

Activities and Outcomes

THE STEWARDSHIP REPORT

Covering the period 1 April 2025 to 31 March 2026

LOTHIAN
PENSION FUND

LOTHIAN PENSION FUND

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INTRODUCTORY STATEMENT

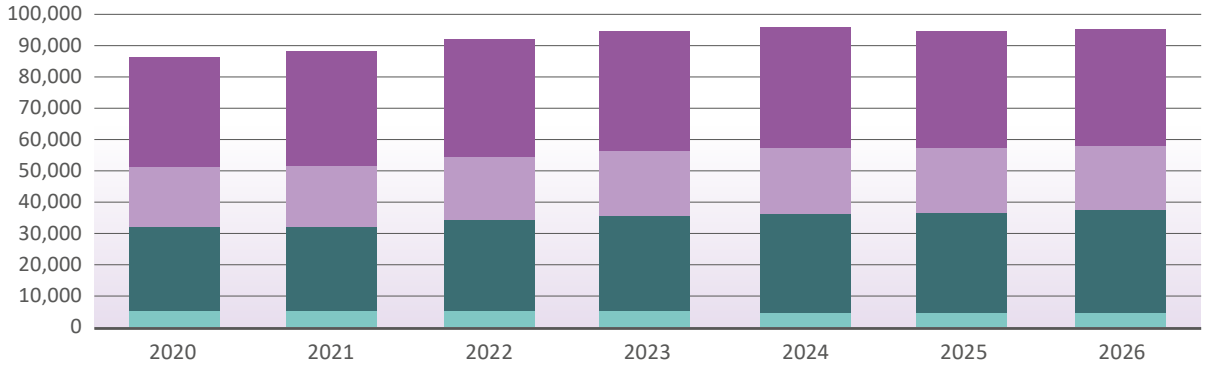
About us

Lothian Pension Fund (LPF) has existed in its current form since 1975, supporting more than 75,000 local government employees 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 were 157% funded at our last valuation in 2023. As of 2026, we're proud to serve over 90,000 members and 53 contributing employers.

The table and bar chart below shows a breakdown of the membership of our defined benefit scheme. As at 31 March 2026, the number of members in the scheme was 96,219. As at 31 March 2026, the average age of our members is 56 years old.

LOTHIAN PENSION FUND MEMBERSHIP DATA



	2020	2021	2022	2023	2024	2025	2026
Active	35,874	36,149	37,207	37,614	37,590	37,645	37,760
Deferred	19,098	19,049	19,832	20,427	20,721	21,004	20,511
Pensioner	27,091	27,843	28,870	29,800	31,112	32,524	33,625
Dependant	4,229	4,173	4,161	4,155	4,189	4,257	4,323
Total	86,292	87,214	90,070	91,996	93,612	95,430	96,219

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 partners.

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

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 members.

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.

INTRODUCTORY STATEMENT

Breakdown of Assets Under Management

We manage the vast majority of the fund's assets in-house. 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. Around 20% of our assets are allocated to real assets, where we often invest as a limited partner in vehicles managed by an external manager (also known as a general partner).

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.

The pie charts on the right show our actual asset allocation and geographical exposure as of 31 March 2026.

A MESSAGE FROM OUR CEO

In the context of a complex and unpredictable world, we think hard about our approach to stewardship and regularly reassess how we should exert our influence as assets owners in an appropriate and consistent manner. First and foremost, we own assets to fund our members' income in retirement, an important social responsibility in its own right. With ownership comes the opportunity to encourage positive corporate behaviour for the benefit of society. We see this as an additional responsibility, which we address through our voting and engagement activities. We aim to amplify our influence as an £11bn pension fund, by working with other asset owners to drive the long-term value of our investment portfolio and contribute to the long-term health of the financial system.

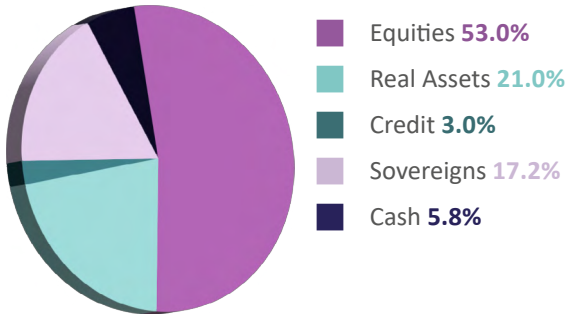
As a responsible investor, Lothian Pension Fund (LPF) has a long-established commitment to stewardship. This report confirms our adherence to the standards of the UK Stewardship Code and demonstrates the nature of our commitment to stewardship, for the benefit of our stakeholders.

David Vallery
Chief Executive Officer, Lothian Pension Fund



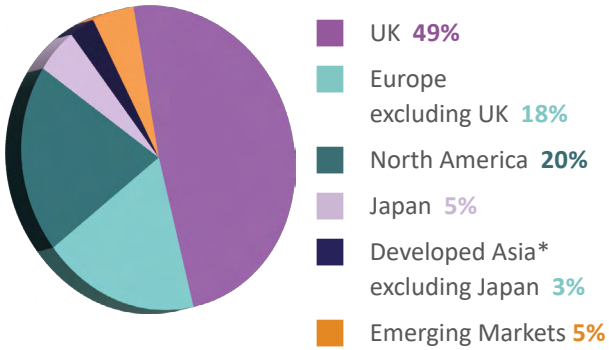
TOTAL FUND ACTUAL ASSET ALLOCATION

31 March 2026



LPF GEOGRAPHICAL EXPOSURE

31 March 2026



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

A MESSAGE FROM OUR PENSIONS COMMITTEE



The role of the Pensions Committee is to ensure that the pension fund is run in a sound and sustainable manner that guarantees we deliver on our pensions promise to our beneficiaries. We do this by investing prudently and carefully. We also do this by striving to ensure that the companies and assets we invest in are well governed and well managed, that they minimise their negative impacts on society and the environment, and that they make a positive contribution to our societies and our communities.

We use our rights as an investor to challenge companies when they fall short of the standards that we expect, and we stand with them and support them when they're developing and implementing strategies that enhance their long- term sustainability and resilience.

Our work to support good governance and engagement is underpinned by our belief in the power of our voice, often alongside others, to lead to positive change that sustains and drives value for our stakeholders today and in the future.

The Pensions Committee has a critical role to play. We want LPF to take meaningful action on a range of issues, notably corporate governance and climate change.

We've encouraged the fund to continue to develop its approach to climate change, incorporating climate scenario analysis to stress test the results of our triennial valuations, and adopting a Climate Change Policy with a presumption against continued investment in laggard oil and gas companies while continuing to focus engagement on real-world decarbonisation policies to limit global warming.

The Pensions Committee welcome this report as a record of LPF's stewardship activities and outcomes, which complement our Policy and Context disclosures. We continue to encourage, support and commend LPF's work in this critically important area for our members and employers, for a resilient financial system, and for a better world.

LOTHIAN PENSION FUND

PRINCIPLE 1:

SIGNATORIES INTEGRATE STEWARDSHIP AND INVESTMENT TO DELIVER LONG-TERM SUSTAINABLE VALUE FOR THEIR CLIENTS AND BENEFICIARIES



ESG AND STEWARDSHIP INTEGRATION

Our primarily purpose is to pay pensions to members as they fall due over a multi-decade timeframe. As an early signatory to the PRI, we've incorporated environmental, social and governance (ESG) issues into our investment decision-making since 2008. We see stewardship as an essential and integral part of our investment process.

- Our stewardship activities inform us about how companies are performing on specific ESG issues, about how proactively these issues are being managed, and about companies' wider approach to strategy and risk management
- Our stewardship activities often encourage better disclosures to support our investment research and decision-making on ESG issues
- Our investment process identifies risks and opportunities both at a stock and sector level, providing us with a prioritised list of issues to focus on in our engagement
- Our dialogue with companies often generates wider insights about trends, drivers, best practices, and relative company performance, informing ESG analysis.

Our stewardship efforts are purposely managed within our investment team, so that they're embedded in the investment process systematically. We don't treat this as a separate activity. We encourage company management teams to improve their practices and give them time to do so. This support is not open-ended or unquestioning; if we feel progress is too slow, and the prospect of financial risk to us is increasing, we'll withdraw our support and reduce or exit an investment. We integrate stewardship and ESG issues into our investment analysis and decision-making process.

Implementation of our investment strategy is achieved using both internal and external managers. We assess all our investments with a view to meeting a required level of financial return in the context of achieving an appropriate level of risk diversification. ESG issues are an integral part of that assessment. How ESG issues are incorporated into investment analysis and decision-making processes varies according to the asset type and whether the mandate is internally or externally managed. Further details are provided in our Statement of Responsible Investment Principles and our Climate Change Policy.

