

SPRING 2026

ENGAGE

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LOTHIAN
PENSION FUND



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WELCOME TO ISSUE 11 OF ENGAGE

2025 was another busy year for the team at Lothian Pension Fund (LPF) as the world became ever more unpredictable. Stock markets were volatile due to geo-political and economic disruptions and conflict, while artificial intelligence (AI) created both opportunities and uncertainties for businesses and for jobs.

We were delighted to once again retain our accreditations including the Pension Association Standards Award (PASA), Customer Service Excellence and Cyber Essentials Plus. In addition, LPF was recognised as LGC Fund of the Year (Large) at the Local Government Chronicle Investment Awards and LGPS Fund of the Year (Assets over £3bn) at the Local Authority Pension Fund Investment Awards. 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. LPF's funding position remains strong as we move into 2026.

This issue includes insight into our long-term approach to responsible investment in an unstable world and implementation of our Climate Change Policy as well as case studies on

collaborative engagement progress and how we monitor physical risk in our real asset portfolios. We also celebrate a Green Apple Environment award for our work to improve car-park lighting efficiency at one of the retail parks we own.

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

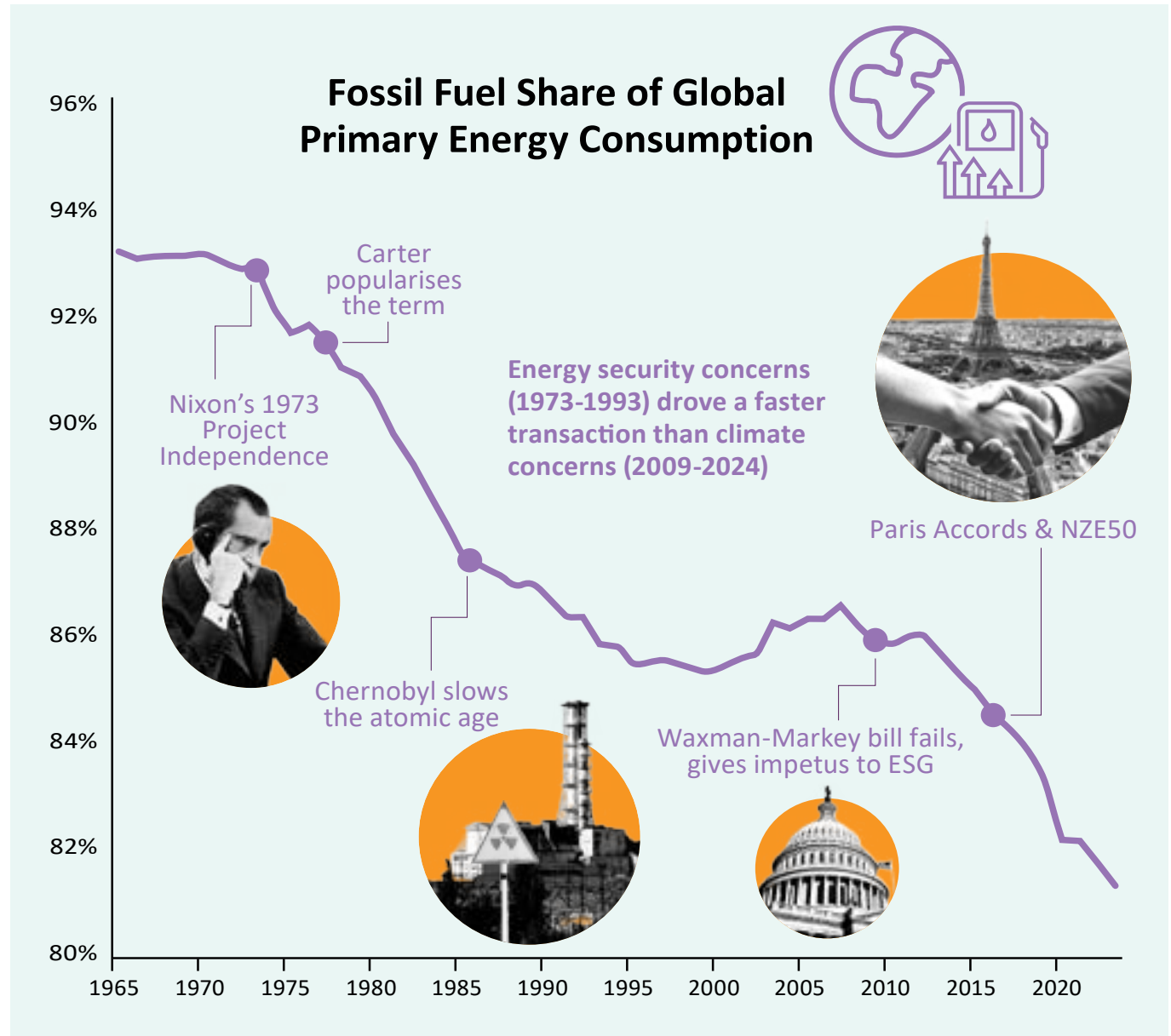
David Vallery
Chief Executive Officer
Lothian Pension Fund



