



# STATEMENT OF **RESPONSIBLE INVESTMENT PRINCIPLES**



## INTRODUCTION

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Lothian Pension Fund (LPF) aims to deliver appropriate risk-adjusted investment returns over the long term, as a responsible investor.

We believe that Responsible Investment (RI) supports the purpose of the Local Government Pension Scheme (LGPS) – the provision of retirement income for individuals. We believe that RI should reduce the risks associated with the invested assets that the Fund owns in order to pay pensions when they are due.

This Statement of Responsible Investment Principles (SRIP) complements LPF’s Statement of Investment Principles (SIP), which is a statutory requirement codified in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010. The SRIP explains our approach to the oversight and monitoring of the Fund’s investment activities from a Responsible Investment (RI) and Stewardship perspective.

We recognise climate change as a systemic issue which poses financially material investment risks, but also opportunities for investors. It is therefore a stewardship priority for us, and we have developed a separate climate change policy to enable a more comprehensive articulation of our approach to this critical issue.

**LPF STATEMENT OF INVESTMENT PRINCIPLES (SIP)**



**LPF STATEMENT OF RESPONSIBLE INVESTMENT PRINCIPLES (SRIP)**



**LPF CLIMATE CHANGE POLICY**

RI is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long-term returns (source: Principles for Responsible Investment (PRI)). Stewardship is the responsible allocation and management of capital across the institutional investment community to create sustainable value for beneficiaries, the economy and society (source: UK Stewardship Code).

## INTRODUCTION (CONT.)

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RI differs from Ethical Investment (EI). EI is an investment approach determined by an investor's specific views, usually based on a set of personal values. These values can take precedence over financial considerations. LPF should not be considered as either an "Ethical" or an "Unethical" investor, but as a responsible steward of capital. The incorporation of ESG factors into our investment processes involves identifying, managing and mitigating material risks, with the intention of achieving the best returns for the Fund while acting prudently, balancing risk and reward.

At LPF, we are guided by the legal principle of fiduciary duty. Guidance on our fiduciary responsibilities is provided by the Scottish Local Government Pension Scheme Advisory Board, which took legal advice on this matter (<https://lgpsab.scot/fiduciary-dutyguidance/>). It advises the Scottish Government (the Responsible Authority for the Fund) and Scottish LGPS Funds themselves on policy issues. We review this guidance on an ongoing basis to assess it against any changes to the legal or regulatory framework, and continue to consider it relevant.

Our Pensions Committee (the Committee), comprising five elected councillors and two co-opted members representing employer and beneficiary interests, is responsible for fund oversight and policy setting. In carrying out its obligations, this group of quasi-trustees should seek appropriate professional advice before exercising their investment powers.

The City of Edinburgh Council (CEC) is the administering authority for the Fund, however the Fund is neither owned nor controlled by CEC. Pension fund assets, which are earmarked for pension payments over the life of the Fund, are ringfenced from 'council money'. There are c.60 active, contributing employers and over 90,000 members, whose pension payments will be funded by these assets, as well as further employer and member contributions.

At LPF, we are committed to acting as responsible investors by managing risks associated with ESG factors. As responsible investors, we engage with our investee companies and appointed managers, either directly or via collaborative partners. Where material risks remain following engagement activity, we retain the ability to divest.



## PRINCIPLES FOR RESPONSIBLE INVESTMENT

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LPF is a signatory of the United Nations-backed PRI, an organisation which supports and enables asset owners and asset managers to work collaboratively towards RI best practice. As a signatory, LPF has committed to implementing the PRI's six principles with the aspiration of contributing to the development of a more sustainable global financial system.

### PRINCIPLE 1

**We'll incorporate ESG issues into investment analysis and decision-making processes.**



The implementation of LPF's investment strategy is delegated by the Committee to officers, who employ internal and external investment managers to invest the Fund's assets. How ESG issues are incorporated into investment analysis and decision-making processes varies by asset class and whether the mandate is internally or externally managed:

**Internal Equity investment:** our investment managers analyse ESG data as part of their stock selection process and, on an ongoing basis, monitor ESG developments at underlying investee companies. Data and rating changes from independent providers trigger reviews. We will not subscribe to new financing for companies assessed as having a business plan that is incompatible with the aims of the Paris Agreement.

**External Equity managers:** during the appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. We monitor the managers' implementation of their approach on a quarterly basis alongside all other investment matters and review the PRI transparency reports of external managers and their product-level Taskforce for Climate-related Financial Disclosures (TCFD) reports, where available. Managers are encouraged to join the PRI as signatories if they are not already members. Our ambition is to appoint managers who will not subscribe to new financing for companies assessed as having a business plan that is incompatible with the aims of the Paris Agreement.

**Internal Sovereign Bond investment:** our investment managers analyse ESG reports and respond to government and market consultations, either directly or with our collaborative partners.

**External corporate bond managers:** during the appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. We monitor the managers' implementation of the approach on a quarterly basis alongside all other investment matters and review the PRI transparency reports of external managers and their product-level TCFD reports, where available. Our ambition is to appoint managers who will not subscribe to new financing for companies or projects assessed as having a business plan that is incompatible with the aims of the Paris Agreement.