Our internal managers invest directly in listed markets and private market funds, and they monitor public and private markets with the benefit of having integrated ESG analysis into investment decision-making for many years. Our internal managers are ideally looking for investments where ESG-related improvements are in evidence with long term benefits likely to accrue to shareholders.

Through our engagement activity, we encourage positive outcomes for asset owners through good capital allocation decisions. 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. More details on how we monitor our managers and service providers are given in Principle 5 and 6 respectively.



ESG AND STEWARDSHIP INTEGRATION

The following table explains our approach:

Internal Equity Investment	Our portfolio managers analyse ESG data as part of the stock selection process and, on an ongoing basis, monitor ESG developments at underlying investee companies. Data and rating changes from independent providers trigger stock reviews. We use indicators of climate risk management to identify asset specific climate-related risks (and opportunities), to assess the net zero alignment of the companies we invest in, and to identify climate leaders and laggards. We engage with existing portfolio companies to ensure ESG risks (including climate risk) are accounted for and to encourage the development of realistic transition plans. We aim to avoid subscribing to new financing for companies assessed as having a business plan that is incompatible with the aims of the Paris Agreement because of the investment risks we believe it presents. In March 2025, our Climate Change Policy introduced a presumption against continued investment in laggard oil and gas companies.
Internal Sovereign Bond Investment	Our portfolio managers analyse ESG reports and respond to government and market consultations, either directly or with our collaborative partners.
External Equity Managers and External Corporate Bond Managers	During the appointment process, we assess the managers' approaches to integration of 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. We engage regularly and review their PRI transparency reports and product-level Taskforce for Climate-related Financial Disclosures (TCFD) reports, where available. Managers are encouraged to join PRI as signatories where they're not already members and also to be signatories to the UK Stewardship Code, where appropriate. Our ambition is to appoint managers who will not subscribe to new financing for companies or projects assessed as having a business plan that's incompatible with the aims of the Paris Agreement.



ESG AND STEWARDSHIP INTEGRATION

Internal Direct Property Investment	During the selection and monitoring process, we assess the environmental efficiency and sustainability credentials of properties, including physical climate risks and transition risks (investment needed to meet tightening energy performance standards). In conjunction with an appointed property manager, we ensure that ESG initiatives to mitigate risk and maximise opportunities are implemented at every stage of the ownership cycle. ESG improvement targets and performance will be incorporated into strategy through asset management plans for owned assets and all new investment acquisition appraisals. As part of our monitoring and review of direct property assets, we engage directly with tenants and build long-term relationships with them.
Real Asset (Infrastructure, Indirect Property and Timber) Investment	During the appointment process, we assess the manager's approach 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 PRI transparency and GRESB reports of external managers, where available. Where appropriate, we seek improvement to both the management and implementation of that approach. Managers are encouraged to join PRI as signatories where they're not already members.



LOTHIAN PENSION FUND

CASE STUDY ESG INTEGRATION IN EQUITY INVESTMENT DECISIONS

Context: Investment Approach

We manage a range of listed equity portfolios internally, 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, and then stock-specific environmental, social and governance (ESG) factors are assessed. Primarily, we seek to engage with our investee companies, either directly or via our external engagement providers and collaborative initiatives, to encourage positive change and support enduring, long-term value creation. Where material risks remain, we can divest or exclude stocks as part of our portfolio construction process.

Decisions Made

Where we identified stock-specific ESG issues that we believed created material, unrewarded financial risk, this fed into our decision either 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 wasn't purchased for our UK mid-cap portfolio due to material uncertainty related to investigations into allegations of misleading biomass sourcing and non-compliance with regulatory requirements for reporting transparency.

Reflection

These examples demonstrate how stewardship informed investment decision-making during the reporting period across our internally managed listed equities, which in aggregate account for c.50% of our assets.



LOTHIAN PENSION FUND

CASE STUDY ESG INTEGRATION IN DIRECT PROPERTY

Context

LPF has a direct property portfolio of around £400m, which we manage actively. We view environmental initiatives as an important element of preparing the portfolio for compliance with increasingly demanding regulations and occupiers' expectations. This means we continually consider where sustainability improvements can be implemented across our portfolio and we work closely with our consultants, facilities managers and tenants.

Energy Efficiency Initiative at Century Retail Park, Hanley

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.

Our 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. We also supported biodiversity at the site through wildflower planting and the installation of bird boxes.

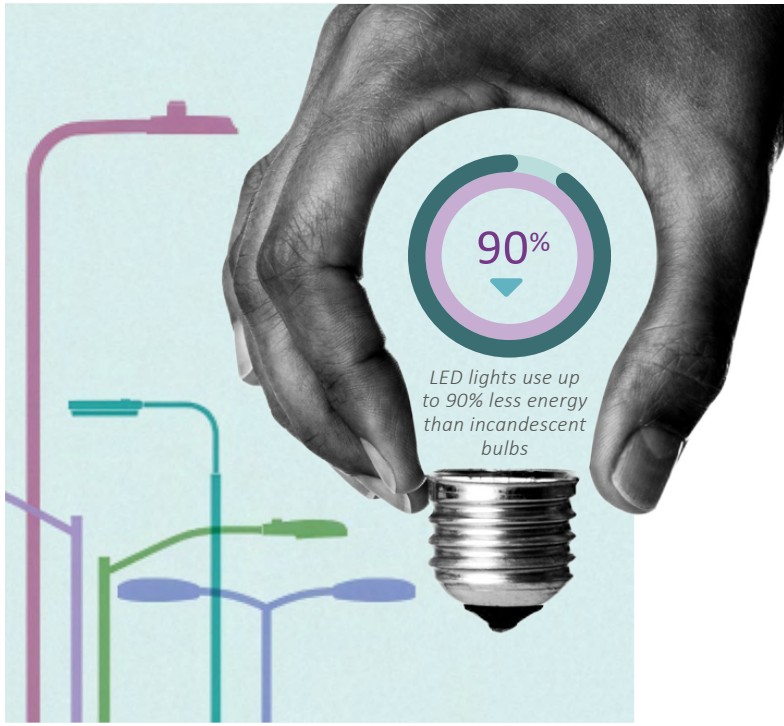
Outcomes

The implementation of LED lighting 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 return on investment.

We were delighted to be awarded a Green Apple Silver Award by The Green Organisation in January 2026 for this project. The Green Organisation is an independent, non-profit environment group dedicated to recognising, rewarding and promoting environmental best practice around the world.

Reflection

While the above is an example of an asset-level energy efficiency enhancement, this retail park represents only a small part of our direct property portfolio. We track the accumulated impact of our asset-level enhancements through the improvement in our portfolio's Energy Performance Certificate (EPCs) over time. We took a proactive approach to ensure that all our direct property assets were fully compliant with the