RESPONSIBLE INVESTMENT IN AN UNSTABLE WORLD

Looking back on 2025 and the first few months of 2026, it's clear that we operate in unstable and challenging times. From a humanitarian perspective, we hope that all regional conflicts are resolved quickly and the ceasefire with Iran holds. From an investment perspective, LPF has no direct exposure to Iran given the existing sanctions regime and low exposure to the Middle East more generally.

However, we recognise the significance of the region as a major exporter of oil and gas as well as the key feedstock for fertilisers. We're therefore monitoring potential indirect impacts from higher energy prices, inflation, and market volatility across investment markets. LPF's long term responsible investment approach enables us to navigate this challenging environment. Through diversification and a deliberate bias to low volatility and value equities, we aim to minimise the negative impact from periods of turbulence on our long-term investment performance.



Source: Carlyle: [The New Joule Order](#)

A durable resolution of this latest Middle Eastern conflict should see a normalisation of oil supply and prices. However, the destruction of energy infrastructure and disruption to shipping routes has far-reaching implications for energy security, affordability and pathways to decarbonisation.

Looking back over the last 50 years, we observe that the push for energy independence and security driven by geopolitical conflict and the Middle Eastern oil embargo in 1973 led to a faster transition away from fossil fuels in the 1973-1977 period than the environmental movement has created since 2009 (see graph on previous page).

While the American Clean Energy and Security Act (also known as the Waxman-Markey Bill) aimed to establish mandatory greenhouse gas emission reductions targets in 2009, it was never brought into law. However, it provided a catalyst to the integration of Environmental, Social and Governance (ESG) considerations into investment processes and it was followed by the 2015 Paris Agreement, a legally binding international treaty to combat climate change by reducing emissions by transitioning away from fossil fuels.

