

WINTER 2025

ENGAGE

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LOTHIAN
PENSION FUND



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WELCOME TO ISSUE 10 OF ENGAGE

Despite global economic and geopolitical challenges, 2025 has been an award-winning year for Lothian Pension Fund (LPF). These recognitions highlight our continued commitment to delivering outstanding pension and investment services for the benefit of our members and employers – staying true to our vision even in uncertain times.

This issue provides an update on our Responsible Investment activities, including: the launch of our Climate Change Policy; examples of how we integrate environmental, social and governance issues into our investment decisions; and our support of initiatives to improve diversity in the investment industry. We're also celebrating a run of awards success, including LPF winning the LGPS Fund of the Year at the Local Authority Pension Funds (LAPF) Investment Awards in October 2025 and LGC Fund of the Year (Large) at the LGC Investment Awards in November 2025..

For more information on our Responsible Investment initiatives and commitments, you can view our [2025 Stewardship Report](#) that's now available on our website.

David Vallery
Chief Executive Officer
Lothian Pension Fund



RESPONSIBLE INVESTMENT UPDATE

At the end of March 2025, LPF updated its Statement of Responsible Investment Principles (SRIP) and adopted a new Climate Change Policy (CCP). Our CCP incorporates and updates commitments to climate monitoring and action which were previously included within the SRIP. This 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 transition plan reporting. Our full [Climate Change Policy](#) 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 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

- 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.
 - 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 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.
 - 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.
 - 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.



Implementation Progress

Since March, we've been focusing on implementing our new climate change commitments and ambitions, including developing our climate action plan. While this includes multi-year ambitions, initial reporting on progress indicators will be provided as part of the CCP's annual review.

We recognise that our ambition 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. In asset classes where we invest through external managers, we've been engaging with the industry on steps that managers could take to align their practices with our aims and objectives. This was a key consideration throughout the review and evaluation process for our appointment of a new corporate bond mandate in July.

In October we joined an investor initiative led by Local Authority Pension Fund Forum (LAPFF) and CCLA Investment Management, to urge the UK's largest listed companies to provide shareholders with a vote on their firms' climate risk and resilience strategies at least once every three years. As set out in our CCP, we expect companies to develop climate strategies to prepare for and build resilience to the impacts of climate change. We encourage the use of shareholder votes as a mechanism for companies to build trust and demonstrate accountability on climate-related risk.

Gillian de Candole,
Head of Responsible Investment

'Climate change is a systemic issue presenting financially material investment risks and is therefore a stewardship priority for us. Our new Climate Change policy sets out 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, recognising that this requires a significant change in the shape and structure of the global economy, including a shift away from fossil fuels.'

Gillian de Candole, Head of Responsible Investment





AWARD SUCCESS

2025 has been a fantastic year for us, with a great run of award wins. Our key objective at LPF is to pay pensions to our members, while working to reduce costs for employers and invest responsibly. Being recognised by peers and external experts is a great affirmation that we're on the right track, and it's something we can all be proud of.

In February, LPF once again retained our status as a signatory to the UK Stewardship Code (2020) with our latest submission (which was submitted to the Financial Reporting Council in October 2024). Signatory status imposes an additional reporting burden but provides external assurance of our delivery on our commitment to investing responsibly.

In May, we were honoured 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. Conducted in partnership with The Fletcher School at Tufts University, the RAAI Leaders List is a global ranking of 295 of the world's largest asset allocators from 66 countries, representing USD 29 trillion in assets under management. It provides an independent benchmark of peer excellence by assessing how large asset owners integrate sustainability and long-term responsibility into their investment processes.

In September, our Communications Team won the **Best Public Sector or Not for Profit Team (1–5 people)** at the Institute of Internal Communication (IoIC) Awards 2025 [pictured below right]. With nearly 300 entries across multiple categories, our award recognised the work our team did to support colleagues during LPF's office move: a campaign that balanced practical logistics with emotional care. Winning this award means a lot to us as it recognises everything we do to foster clear, honest, and positive communication.