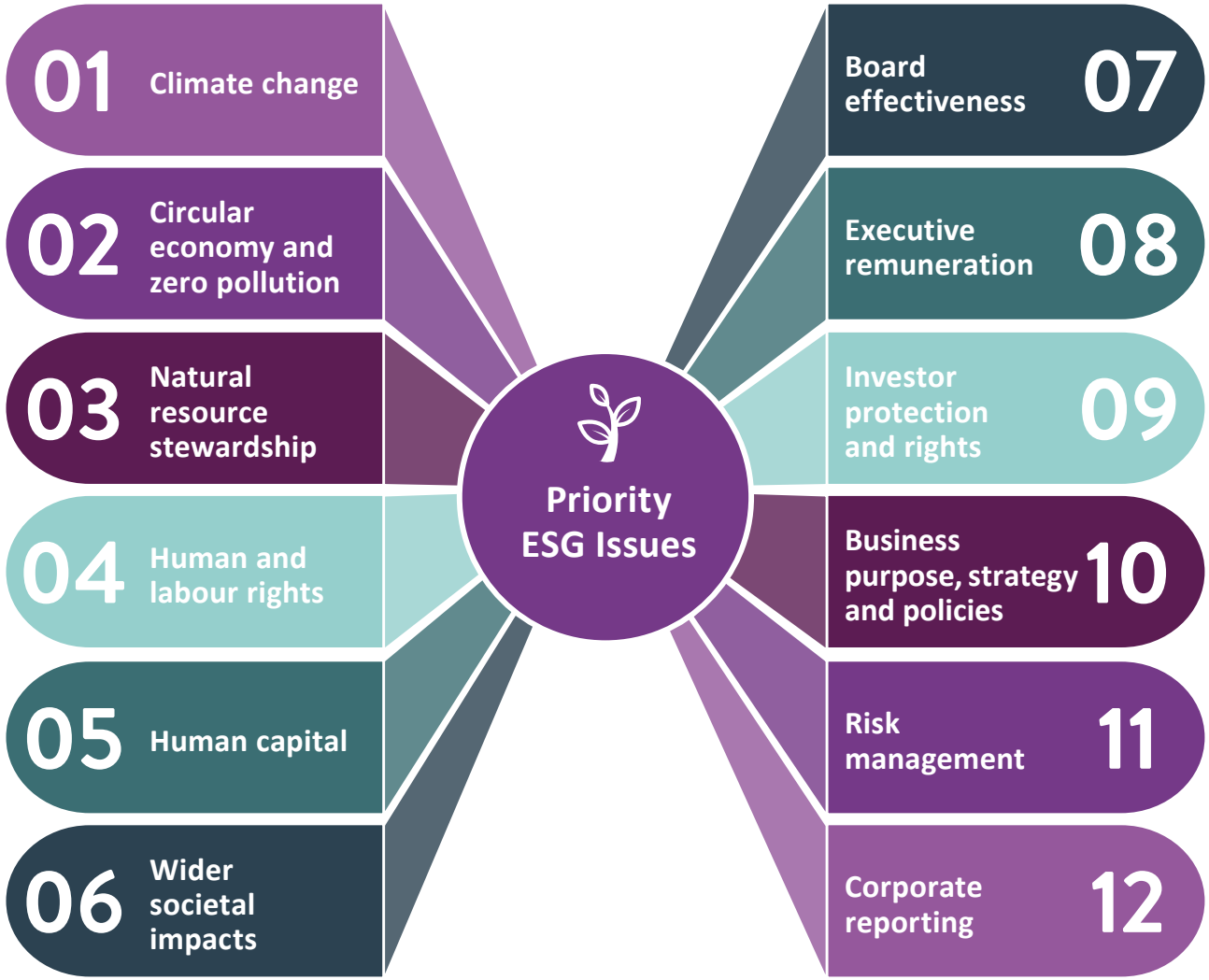


2023 Minimum Energy Efficiency Standards (MEES) Regulations ahead of schedule. Improvements continue to be made through refurbishments and direct liaison with our tenants, for example upgrades to new LED lighting and energy efficient electric heating/cooling. We are on track to meet the new MEES regulations for England and Wales, requiring A or B EPC ratings for assets over 1,000 sqm by 2031. At present around 50% of all our assets in England and Wales are rated A or B.

PRIORITY ESG ISSUES

We've identified 12 financially material ESG issues or themes that represent our engagement priorities for 2024-26. These guide our voting and engagement activity both internally and through our external engagement provider, EOS at Federated Hermes (EOS). For more information, see Principle 6.

We believe they're important issues that will impact shareholder value and so deserve focus in any investment analysis. Within this, we prioritise what we assess to be the most material drivers of long-term value: climate change, human and labour rights, human capital, and board effectiveness. We also identify increasing materiality to issues related to biodiversity (within natural resource stewardship), digital rights (within human and labour rights), and responsible tax practices (within wider societal impacts).





OUR TOP PRIORITY: CLIMATE CHANGE

Complex, global systemic risk

We identify climate change as our top priority for integration within our stewardship and investment processes, as this is a key systemic risk with potentially far-reaching consequences across all sectors and regions. The need for an energy transition is creating change that represents both risks to, and opportunities for, LPF. We aim to address climate change risks in two ways:

Through our investment decision making processes:

- We use indicators of climate risk management and net zero alignment (from a variety of data sources) to identify asset specific climate-related risks (and opportunities) and to assess the net zero alignment of the companies we invest in, to identify climate leaders and laggards
- We avoid subscribing to new equity and fixed income issuance from companies whose business plans are assessed as incompatible with the aims of the Paris Agreement, because we recognise that primary market issuances are more associated with new production capacity assess.

Through our engagement and voting activities:

- In our meetings with company management, we routinely discuss how they'll align their business with the aims of the Paris Agreement. We encourage our external managers to do likewise and to report on their engagement activity
- Our ambition is that we'll increase the alignment of our investee companies to a future low carbon world (over a five year period ending in 2029), primarily through engagement and advocacy
- We engage with climate laggards with a presumption against continued investment in laggard oil and gas companies, given our recognition of the need for the world to phase out the vast majority of fossil fuel use by 2050
- We escalate engagement with climate laggards through our voting.

PRIORITY ESG ISSUES

Measuring Climate Risk in Our Portfolios

We believe that accurate measurement of emissions is an important element in assessing the climate risk of an investment portfolio. Supported by a research budget specifically allocated to data services targeting ESG and climate-related risks and opportunities, we published our first annual carbon footprint (weighted average carbon intensity – WACI) for listed equities in 2018 and expanded the scope to include our corporate bond investments in 2020/21 and sovereign bonds in 2022/2023. Our most recent carbon footprint covered 69.4% of our total fund (vs 72.2% in the prior year).

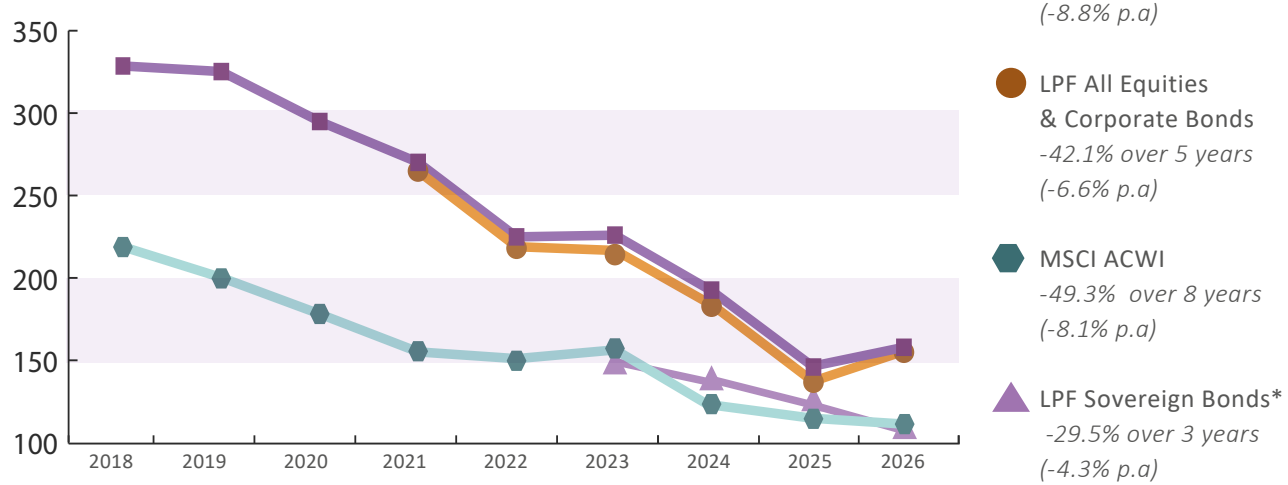
Carbon intensity metrics are an output of our investment process rather than a targeted input. This reflects the continuing variability in data quality, the backward-looking nature of these measures, and their susceptibility to manipulation.

For investors, reported portfolio carbon intensity metrics could easily be lowered simply by selling the most carbon intensive stocks and replacing those investments with lower emission stocks. This may be optically attractive but contributes nothing to real-world decarbonisation as these companies will continue to emit carbon.

There are still challenges with the cost and availability of emissions data, particularly for non-listed assets, where we're often dependent on the level of information provided by external managers. We therefore support industry-wide efforts to improve the provision and quality of data. We need good data to build a clear roadmap of risks, opportunities and implications of climate change, so we can make informed decisions in the long-term interests of our stakeholders. Strengthening corporate reporting on climate change has been a key focus of our engagement efforts. We support Climate Action 100+ and the Transition Pathway Initiative (TPI) to encourage better, more meaningful reporting on carbon emissions and climate transition plans from companies.

We've reported annually in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) for several years. We note that TCFD disclosures are being incorporated into new sustainability reporting standards, and we expect to adopt these in the future in alignment with relevant regulatory frameworks.

WACI IN TONS CO2E/$M *Source: MSCI*



**Sovereign bond WACI is Tons CO2e/$m GDP*

PRIORITY ESG ISSUES

Using our voting rights to support and encourage credible transition planning

Through EOS we've had a formal climate change voting policy in place since 2019 targeting climate laggards. This policy was strengthened in 2021 with the emergence of formal shareholder votes on companies' responses to the climate crisis. We support proposals that demonstrate robust target-setting and are aligned with external frameworks and accreditations such as the Science-Based Targets initiative. We also want to see a credible strategy in place to achieve the stated targets.