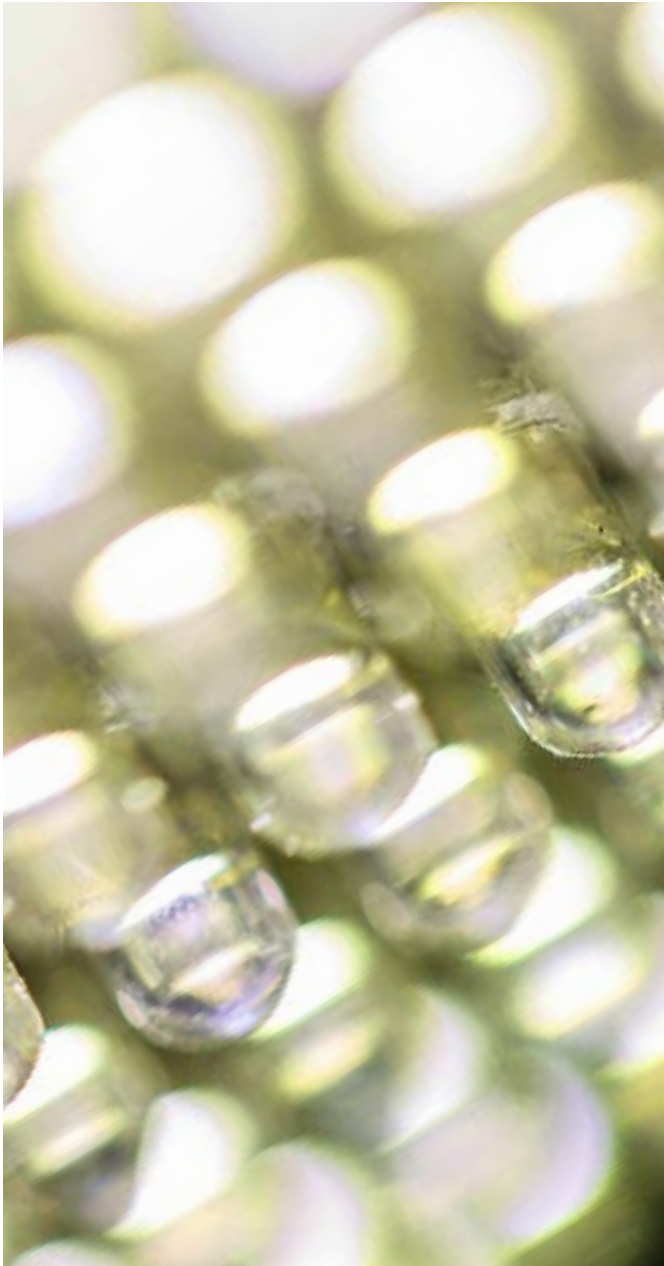
While there's uncertainty about transition timeframes and social priorities, not least with the US withdrawal from the Paris Agreement taking effect in January 2026, this latest conflict in the Middle East supports the drive to transition away from a dependency on fossil fuels to alternative sources of energy. Investment in local, renewable energy assets with storage will enable domestic, regional and global economies to be more resilient in the long run.

Gillian de Candole
Head of Responsible Investment



‘This latest conflict in the Middle East supports the drive to transition away from a dependency on fossil fuels to alternative sources of energy. Investment in local, renewable energy assets with storage will enable domestic, regional and global economies to be more resilient in the long run.’

Gillian de Candole, Head of Responsible Investment



GREEN APPLE AWARD JANUARY 2026

We were delighted to be awarded the Green Apple Award in January for the LED lighting project at Century Retail Park, Hanley, which is held in our direct property portfolio. Patrizia Venosa (who works for JLL, our contracted Facilities Manager) prepared a brilliant submission which is summarised below.

Project Aim

The aim was to substantially reduce energy consumption through the replacement of outdated car park halogen lamps with state-of-the-art Light Emitting Diode (LED) counterparts. LED lighting technology consumes significantly less energy than traditional halogen bulbs while providing superior illumination quality. This

reduced energy demand translates directly into fewer greenhouse gas emissions throughout the lighting system's operational lifecycle, helping combat climate change at the local level.

Delivery

The initiative comprised replacing 24 existing 8-meter post mounted halogen light fixtures (distributed across 10 lampposts) in the main parking area with new LED light fittings and corresponding reducers compatible with the current posts. The implementation of LED lighting has produced a quantifiable decrease in electricity usage and a reduction in the retail park's carbon footprint.



From a financial perspective, the dramatically lower operational expenses have created meaningful cost savings that are being passed directly to tenants, improving their bottom line and enhancing the property's competitive position in the retail market. Additionally, the new LED fixtures offer extended lifespans of up to 50,000 hours, significantly reducing maintenance requirements and further contributing to the project's impressive return on investment.

Outcome

BENEFITS INCLUDE

Energy Efficiency

- Uses up to 90% less energy than incandescent bulbs
- Lower electricity costs for the same light output
- Reduces overall energy consumption and demand on power grids.

Environmental Impact

- Lower carbon footprint due to reduced energy consumption
- Contains no mercury or other toxic elements
- Less waste generation due to longer lifespan.

Financial and Social Impact

- Tenants enjoy significantly reduced operating costs, creating tangible economic relief
- Both the tenant and client experience measurable decreases in service charge costs specifically related to electricity consumption
- Supports the client's Environmental, Social, and Governance (ESG) commitments through demonstrable resource conservation and improved operational efficiency.



Longer Term Benefits

- Typical lifespan of 15,000 - 50,000 hours (compared to 1,000 hours for incandescent)
- Reduced maintenance costs and replacement frequency

Lisa Pollock

Property Asset Manager



‘The LED lighting has produced a quantifiable decrease in electricity usage and a reduction in the retail park’s carbon footprint.’