In October, we were named winner of **LGPS Fund of the Year (Assets over £3bn)** at the LAPF Investments Awards 2025 [pictured top-right]. This award recognises best practices in pension fund operations, investment performance and thought leadership within the LGPS. It's acknowledged throughout the industry as a mark of excellence in the field of pension fund investment. The judges recognised our continuous delivery of outstanding service in pensions administration (with our retention of the Pension Association Standards Award accreditation and the Customer Service Excellence Award) alongside our productive collaboration with partner funds, sustained delivery of strong risk-adjusted returns and low costs, best practice governance and our strong commitment to investing responsibly.

We closed out the year on a high note by winning the prestigious



LGC Fund of the Year (Large) at the LGC Investment Awards in November [pictured above]. This award recognises LPF's commitment to excellence and innovation in delivering exceptional outcomes for our members and employers.



‘These awards and accreditations are a recognition of everyone at LPF. They reflect the hard work and dedication of our team in consistently delivering high-quality pension and investment services for our members and employers.’

- David Vallery, CEO

ENGAGEMENT ESCALATION AND VOTING ACTIVITY

Background

Engagement is a key part of Lothian Pension Fund's 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.

Where we assess a company's climate strategy to be insufficient to meet the goals of the Paris Agreement and no opportunity is

HIGHLIGHTED ENGAGEMENT AND VOTING ACTIVITY IN 2025

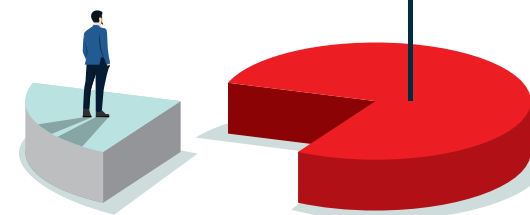


| | LPF Voting Position | Vote Result (% For) | LPF Voting Position | Vote Result (% For) | LPF Voting Position | Vote Result (% For) |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Director re-appointment | Against (Chair) | 75.7% | | | | |
| Governance/remuneration | Against | 95.5% | | | Against | 97.4% |
| Climate Transition Approach | | | Against | 95.6% | | |
| LNG Disclosure | | | | | For | 20.5% |
| Discontinue wind power business | | | Against | 0.14% | | |
| Withdraw from offshore wind projects | | | Against | 0.14% | | |
| Asking board of directors to assess if planned increase in oil & gas production is consistent with shareholder expectations | | | For | 3.6% | | |

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

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.



We vote at the Annual General Meetings (AGM) of all our holdings, and we highlight our escalation and voting activities at fossil fuel companies as we consider them a higher profile voting decision (usually involving climate related proposals) which often require additional scrutiny from our portfolio managers.

BP (17 April 2025)

- 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 capital expenditure 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 energy transition by asking for consistent climate governance and making practical suggestions for how BP can demonstrate their capital expenditure is resilient. LPF re-iterated these asks in a meeting with BP's Chief Financial Officer, 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 BP's Chair, 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 prior 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
- LPF also voted against BP's remuneration report as the updated bonus structure for 2025 removes specific metrics related to transition growth engines and we also had concern over the lack of downward adjustment due to a fatality.

**Equinor (14 May 2025)**

- LPF voted against the company's Energy Transition Plan as their climate transition ambition has been scaled back, resulting in less alignment with the goals of the Paris Agreement. Equinor's increased investment in international oil and gas projects raises concerns about its capital allocation discipline, particularly in a macroeconomic environment where cost competitiveness is increasingly challenging
- LPF voted against the following shareholder resolutions as they're overly prescriptive about the company's strategy and are potentially limiting of the company's operational scope which may not favour shareholder interests:



- o Equinor shall discontinue the wind power business and decommission all wind power plants
- o Equinor shall withdraw from all offshore wind projects and that all bonus schemes and salary increases should be omitted in 2025 for the Equinor board members and corporate executive committee
- LPF voted for the shareholder proposal asking for the board of directors of Equinor to assess if the company's planned increase in oil and gas production is consistent with the majority shareholder's expectations. We voted in favour as this would provide the company's board an opportunity to show shareholders how the updated energy transition strategy aligns with the majority shareholder's climate expectation in a realistic timeframe.