In 2022 and 2023, further specificity was introduced as to how TPI assessments are used to identify climate laggards in key sectors such as Oil and Gas, Electricity Utilities, Oil and Gas Distribution and Autos, and we consider voting against the reappointment of relevant directors if a company doesn't adequately consider material climate risks (see case study in Principle 4 for examples).

Our integration approach differs by asset class

While we assess and manage climate-related risks and opportunities for all our assets, our approach differs by asset class. Above, we highlight how we use available data and tools to assess climate change risks and engage, often in collaboration with like-minded investors, to address this systemic risk. We provide case studies on how we integrate ESG considerations, including climate risk, in our Direct Property portfolio (page 11) and our Infrastructure portfolio (page 19), while the case study on page 17 details the implementation of our climate change policy within our Equities portfolio and this topic is addressed in Principle 5 for corporate bonds.

Within our equity and corporate bond portfolios we differentiate between:

- Secondary investment activity (the trading of shares) – this rarely affects the capital position of a company
- Primary investment activity (subscribing to new bonds or new equity issuance) – this provides companies with funding



"We recognise the contribution that some specific sectors and industrial activities make to climate change. While there's a tendency to label companies in carbon-intensive industries as 'bad' and those in low-carbon and alternative energy businesses as 'good', investment is more nuanced than this. We summarise our approach as deny debt, engage equity"

Gillian de Candole
Head of Responsible Investment, Lothian Pension Fund

PRIORITY ESG ISSUES

Climate Solutions

We also invest in climate solutions, mainly through our infrastructure portfolio, which can be a more efficient route to access renewables exposure than through listed equities. Our ambition is to position the Fund to benefit from the global energy transition by having greater exposure to climate solutions than to companies whose primary business involves fossil fuels. As at 31 March 2026, our exposure to climate solutions was approximately 2.1 times greater than our exposure to fossil fuel holdings. We conservatively only consider the renewables and environmental services investments in our infrastructure portfolio in this comparison. More details on our infrastructure portfolio are provided on page 19.

We expect the transition of our portfolio away from fossil fuels to continue over the coming decades as the real-world energy transition progresses. Additionally, we recognise that opportunities for investment returns exist across all market segments and that the Just Transition requires encouraging companies across all sectors and regions to transition their business models. This is why we also engage with governments and policymakers to support systemic change (see Principle 2).

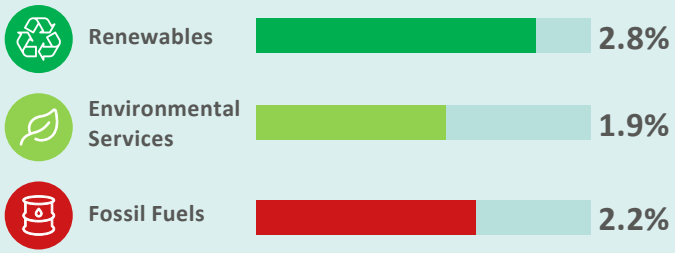


CLIMATE SOLUTIONS EXPOSURE

2.1x

GREATER THAN OUR EXPOSURE TO FOSSIL FUEL HOLDINGS

Share of total fund portfolio



LOTHIAN PENSION FUND

CASE STUDY IMPLEMENTATION OF OUR CLIMATE CHANGE POLICY IN EQUITIES

Background

At the end of March 2025, LPF adopted a new Climate Change Policy (CCP). The CCP articulates LPF's approach to the critical issue of climate change including our commitments to climate monitoring. 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. Our CCP is available on our website.



LPF's Commitment

One of the new commitments within our CCP is 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. We apply additional scrutiny to fossil holdings as the transition to a low carbon economy requires a shift away from fossil fuels (phasing out of all unabated coal and power plants) to achieve a Net-Zero carbon economy by 2050. Additionally, fossil fuels is an area of particular interest to some of our stakeholders.

Linked to this commitment, 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+ (CA100+) 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 the purchase of new holdings. 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.

Implementation

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
- 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 a 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.

LOTHIAN PENSION FUND

CASE STUDY IMPLEMENTATION OF OUR CLIMATE CHANGE POLICY IN EQUITIES

Update

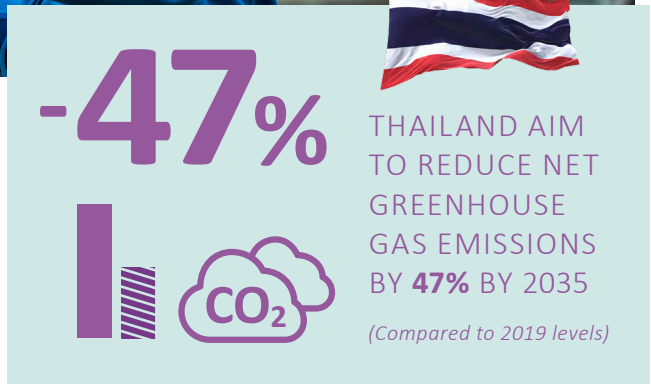
- In Q4 2025, Thailand updated its Net Zero by 2065 target to Net Zero 2050, with an aim to reduce net greenhouse gas emissions by 47% by 2035 (compared to 2019 levels). This requires every sector of its economy to accelerate its transition towards a low carbon economy, with an urgent shift towards renewable energy and electric vehicles
- 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. Therefore, PTT no longer meets our definition of 'laggard oil and gas companies'.

Reflection

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 entity's strategy. Where we assess material financial risks to investment returns, we expect to divest on a case-by-case basis.

The example illustrates the benefit of our comply or explain approach, as the review highlighted that PTT is well placed to advance Thailand's transition towards a sustainable future, while also supporting energy security and affordability in this developing economy.





LOTHIAN PENSION FUND

CASE STUDY RESPONSIBLE INVESTMENT IN INFRASTRUCTURE

Context

Infrastructure investments represented 15% of the value of Lothian Pension Fund assets at 31 March 2026, comprising one of the largest and most diversified allocations among UK LGPS funds.

Of the total infrastructure investment of £1.7bn (31 Mar 2025 £1.6bn), the majority is invested in the UK of which 12% in Scotland. Infrastructure investments can offer attractive risk-adjusted returns and generate cash flows that are often linked to inflation. Our UK bias reflects the importance of exposure to UK inflation for us as a pension fund paying inflation-linked pensions to its members

Asset allocation

Although the portfolio is diversified, it includes targeted investments in renewable energy (such as wind, solar and hydro) and energy transition assets, such as electricity transmission infrastructure (within the utility sector), electric trains (transport sector), and energy-from-waste facilities (environmental services). We conservatively only consider our renewable energy and environmental services investments as climate solutions, but these already account for over one quarter of our infrastructure portfolio.

We also consider social factors. We recognise the role of infrastructure investment in providing facilities for a range of civic purposes as well as to address environmental challenges related to climate change. Approximately 22% of the infrastructure portfolio is invested in social assets, such as hospitals and schools.

Furthermore, as of 31 March 2026, LPF held over £90 million in forestry investments. While these holdings are primarily in commercial forestry, all are certified as sustainable under recognised forestry standards.

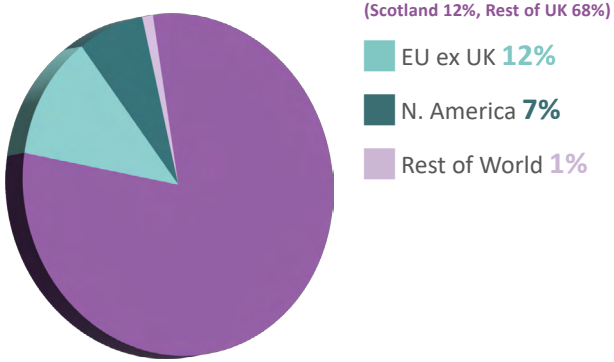
Monitoring ESG factors in infrastructure investment

In addition to being a PRI signatory, we also subscribe to GRESB (an investor-led, sustainability benchmarking provider for real assets, covering real estate and infrastructure assets) to further enhance our analysis of ESG issues. We use the PRI and GRESB annual surveys of managers' ESG policies and activities to support our engagement with our managers, which drives improvements and implementation of best practice.