MONITORING PHYSICAL CLIMATE RISK IN REAL ASSETS PORTFOLIO

Physical climate risk is defined as the potential for financial loss and damage to assets caused by more frequent and/or severe weather events such as flood, heatwaves, wildfires and hurricanes. This article describes how LPF considers and monitors physical climate risk within real assets, which include its infrastructure and direct property investments.

Approach

Our direct property portfolio is fully located in the UK, meaning that the main physical climate risk to consider and monitor is flood risk, which can be from surface water and overflow from rivers and/or the sea. Flood risk is examined as part of the investment screening and due diligence process so that properties which are deemed high risk are avoided. Last year, we assessed the physical climate risk of our existing direct property assets. As we know the



exact location of our properties, we use the Scottish Environmental Protection Agency's (SEPA) Flood Maps and the UK Government's National Risk Register for England to obtain scientific assessment of flood risk in the area of the property. However, some qualitative judgement is needed when there are differing risk levels across different categories and time horizons.

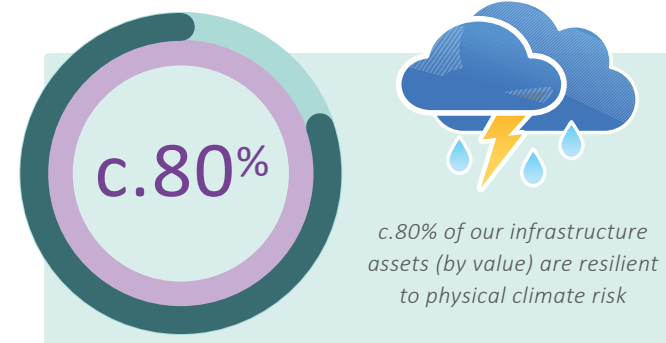
We've maintained a physical risk monitor for our infrastructure portfolio since 2022. Most of our infrastructure assets are located in the UK. Where the asset location is specific, we use the flood risk registers mentioned above, as well as comparable flood risk maps for Wales and Northern Ireland. In addition, we may consider the risk of wildfires and drought, where relevant.



For our other infrastructure assets, it's more complicated as some assets are spread across multiple areas/regions (e.g. trains running on routes stretching across hundreds of miles). Additionally, some assets are located outside the UK and for some of these, there isn't an accessible public tool to quantitatively determine risk level. In these cases, we make an educated judgement based on past severe weather events affecting relevant regions and the risk that these would recur. When assigning a level of physical climate risk, we also undertake qualitative assessment to consider the type of asset, whether the underlying assets are geographically diverse (which can mitigate the risk of isolated events), and the degree of potential impact on operations if physical infrastructure was to be damaged.

Assessment and Next Steps

The monitoring exercise confirmed that the majority of our direct property assets have a low physical climate risk rating and we have no high-risk assets. As we have control over the asset management of our direct property portfolio, we



can put mitigations in place where required, such as redesigning landscaping to direct water away from the building.

Within our infrastructure portfolio, the monitoring exercise portfolio confirmed c.80% of our assets (by value) are resilient to physical climate risk. This allows us to focus on the remaining 20% when engaging with our external managers on the mitigations in place or planned for these assets to minimise the potential impact from physical climate risks. We'll continue to maintain and update our physical climate risk monitoring spreadsheet as required.



Natalie Drysdale

Responsible Investment Analyst

‘WE SEEK TO AVOID PROVIDING NEW CAPITAL TO COMPANIES (OR PROJECTS) ASSESSED AS HAVING A BUSINESS PLAN THAT’S INCOMPATIBLE WITH THE AIMS OF THE PARIS AGREEMENT.’

Gillian de Candole, Head of Responsible Investment



IMPLEMENTATION OF OUR CLIMATE CHANGE POLICY

At the end of March 2025, LPF updated its Statement of Responsible Investment Principles (SRIP) and adopted a new Climate Change Policy (CCP). This 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.

Our full [Climate Change Policy](#) is available on our website. Here we take the opportunity to highlight two key areas of implementation over the last year.