Shell (20 May 2025)

- LPF voted against the remuneration report due to concerns related to pay-for-performance outcomes
- LPF voted for the shareholder resolution requesting disclosure of decision-useful information regarding the company's assessment of the consistency of its Liquefied Natural Gas (LNG) expansion strategy with its own strategic climate targets.

Outcome and Assessment

At BP's AGM, the Chair (Helge Lund) was re-elected with support from 75.7% of shareholder votes. A vote where over 20% of shareholders vote against a resolution marks significant shareholder concern. In the UK, if 20% or more of votes are cast against a board-proposed resolution at an AGM, companies are required (by the UK Corporate Governance Code) to explain their actions and consult with shareholders to understand the reasons for the opposition.

Following the AGM, board member Amanda Blanc, who was in charge of finding Lund's successor, told shareholders before poll results were announced that it was in everyone's interest to keep the transition period as brief as possible and that the search was underway. On 21 July, BP announced that Albert

Manifold (former CRH Chief Executive Officer) had been appointed as chair, with effect from 1 October. We'll continue to engage with BP on its approach to navigating the energy transition while also supporting energy security and affordability.

Our voting activity at Equinor highlights that we review shareholder proposals in detail and each one needs to be evaluated for robustness. We saw two shareholder proposals which were anti-climate transition focused, highlighting that some fossil fuel companies are getting pressure from shareholder groups with differing perspectives relating to importance of climate transition planning. However, it was encouraging that these anti-climate transition proposals received very minimal support as only 0.14% of shareholders voted in favour.

While the shareholder proposal for LNG disclosure at Shell's AGM didn't receive shareholder approval, it's positive that a significant percentage of shareholders (20%) supported the proposal which conveys a strong message to the company.

We recognise that the climate transition is a complex, multi-decade transition, which requires a significant change in the shape and structure of the global economy.

Natalie Drysdale,
Responsible Investment Analyst



‘WE RECOGNISE THAT THE CLIMATE TRANSITION IS A COMPLEX, MULTI-DECADE TRANSITION, WHICH REQUIRES A SIGNIFICANT CHANGE IN THE SHAPE AND STRUCTURE OF THE GLOBAL ECONOMY.’

Natalie Drysdale, Responsible Investment Analyst

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's anticipated that the 1 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.



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 and approved, 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 centre’s 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 LPF’s adopted standard form of lease were made to expand the green lease clauses

where appropriate. We’ve agreed to include green lease clauses in the Heads of Terms for all new lease transactions. This ensures they’re agreed in early negotiations and built into the final lease. The aim is to strengthen alignment between LPF as landlord and our tenants, identifying areas of mutual value and supporting our sustainability goals.

Outcome

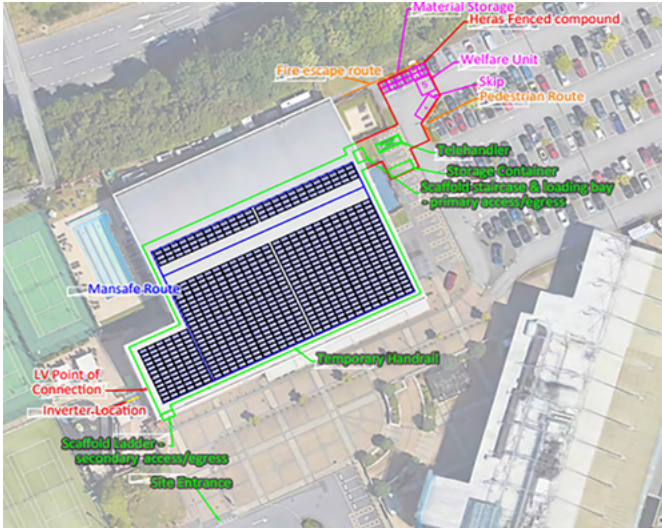
LPF was fully compliant with the MEES regulations ahead of the 1 April 2023 deadline, with the improvements made since December 2021 and more recently shown in the table below:

| | | 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

Thanks to our proactive approach, LPF met both the 2023 and 2025 standards ahead of schedule. But we’re not stopping there



– we continue to improve the EPC ratings of the assets within our direct property portfolio through targeted refurbishments and active engagement with tenants. Our goal is to enhance how efficiently buildings are used and ensure we’re ready for future regulations expected to come into force.

We’re also expanding our ESG initiatives to address social impact. Working with our dedicated property management team, we’ve reviewed building services contracts to ensure all supplier employees are paid the Real Living Wage. Following the increase on 1 April 2025, contractors were contacted to confirm implementation, and we’re pleased to report that all employees are now receiving the Real Living Wage.

Steven Muir,
Deputy Portfolio Manager



‘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.’

ESG INTEGRATION IN EQUITY INVESTMENT DECISIONS

At LPF, we're committed to acting as responsible investors by managing risks associated with environmental, social or governance (ESG) factors. We seek to engage with our investee companies and appointed managers, either directly or via collaborative partners, to encourage positive change and support enduring, long-term value creation. Where material risks remain, we retain the ability to divest.

Looking specifically at our internally managed listed equity investments, we manage portfolios in a variety of ways, recognising that investment performance is partly driven by which investment approaches are in or out of favour at various points of a market cycle. While the core of our equity exposure has a bias towards value and lower risk, we have other portfolios targeting different market anomalies. We also have a mixture of global and regional portfolios. Some of these portfolios are quantitative in nature and some are fundamental, stock-picking portfolios. Our quantitative portfolios have scheduled rebalances (on a quarterly or annual basis as specified by their mandates), where stocks are screened and ranked on targeted characteristics.



In this article, we provide a couple of brief examples of investment decision-making where we identified stock-specific ESG issues as generating material, unrewarded financial risk which fed into our decision to sell an existing holding or to avoid purchasing a stock (that otherwise met the quantitative criteria for inclusion in one of our quantitative portfolios). Aware of sensitivities, we've deliberately refrained from naming the specific companies we're referring to in the examples.

Sold

A US listed multinational integrated oil and gas company: This stock no longer met the criteria for inclusion in our US fund, which is transitioning from a value style focus to a quality style focus. Traditional energy stocks typically have lower than market-average quality characteristics as they exhibit share price volatility, due to the linkage of their earnings to the oil price. In addition, we had concerns over the long-term durability of this company's earnings in the context of the global energy transition.

Not Purchased

A UK biomass energy utility company: This stock was not purchased due to material uncertainty related to investigations into allegations of misleading biomass sourcing and non-compliance with regulatory requirements for reporting transparency.

Stewart Piotrowicz,
Portfolio Manager



DIVERSITY AND INCLUSION

At LPF, we're one team, but we represent many ideas, experiences and backgrounds. We recognise and value the many strengths and talents our diverse colleagues bring to the workplace. We believe that our people are able to produce their best work when they feel valued, included and able to be their whole self at work. We're also mindful of our responsibility to help bring about a more inclusive investment industry.

How

To make LPF as inclusive as possible for both our colleagues and members, we promote a culture of diversity, equity and inclusion among our own colleagues. This includes our goal of being fully gender balanced across the organisation by 2030. We also support a variety of external initiatives:

- 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 also a signatory to the **Asset Owner Diversity Charter**, which aims to accelerate progress toward a more inclusive culture in the investment and savings sectors across all demographics, including gender, ethnicity, sexual orientation, age and disability.
- And, we're proud to partner with both **Future Asset** and **Girls Are Investors (GAIN)**:
 - o **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. LPF colleagues volunteer their time to support and coach students in the annual Growing Future Assets Investment Competition.