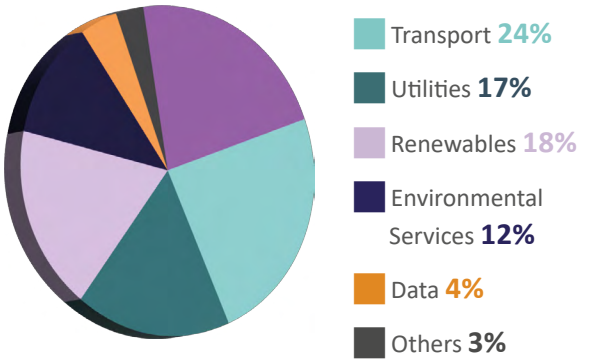
At 31 March 2026, 88% of the infrastructure portfolio value was invested in assets/funds which were also signatories of the PRI. A small percentage of our funds participated in the 2024 GRESB Infrastructure Assessment, but most of our infrastructure funds publish an internal ESG policy, outlining the consideration given to ESG issues within the decision

LPF INFRASTRUCTURE PORTFOLIO

GEOGRAPHY



SECTOR



CASE STUDY RESPONSIBLE INVESTMENT IN INFRASTRUCTURE

making and ongoing investment monitoring process, and this has become a standard consideration for manager selection.

Within the GRESB Infrastructure Assessments, participating funds and assets report annually to GRESB on their internal controls and policies. GRESB validates the submitted data and assesses the fund or asset with reference to a series of performance indicators, including the sustainability of its investment strategy, stakeholder relations and level of gender/diversity reporting. We use the GRESB scores to benchmark performance of these funds and assets against their peer groups.

Funds and assets across all infrastructure sub-sectors can participate in the GRESB Infrastructure assessments, but Transport and Renewable Power assets currently have the greatest participation rate within our portfolio.

Assessment and forward look

LPF's infrastructure portfolio is one of the largest and most diversified allocations among UK LGPS funds and already meets the ambition set out in the UK Government's Fit for the Future consultation to boost investment in local areas and regions of the UK: within the 80% of our infrastructure portfolio (over 12% of the fund) invested in the UK, this is spread across the regions and home nations, including approximately 12% in Scotland, which benefits from some of the best renewable resources, reliable wind and rainfall patterns, plus the topography to harness these resources. Over the year to 31 March 2026, we invested £22m in renewable energy assets.

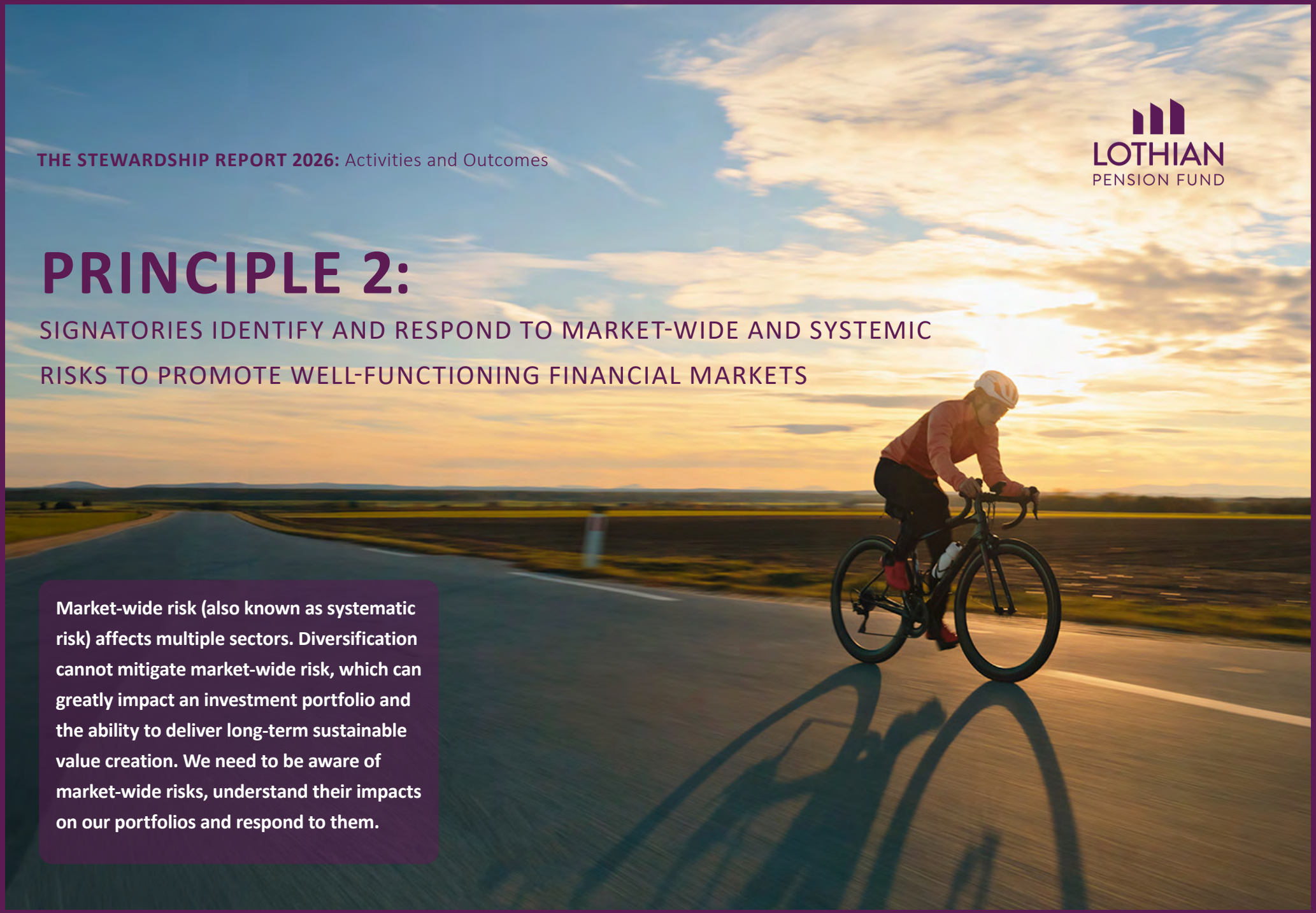


The outlook for infrastructure investment remains favourable, supported by four big themes: Decarbonisation, Digitalisation, De-globalisation, and Deficits. We continue to appraise new investment opportunities.

LOTHIAN PENSION FUND

PRINCIPLE 2:

SIGNATORIES IDENTIFY AND RESPOND TO MARKET-WIDE AND SYSTEMIC RISKS TO PROMOTE WELL-FUNCTIONING FINANCIAL MARKETS



Market-wide risk (also known as systematic risk) affects multiple sectors. Diversification cannot mitigate market-wide risk, which can greatly impact an investment portfolio and the ability to deliver long-term sustainable value creation. We need to be aware of market-wide risks, understand their impacts on our portfolios and respond to them.

IDENTIFYING MARKET-WIDE AND SYSTEMIC RISKS

As a long-term investor, sustainable, well-functioning markets are essential to our purpose of delivering a valued retirement savings product for our members. They'll enable us to pay pensions and benefits when they fall due over the next several decades.

Investment market conditions can change rapidly. Events and uncertainties within the wider economic and political environment can affect the value of assets held in a portfolio. When considering or reviewing investments, we assess a range of factors, including political developments, market sentiment, economic conditions, government intervention in markets, restrictions on foreign investment or currency movement, exchange rate fluctuations, and developments in relevant laws and regulations in the countries where investments are made.

Many Environmental, Social and Governance (ESG) risks also present as market-wide risks that can affect the long-term value of our investment portfolio. These include environmental risks (such as climate change, water scarcity, biodiversity, deforestation and pollution), social risks (such as human rights, modern slavery and inequality), and governance risks (the rules and regulations that govern companies and markets including the use of new technologies such as artificial intelligence and cyber security).



Market wide and systemic risks may also present investment opportunities. Given the potential impact on our investment returns, we closely monitor market-wide and systemic risks and opportunities. We collect information from many sources:

External advisers

- LPF uses the Joint Investment Forum (JIF – see Policies and Context report) to explore insights on market trends and conditions

IDENTIFYING MARKET-WIDE AND SYSTEMIC RISKS

- LPF's external managers include market commentary within their periodic investment reports, which LPF reviews in detail
- LPF's actuary may comment on general investment issues as part of the valuation they do for LPF
- LPF's investment consultant provides an Economic Scenario Service to support our Investment Strategy Review.