1. PRESUMPTION AGAINST CONTINUED INVESTMENT IN 'LAGGARD OIL AND GAS COMPANIES'

Within our CCP we commit to "Promote a managed decline of the fossil fuel sector" recognising that the transition to a low carbon economy calls for a shift away from fossil fuels. Linked to this, the CCP introduced a presumption against continued investment in 'laggard oil and gas companies', defined as companies in the oil and gas sector that have been subject to years of engagement through Climate Action 100+ and have a Transition Pathway Initiative (TPI) Management Quality (MQ) assessment score of <4 (out of 5).

This applies to our internal equity portfolios, including existing holdings and purchase of new holdings, and adds to our existing

commitment to avoid providing primary capital through subscribing to new equity and fixed income issuance from companies whose business plans are assessed as incompatible with the aims of the Paris Agreement.

Implemented on a comply or explain basis, the presumption aligns with our existing investment processes: within actively managed equity portfolios, our portfolio managers must justify every holding's position in their portfolios.

Last year, one holding (which had been purchased before the CCP

was adopted) required review when it flagged as meeting our definition of 'laggard oil and gas companies':

- PTT Public (PTT) is a state-owned integrated oil and gas company headquartered in Thailand. It plays a significant role in Southeast Asia's energy security with subsidiaries involved in exploration and production, transmission, petrochemicals, refining, marketing and trading. It's been a focus list company for engagement through CA100+ since 2017 and had a TPI MQ score of 3 at its last assessment in April 2024



Thailand updated its Net Zero target to 2050, with an aim to reduce net greenhouse gas emissions by

47%

by 2035
(compared to 2019 levels)





- We noted that PTT had failed to satisfy just one TPI indicator required to be awarded a score of 4. The missed indicator required demonstrating support for mitigating climate change through membership of business associations that are supportive, and by having a clear company position on public policy and regulation
- However, we considered the company's strategy to be ambitious compared to Thailand's net zero by 2065 target. PTT targets achieving carbon neutrality by 2040 and net zero emissions by 2050 with an interim target of 15% reduction by 2030 compared to its 2020 emissions. It's also making investments in renewable energy, including a stake in Seagreen Offshore Wind Farm off the East coast of Scotland, and forging partnerships to produce electric vehicles in Thailand as well as installing charging stations nationwide
- Our review noted that PTT had both the ambition and the potential to deliver on the energy transition in Thailand and the broader region, as a significant supplier of energy across Southeast Asia
- The outcome of the review was that PTT remained a suitable holding for LPF, subject to enhanced engagement. In May 2025, LPF joined the PTT engagement group via CA100+ to encourage the company to make further progress on decarbonisation and energy sustainability.

Review under the CCP is anticipated at least annually, noting that the presumption provides additional scrutiny of our holdings in

the oil and gas sector. Investment decisions consider all available information rather than being driven by a single point-in-time factor, such as TPI MQ, which may not reflect more recent changes in an entities' strategy. Where we assess material financial risks to investment returns, we expect to divest on a case-by-case basis.

Update

- In Q4 2025, Thailand updated its Net Zero by 2065 target to Net Zero 2050, with an aim to reduce net greenhouse gas emissions by 47% by 2035 (compared to 2019 levels). This requires every sector of its economy to accelerate its transition towards a low carbon economy, with an urgent shift towards renewable energy and electric vehicles.
- PTT no longer meets our definition of 'laggard oil and gas companies'. In Dec 2025 TPI updated PTT's MQ assessment to 5, recognising that PTT has a strategic understanding of risks and opportunities related to the low-carbon transition and integrates this into its business strategy. The company is now working on using this strategic understanding to create and implement a transition plan which aligns its business practices and capital expenditure decisions with its decarbonisation goals.
- Implementation of the presumption provides additional scrutiny of our oil and gas holdings. We consider PTT well-placed to advance Thailand's transition towards a sustainable future, while also supporting energy security and affordability in this developing economy.



2. NEW CORPORATE BOND MANDATE WITH CUSTOMISED CLIMATE RULES

A key criterion for selecting and designing the mandate was alignment with our approach to managing climate change risk, which distinguishes between secondary investment (the trading of equities) and primary investment (subscribing to new bonds and equity).