- o **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. LPF partners with GAIN to provide high-quality internship experiences in investment management.



Outcome: Gender balanced

- As at 31 March 2025, women make up 50% of LPF's top three leadership layers, and 58% of our overall workforce. This reflects our ongoing commitment to diversity and inclusion across all levels of the organisation
- Our mean gender pay gap is 27.2%
- We've taken a proactive approach to gender inclusion, and our policies are externally benchmarked to ensure best practice. This helps make our recruitment, reward, and engagement processes more inclusive and accessible, supporting a workplace where everyone can thrive
- In 2024/25 we recruited 15 colleagues; 11 of these were women.

"Thank you for the time and effort you put into structuring my internship. I'm glad to have met the LPF team through GAIN. I'm grateful for the guidance and support you have provided and the opportunities you've given me to grow and develop my skills, especially on the stock pitch."

Avriel Lim



"I liked that we were put on actual projects across all the different teams in investment. I think this allowed for a strong understanding of how LPF allocates assets and the investment objectives behind each area. Everyone was friendly, and it was nice getting to work with so many different people to hear about their careers. It was also good to be in the office environment and become more comfortable joining calls and asking questions that you would not normally get the chance to do so."

Marcia Callander

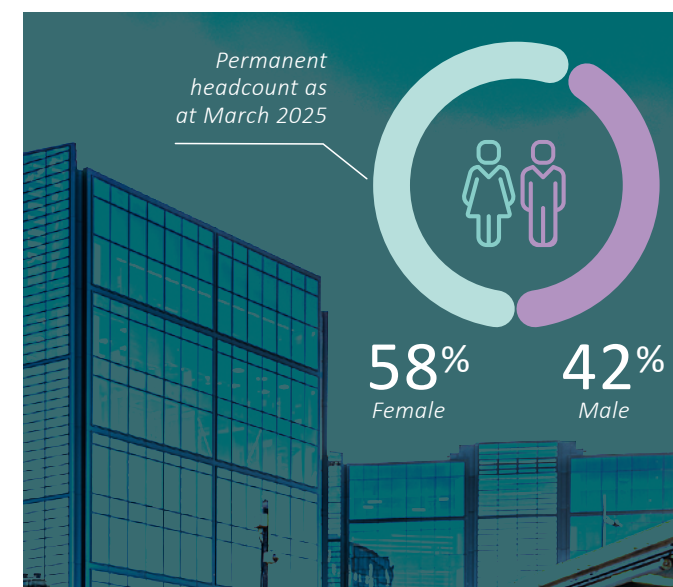
Internship success

- During the summer of 2025, LPF welcomed two undergraduate students (pictured) for a two-month investment internship. One intern joined through the GAIN Summer Internship Programme, and the other had previously taken part in the Future Asset competition. We received over 160 applications via open advertisement, but these two candidates stood out by clearly demonstrating their interest in the industry and the investment skills they'd developed through these initiatives.
- During their time with us, the interns gained hands-on experience across equities, fixed income, and real assets. They also contributed valuable insights through a range of research and analysis projects.

Assessment of effectiveness

It's important to remember that gender is only one aspect of diversity, and addressing the investment industry's gender diversity gap remains a significant challenge. While there are signs that the industry is moving towards becoming more representative of the society it serves, 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 investment professionals, there's cause for optimism that we can accelerate the process of breaking down barriers and building a more diverse workforce.

Gillian de Candole,
Head of Responsible Investment





If you'd like more information on our ESG activities, please
visit our website www.lpf.org.uk.

PO Box 24158, Edinburgh, EH3 1GY

Phone: 0333 996 1900

Email: pensions@lpf.org.uk

Web: www.lpf.org.uk