External providers

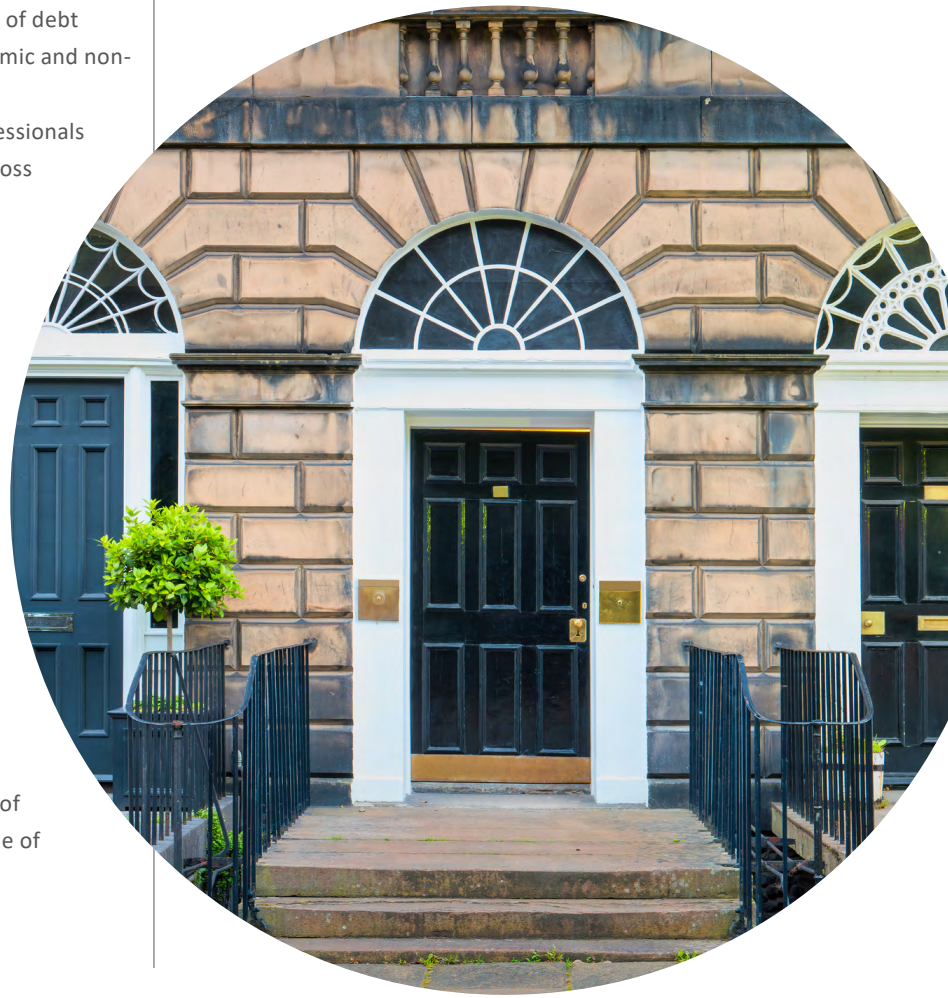
- EOS at Federated Hermes (EOS) supports us in identifying systemic and emerging ESG risks as well as mitigating these risks through engagement. Our Internal Equities team work closely with EOS in our collective approach to engagement, reflecting the areas of stakeholders' interest and concern. We utilise our voting rights, including those exercised through proxy, to engage with the management of companies in whom we invest, and to promote appropriate standards of corporate governance that safeguard and respect shareholder interests
- The organisations which support LPF's portfolio monitoring for shareholder litigation share insights on market wide issues relevant to risk.

Internal investment team

- Our investment team monitors the creation of debt within the financial system to identify systemic and non-systemic vulnerabilities
- Our dedicated responsible investment professionals gain in-depth insight into developments across systemic ESG risks and opportunities by participating in industry conferences.

Collaboration

- Collaborative initiatives, which often compile or commission research from sector specialists, are a valuable source of intelligence on systemic ESG risks and ways to mitigate these risks. We have a long track record of collaborating with other investors, asset owners and organisations
- We continue to be an active participant in the Asset Owner Council (AOC), which is a forum for sharing stewardship best-practice across the industry, with our Head of Responsible Investment carrying out the role of co-chair of the AOC since January 2025.



UNDERSTANDING AND ADDRESSING MARKET AND SYSTEMIC RISKS

We undertake various activities to support well-functioning financial markets, including:

Responding to consultations and/or engaging with government and industry bodies

- We provided feedback via a roundtable with other asset owners and regulators on the UK government's consultation regarding UK Sustainability Reporting Standards and Transition Plan proposals for UK listed companies and financial entities (including pension funds). This was an efficient way to seek to influence the future reporting frameworks and regulatory standards that will provide the data on material systemic risks to support effective decision making across the financial system. We stressed the need for appropriate sequencing of requirements, recognising asset owners' dependence on data from governments and corporates to feed into our own reporting
- We participated in a roundtable convened by the International Corporate Governance Network (ICGN) which focused on navigating the stewardship shift in the US and its impact on global investors. We noted changing policies and rhetoric regarding decarbonisation and diversity initiatives that were creating both uncertainty and legal risks for US companies, resulting in a reduction in disclosure. US engagement practices and proxy voting policies also needed to adapt to the new rules
- We met with the CEO of the UK Debt Management Office (DMO) and their markets team earlier this year, to provide feedback on Gilt issuance plans, noting that the DMO largely implements the government funding need. We also provided feedback to Gilt market dealers on proposed issuance plans such as syndications, and potential maturities. Meeting with the DMO enables us to better understand how they plan to fund the government over time (patterns of government issuance) and feed back to them how this does (or doesn't) relate to our needs as long-term investors. The increased awareness between borrower (government) and lender (us) helps both collectively align interests by matching supply/demand in aggregate. This supports the long-term interests of our beneficiaries as both inflation and Gilt supply/demand impact UK interest rates and affect the value of our assets and liabilities.
- We participated as a signatory to a letter sent by members of the Asset Owner Council (AOC) to the UK government regarding defence. The letter, which we were involved in drafting, emphasised the importance of continued adherence to international norms on human rights. It also encouraged the government to strengthen governance and transparency for the UK licensing. Having clear and well implemented legal guardrails on arms control is vitally important to enable investment in the defence sector within a responsible investment framework that is supported by government policy. The government's response welcomed our support for its commitments



to international humanitarian law, arms control and disarmament treaties while noting intentional flexibility in the UK's voluntary code of practice for exports

- Through the AOC we supported the launch of the Governance for Growth Investor Campaign (GGIC) which seeks to work with policymakers on a governance for growth approach reflecting evidence that sustainable growth requires good governance. Effective corporate governance and shareholder rights help companies perform better by making sure they're well run, transparent, and accountable. When companies are well managed and decisions are made in the best interests of all shareholders, they're more likely to grow sustainably, avoid costly mistakes, and attract long-term investment

UNDERSTANDING AND ADDRESSING MARKET AND SYSTEMIC RISKS

- As an investor supporter of the Global Investor Commission on Mining 2030 we participated in a consultation on the Commission's vision and key systemic stewardship actions for a socially responsible mining industry. While mining activities create multiple environmental and social challenges, we recognise that mined minerals and metals are essential to our economy and society. Increasing the production of certain minerals and metals will be essential to achieving the low-carbon transition. We therefore support the vision of a socially responsible mining industry that can meet global demand by operating to high performance standards, avoiding and minimising harm, and leaving a lasting value for communities by fostering stronger local economies, delivering improved infrastructure, and generating opportunities that extend well beyond the life of the mine.

Dialogue with companies to assess their level of preparedness for identified market-wide risks

- We joined an investor initiative led by the 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 firm's climate risk and resilience strategies at least once every three years (See case study on page 29)
- As a member of Climate Action 100+ we encourage the world's largest corporate greenhouse gas emitters to take appropriate action to decarbonise and develop resilient strategies for sustainable value creation as the world transitions to net zero. For several years we've co-led engagement with Finnish utility, Fortum, which made significant progress in 2025. (See case study on page 36). Our stewardship service providers, EOS and LAPFF, also participate as lead engagers with several CA100+ companies



- As a signatory to the Principles for Responsible Investment (PRI) and an endorser of Advance, which is a PRI led collaborative stewardship initiative for human rights and social issues, we welcome progress being recorded against one or more engagement objectives for 19 of the 37 focus companies. Due to resource constraints and limited overlap between the initial list of focus companies with our investment holdings, we chose to support this initiative as an endorser, while our stewardship service providers, EOS and LAPFF, participate as lead engagers on our behalf to help address systemic human rights and social inequality risks
- As an endorser of SPRING, the PRI-led collaborative stewardship initiative for nature, we welcome the initiative's inaugural progress report showing that the 57 focus companies are making incremental progress against the engagement objectives. Due to resource constraints and limited overlap between the initial list of focus companies with our investment holdings, we chose to support this initiative as an endorser, while our stewardship service provider, EOS, participates as a lead engager on our behalf to help address the systemic risks of biodiversity loss.

