR BENEFICIARIES

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.



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 insight about our stakeholders' needs with constructive two-way dialogue.

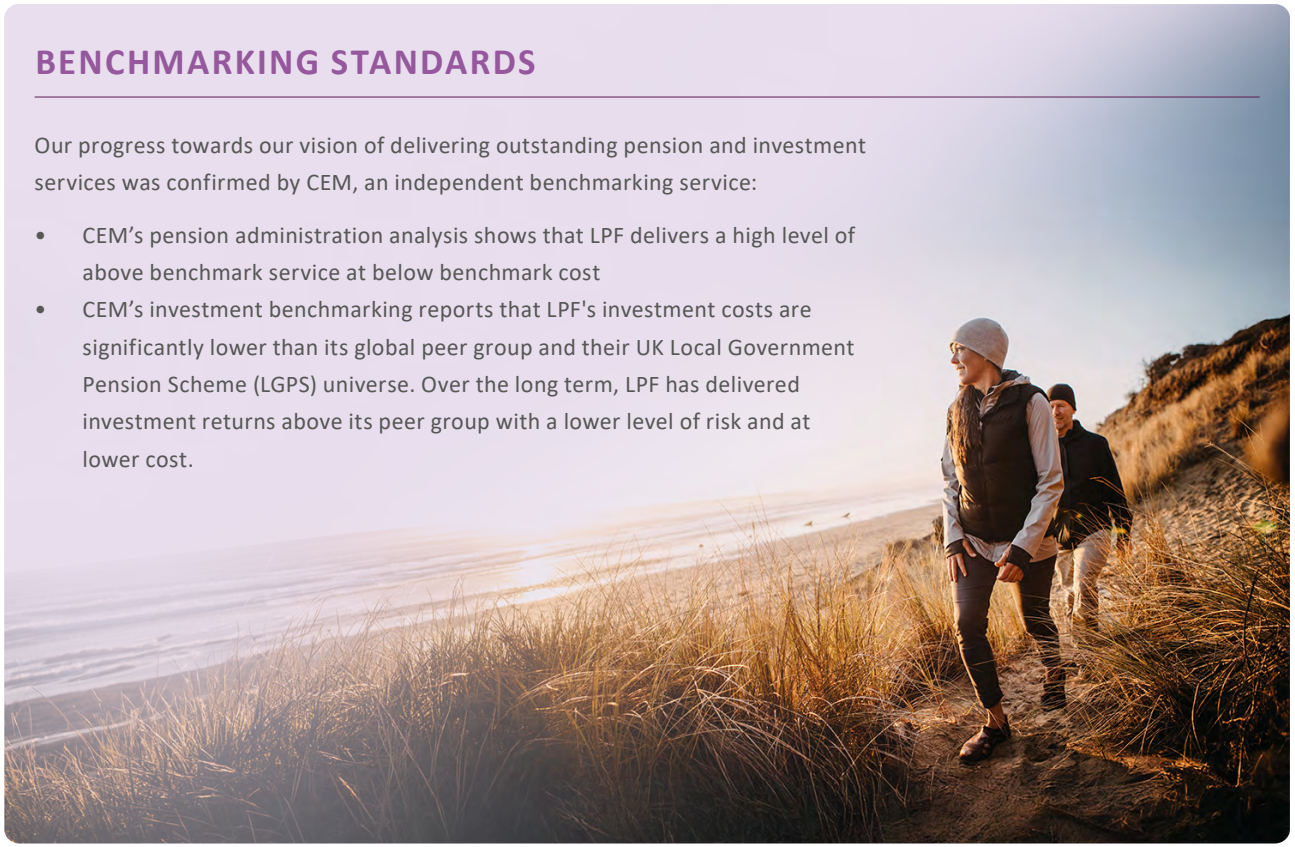
The Pension Board's role is to provide oversight of the Pensions Committee to ensure that the pension scheme is meeting its legal and administrative requirements and is being operated in the best interest of its stakeholders. Our Pension Board consists of five member representatives and five employer representatives. 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.

BENCHMARKING STANDARDS

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.



The Pensions Committee therefore acts as a conduit for stakeholder views.

We continue to recognise the view of our stakeholders by taking on board their need for additional information on specific ESG topics. During the year to 31 March 2026, our Pension Committee reviewed reports and attended training on our approach to responsible investment

STAKEHOLDER VIEWS

including implementation of our Climate Change Policy and stewardship activities undertaken by our voting and engagement service provider.

Incorporating feedback from our Pensions Committee was a key part of the process of updating our Statement of Responsible Investment Principles and in developing our Climate Change Policy, which was launched in March 2025.

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's 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're 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.

As explained in Section A, 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.

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. Proactive engagement designed to support our stakeholders includes providing clear, carefully constructed responses to frequently asked questions, demonstrating understanding of the issues, and providing insights into the work that we do and the work that's done on our behalf by third parties and collaborative partners.

Specifically on 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.

ENQUIRIES

We also undertake reactive engagement in three broad categories:

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

Direct and indirect general enquiries typically follow a similar format. They're 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, 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 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.

In 2025 LPF was named LGC Fund of the Year (Large) at the LGC Awards and LGPS Fund of the Year (Assets over £3bn) at the LAPF Investment Awards. These industry awards are more than just recognition, they're a testament to our commitment to delivering excellence for our members and employers. They reflect the hard work, professionalism, and passion that drive everything we do. We're proud to be acknowledged among the best in the industry and remain committed to delivering exceptional service and results for our stakeholders.



GLOSSARY

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
CCP	Climate Change Policy
CEC	City of Edinburgh Council – administrating authority for LPF
CIO	Chief Investment Officer
EOS	EOS at Federated Hermes – engagement and voting provider for LPF
ESG	Environmental, Social and Governance
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)
LGPS	Local Government Pension Scheme
LPF	Lothian Pension Fund
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
RI	Responsible Investment
RIG	Responsible Investment Group
SIP	Statement of Investment Principles
SLT	Senior Leadership Team
SRIP	Statement of Responsible Investment Principles

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