We seek to avoid providing new capital (through primary investment) to companies (or projects) assessed as having a business plan that's incompatible with the aims of the Paris Agreement. This is particularly relevant for corporate bonds where new issuance is often used to finance new production capacity. As economies and industries are transitioning away from fossil fuels, we expect our investment managers to assess and take account of climate transition risks within their investment processes.

When our selection process reached the short-list stage, Royal London Asset Management (RLAM) stood out because they already had a framework in place for assessing climate risks in a way that could align with our approach.

While great progress has been made over recent years to increase the level of public disclosure by listed companies about exposure to climate risks and opportunities, similar disclosure by unlisted issuers of corporate bonds is limited. To combat this structural issue, RLAM has spent years creating an in-house emissions database. It's also developed a proprietary framework to assign climate 'alignment conviction' scores to issuers of corporate bonds, which combines third-party data (where available) with RLAM's internal transition analysis and insight gained through direct engagement with issuers.



However, there wasn't an existing product that already met all our requirements, so we worked with RLAM to develop customised rules for the mandate. We agreed a cap on exposure to issuers assessed as incompatible which ratchets over the next five years and differentiates primary investment. This aligns with our climate change policy without constraining the financial performance of the portfolio. Customised reporting also provides additional transparency and scrutiny.

Additionally, we structured the mandate so that it could work for our collaborative partners, Falkirk Council Pension Fund and Fife Pension Fund. For several years, we've operated a collaborative investment approach using LPF's in-house investment team and a Joint Investment Forum, to achieve scale efficiencies where

relevant. This is the first external asset manager mandate that all three collaborative partners have allocated to.

Conclusion

Investing in a transitioning world requires more than ambition – it also requires pragmatic implementation. We use practical insights to keep abreast of the pace of transition across different industries and geographies to build a diversified portfolio of investments across asset classes, aiming to provide resilient returns across a range of future scenarios.

Gillian de Candole

Head of Responsible Investment

CASE STUDY ON COLLABORATIVE ENGAGEMENT PROGRESS

Fortum is a Finnish electrical utility company with operations across the Nordic region and in Poland. It operates generation assets comprising hydro, wind, nuclear and combined heat and power fossil fuel plants. For several years, LPF has been participating in collaborative engagement with this company as a co-lead alongside three other members of the Institutional Investors Group on Climate Change (IIGCC). The IIGCC is one of the five founding partner organisations that coordinate Climate Action 100+ (CA100+), the world's largest investor engagement initiative on climate change.

Objective

Fortum was included on CA100+'s list of focus companies due to its ownership of German, primarily fossil-fuel based, utility Uniper. The focus of our engagement was on asking Fortum to meet the standards embedded in the CA100+ Net-Zero Company Benchmark, which include actions such as planning for net zero emissions, transparent alignment of capital expenditure plans with climate commitments, and aligning lobbying efforts with those plans and commitments where Fortum is a member of industry associations.



Outcomes

During our period of working on this engagement, three significant developments led to LPF and our co-leads asking for Fortum to be removed from the CA100+ focus List.

In 2022, amid the energy crisis created by Russia's invasion of Ukraine, Fortum sold its stake in Uniper to the German state.

This removed the main source of the company's fossil-fuel exposure and significantly mitigated transition risk for its shareholders. In 2025 Fortum introduced ambitious net-zero targets which were independently validated by the Science Based Targets Initiative.

Whilst Fortum didn't achieve full alignment with Influence Map's assessment of lobbying activity, the company made great strides in detailed disclosures of lobbying activities, and critically has made a

commitment to align these with the Paris Agreement.

This was backed up by proactive climate lobbying reviews published by Fortum, and demonstrated to the co-leads that enough progress had been made for these commitments to be credible and impactful. None of Fortum's associations are in active misalignment with the company's climate advocacy principles, with some not having an official position that would be considered in full alignment.

Following a review by IIGCC and CA100+ into the engagement, in April 2026, the decision was made to remove Fortum from the focus list, reflecting a material reduction in the climate risk of one of our holdings during the period of our collaborative engagement.

James Brooks
Portfolio Manager





If you'd like more information on our ESG activities, please
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