UNDERSTANDING AND ADDRESSING MARKET AND SYSTEMIC RISKS

Advocating for better standards through engagement with our external managers

- We engaged with our external managers on steps they could take to align their practices with our Responsible Investment aims and objectives, in particular, our ambition to avoid providing new financing to companies whose business models aren't aligned with the goals of the Paris agreement. This ambition was a key consideration throughout the review and evaluation process for the new corporate bond manager, appointed in 2025 (more information provided in Principle 5)
- As a signatory to the Asset Owner Diversity Charter, we engage with our external managers on the diversity of their workforce, and we've committed to incorporate diversity questions into manager selection and ongoing manager monitoring
- As an asset owner, we consider ourselves well placed to collaborate with others across the investment industry to encourage continuous improvement in diversity, equity and inclusion policies and practices. In doing so, we aim to support the industry in becoming more balanced and more fairly representative of the society it serves
- We're also proud to partner with Future Asset and Girls Are Investors (GAIN) to support a more gender diverse future talent pipeline for the investment industry (see case study on page 31).

Escalation of engagement through voting

- For systemic risks, such as climate change, inequality and human rights, we clearly articulate the minimum standards we expect from investee companies in our voting policies. Our voting and engagement service provider, EOS, often engages with investee companies on these expectations and may recommend voting against relevant directors where engagement is proving to be ineffective or where significant concerns remain. We may also support and/or co-file relevant shareholder proposals. The case study on page 41 sets out why we voted against the re-election of the Chair of BP (Helge Lund) at BP's April 2025 AGM and why we joined an initiative to co-file shareholder resolutions at the 2026 AGMs of Shell and BP. The case study on page 32 reviews the progress made on increasing the representation of ethnic minority talent across the largest listed companies in the UK.

Shareholder legal action

- We recognise shareholder legal action as another way that we, as an institutional investor, can promote good corporate governance and therefore contribute to well-functioning markets. Where it's economical to do so, and aligns with our fiduciary duty, we may take action to recover funds lost as the result of corporate mismanagement or malfeasance. Where this action leads to corporate governance reforms, this can also reduce some systemic risk alongside financial recovery. This may be important where there's a void in the role of industry regulators, (due to constrained resources for example) or where changes in political administration can impact the willingness of regulators to take enforcement actions



- We use third party providers to support our portfolio monitoring, to collect information and to undertake legal analysis necessary to make informed decisions about the best options for asset recovery and the wider benefits of participating in potential claims. We have an internal policy to guide our actions, and this considers the significance of a company's wrongdoing, and the wider context of our stakeholder expectations
- Confidentiality restrictions limit how much detail we can provide about specific actions, but LPF has previously participated in some actions and continues to actively monitor its loss exposure in relation to potential future class actions.

SPOTLIGHT ON CLIMATE CHANGE RISK

As stated in Principle 1, we identify climate change as our top stewardship priority as this is a key systemic risk with potentially far reaching consequences across all sectors and regions. It's a systemic issue because it's not possible to mitigate it through investment diversification due to the interconnection of exposures throughout the global economy. The need for an energy transition is creating change that represents both investment risks and opportunities.

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.

Climate change presents risks to our funding strategy, including:

- Lower economic growth and investment returns – tackling climate change will require significant capital investment. This may reduce growth and returns on assets during the transition to a greener economy.
- More climate 'extreme events', such as heatwaves or flooding, are likely to increase in frequency and adversely affect stock markets and asset valuations
- Increased volatility/uncertainty – the pace of transition to a greener economy is highly uncertain. Financial markets and other economic indicators, such as interest rates and inflation, are likely to be more volatile and unpredictable due to the uncertainty
- Life expectancy – climate change can affect human health and the longevity of the Fund's members, possibly either positively or negatively.

We use climate scenario analysis to stress test our triennial valuation. At the 2023 valuation, three climate scenarios were stress tested. Each scenario assumed a period of disruption linked either to the impact of measures to combat climate change (transition risks) or to the fallout from it (physical risks), with the disruption leading to high volatility in financial markets and economic variables such as inflation over our standard planning horizon of 20 years. Whilst the results differ across scenarios, the differences weren't sufficiently material to suggest that our strategy isn't resilient to climate change risk. However, we recognise that the traditional relationships between economic variables may not hold under extreme climate change.

The methodology used in 2023 considered expected returns and volatilities of asset classes in future but couldn't directly model the impacts of climate risk at asset class or geographic level. We're expanding our analysis in 2026 to explore the impact of a climate shock via a narrative scenario. The results of our 2026 valuation and climate scenario analysis will be published in 2027.



SPOTLIGHT ON CLIMATE CHANGE RISK

We aim to help reduce exposure to climate risk through our stewardship practices, including engagement and voting. We consider these activities to be the key levers we have as institutional investors to encourage investee companies to align with the Paris Agreement goals and increase transparency on how they manage climate related risks and opportunities, benefiting their companies and wider society. Case studies in Principle 3 (Engagement) and Principle 4 (Voting) highlight examples.

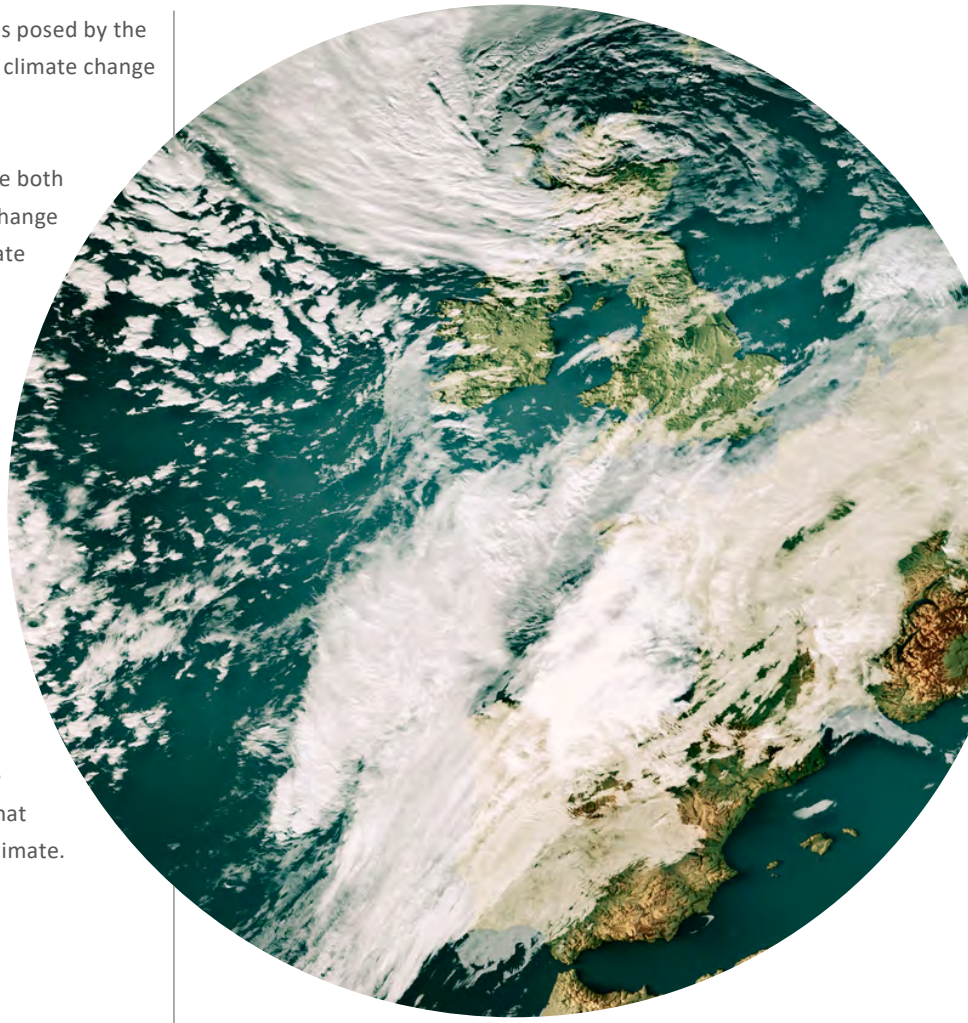
We use various monitoring tools with the aim of mitigating risk to fund assets from trends towards net-zero carbon and, more broadly, from climate change. Our internal investment management team uses data services and analytical tools to monitor climate risk at as granular a level as possible.

We also recognise the investment opportunities arising from climate mitigation and adaptation. We invest in climate solutions (see page 16), such as renewable energy projects and environmental services, and aim to benefit from the energy transition by holding greater exposure to climate solutions than to companies whose primary business is linked to fossil fuels.

We provide training on climate-related issues to colleagues, including those involved in governance, management, and investment decision-making. This helps create a strong internal culture that takes both the capital risks posed by the low-carbon transition and the physical risks of climate change seriously.

We expect our investment managers to analyse both physical and transition risks from climate change when assessing companies. Where climate risk analysis (or any other risk) points to likely poor financial outcomes, we expect divestment. When selecting and monitoring external managers, we evaluate how well they incorporate climate risks, along with other ESG risks, into their investment processes. (More information is provided in Principle 5.)