## PRINCIPLES FOR RESPONSIBLE INVESTMENT (CONT)

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**Internal property investment:** during the selection process, we assess the environmental efficiency and sustainability credentials of properties. In conjunction with the appointed property managing agent, we ensure that ESG opportunities and risks are considered at every stage of the ownership cycle. ESG performance, particularly Minimum Energy Efficiency Standards, are incorporated into portfolio strategy through asset management plans for owned assets and all new investment acquisition appraisals.

**External property managers:** ESG management is considered explicitly during the manager appointment process. Management and monitoring of ESG matters by the manager is reviewed on a quarterly basis alongside all other investment issues. Where available, PRI reports, GRESB<sup>1</sup> sustainability assessments and product level TCFD reports are reviewed and managers are encouraged to articulate their approach to ESG and sustainability. Where appropriate, we seek improvements to both the management and implementation of that approach. Managers are encouraged to join the PRI as signatories if they are not already members.

**Other real asset investments (infrastructure, timber):** during the appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. We monitor the managers' implementation of their approach on a quarterly basis alongside all other investment matters. Where available, we review PRI reports, GRESB sustainability assessments and product level TCFD reports. Managers are encouraged to join the PRI as signatories if they are not already members.



<sup>1</sup>GRESB is an independent organisation providing validated ESG performance data and peer benchmarks for real estate and infrastructure funds.

## PRINCIPLES FOR RESPONSIBLE INVESTMENT (CONT)

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### PRINCIPLE 2

**We'll be active owners and incorporate ESG issues into our ownership policies and practices.**



**Voting:** we aim to vote on all the resolutions at Annual General Meetings (AGM) and Extraordinary General Meetings (EGM) 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.

**Stock lending:** LPF participates in stock lending, which generates revenue for the Fund and contributes to making investment markets more efficient. With the ambition to vote on 100% of equity holdings at all shareholder meetings, we recall stock on a systematic basis for voting.

**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.

**Conflicts of interest:** we identify and manage conflicts of interests to put the interests of our members and employers first. It's incumbent on all our people to be alert to potential conflicts of interest and act accordingly.

## PRINCIPLES FOR RESPONSIBLE INVESTMENT (CONT)

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### PRINCIPLE 3



**We'll seek appropriate disclosure on ESG issues by the entities in which we invest.**

**Investee companies:** we encourage investee companies to report on relevant ESG metrics, including disclosure of greenhouse gas emissions. We expect listed companies to produce reporting aligned with the recommendations of TCFD and to incorporate voluntary implementation of the International Financial Reporting Standards Sustainability Disclosure Standards as a next step.

**Investment managers:** we encourage the Fund's investment managers to provide transparency by reporting relevant and accessible ESG-related information. This includes their commitments to and alignment with the UK Stewardship Code 2020, TCFD, the Financial Conduct Authority's Sustainability Disclosure Requirements (SDR), the PRI and GRESB, where appropriate.

### PRINCIPLE 4



**We'll promote acceptance and implementation of the Principles within the investment industry.**

**Commitment to PRI:** we are transparent about being a signatory to the PRI and about how we implement the Principles. Our PRI transparency report is published on the Fund's website to demonstrate our implementation of the Principles. Further details are provided annually in our Stewardship Report, which is approved by the Committee, submitted to the Financial Reporting Council and published on our website.

**Investment managers:** we endorse the Principles to our managers and encourage them to become full signatories to the PRI. Where this is not possible, we encourage our managers to use the Principles to guide their RI approach.

**Partnership with the PRI:** we partner with the PRI to promote the universal use of the Principles, and work with the PRI during any consultations to improve the effectiveness of the Principles and further improve RI adherence across the industry.

## PRINCIPLES FOR RESPONSIBLE INVESTMENT (CONT)

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### PRINCIPLE 5

**We'll work together to enhance our effectiveness in implementing the Principles.**

**Collective Approach:** we are committed to working collaboratively to increase the reach, efficiency and effectiveness of RI. We work with a host of like-minded partner funds, service providers and related organisations striving to attain best practice in the industry and improve industry standards. A list of our collaborative partners and their roles are available within our Stewardship Report on our website ([www.lpf.org.uk](http://www.lpf.org.uk)).



### PRINCIPLE 6

**We'll report on our activities and progress towards implementing the Principles.**

**Voting records:** we publish our equity voting records quarterly on our website. We also provide quarterly updates on engagement activity on our website.

**PRI reports:** we publish our PRI transparency report annually on our website.

**TCFD:** we're committed to reporting annually in accordance with TCFD recommendations.

**UK Stewardship Code:** we report annually in accordance with the UK Stewardship Code requirements, and we are committed to adhering to the requirements of the UK Stewardship Code 2020.



## IN CONCLUSION

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At LPF, our mission is to deliver a valued and sustainable retirement savings product for our existing and future members. We believe that as a provider of responsible capital, the Fund should be an agent for positive change, engaging with companies to help them maintain or adopt best business practices and sustainable business models. If you'd like more information on our ESG activities, please read ENGAGE, our ESG newsletter or visit our website [www.lpf.org.uk](http://www.lpf.org.uk).





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