While climate change is widely acknowledged as one of the most pressing issues facing society, we see it as one of several investment risks to manage. In this sense, it's no different from any other risk. We believe in a holistic and integrated approach that considers all risks, including those related to climate.



CASE STUDY COLLABORATIVE ENGAGEMENT ENCOURAGING SHAREHOLDER VOTES ON CLIMATE TRANSITION PLANS

Action

In 2025, we joined an investor initiative led by the 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. The collaborative investor group, representing £3.1 trillion assets under management, sent a letter to 95 FTSE 100 companies. The letter highlighted guidance from the Transition Plan Taskforce recommending that companies update and disclose their plans on a three-year period.

Only 10% of FTSE 100 companies (excluding investment trusts) have provided their investors with the opportunity to vote on their climate plans over the last three years.

LPF's rationale for joining the initiative is that 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 mechanism to build trust and demonstrate accountability on climate change. Therefore, the initiative was aligned with our expectations. It's also in line with our Statement of Responsible Principles where we've commitment to engage alongside our collaborative partners to encourage companies to adopt business models and strategies that are in line with the aims of the Paris Agreement.

Outcome

In Dec 2025 LAPFF reported that they'd received material responses from 71 of the 95 companies they'd written to. Of those 71, eight said or implied that they'll provide shareholders with a vote on their climate strategy/transition plan, and five of this group of companies noted that this will be on a triennial basis.

There was a mixed response amongst those that declined. Several declined completely, but many stated that they were considering, or are monitoring recommendations from the Transition Plan Taskforce.

Reflection

Our ability to influence investee companies through voting and engagement is limited as a minority investor. However, by collaborating with like-minded investors on engagement and being transparent about our voting actions, we can amplify our influence to drive the long-term value of our investment portfolio and contribute to the long-term health of the financial system.

We'll continue to engage with and encourage our investee companies to develop and implement credible plans consistent with the Paris Agreement. However, the companies in which we invest need clear legal and regulatory frameworks in which to operate. That's why we'll continue our systemic stewardship efforts, engaging (directly or through our service providers and collaborative initiatives) with policymakers and advocating for the delivery of consistent policies to support a well-functioning market and an energy transition that delivers energy security and climate risk mitigation.



LOTHIAN PENSION FUND

CASE STUDY ENCOURAGING DIVERSITY IN THE INVESTMENT INDUSTRY

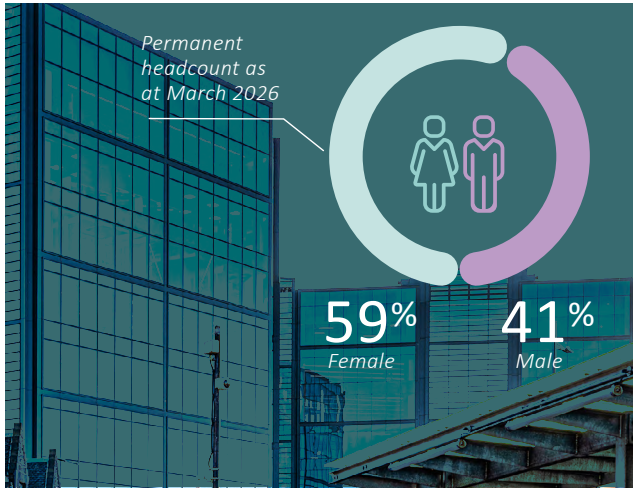
Context

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 committed to collaborating with others to help bring about a more inclusive investment industry.

Action

To make LPF as inclusive as possible for both our colleagues and members, we promote a culture of diversity, equality 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 a signatory to the Asset Owner Diversity Charter, which aims to build an investment industry that better reflects diverse societies and strives to deliver a stronger, fairer financial system with enhanced decision-making and better risk mitigation by standardising diversity metrics, improving disclosure, fostering collaboration and promoting accountability and transparency



- We're proud to partner with both Future Asset and Girls Are Investors (GAIN) to encourage and support a more diverse pipeline of future investment professionals:
  - Future Assets is a charity based in Scotland that aims to inspire high-school-age girls to discover what the investment sector has to offer as a potential career choice. Future Asset runs many excellent events, including its flagship 'Growing Future Assets' investment competition where teams from across the country vie to present the best stock pitch. Our colleagues have volunteered as judges or team mentors for the Future Asset competition over the last four years and LPF has hosted successful teams to undertake an insight day at our office
  - 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. The GAIN Empower Investment Internship Programme provides university students the opportunity to learn about and gain experience in investment management during a summer internship.

Outcomes

- Gender balanced: As at 31 March 2026, women made up 47% of our top three leadership layers and 59% 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 32.16%. In 2025/26 we recruited 12 permanent colleagues, of which 8 are women. Our inclusive policies and practices are benchmarked externally. This helps make our recruitment, reward, and engagement processes more inclusive and accessible, supporting a workplace where everyone can thrive
- 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

CASE STUDY ENCOURAGING DIVERSITY IN THE INVESTMENT INDUSTRY

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.

Reflection

As an asset owner with an internal investment team, we consider ourselves to be well placed to act directly and to collaborate with others in the investment industry to advocate for continuous improvement in diversity, equity and inclusion (DEI) policies and practices.

While gender is only one aspect of diversity, addressing the investment industry's gender diversity gap remains a significant challenge. There are signs that the industry is moving towards becoming more representative of the society it serves, but the rate of change is slow. However, by inspiring and developing 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.



"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've 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."

Marcia Callander

LOTHIAN PENSION FUND

CASE STUDY PARKER REVIEW ON IMPROVING THE ETHNIC DIVERSITY OF UK BUSINESSES

Background

In its first report, published in 2017, the Parker Review made a series of recommendations setting a "One by 2021" target for all FTSE 100 boards to have at least one director from an ethnic minority background by December 2021 and a similar "One by 2024" voluntary target for all FTSE 250 boards. In 2023, a "One by 2027" voluntary target was introduced for the top 50 largest private companies in the UK.

Outcome

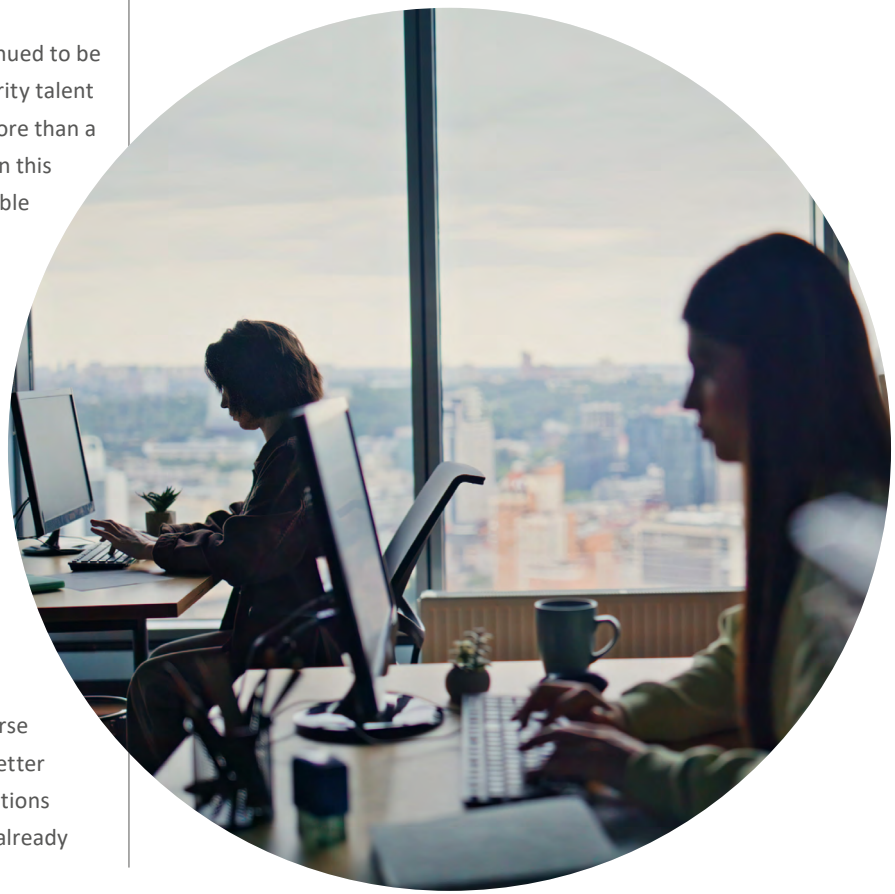
The 2025 voluntary census (carried out jointly with the Department for Business and Trade and sponsored by Ernst & Young) revealed continued progress in overall Ethnic Minority representation, across the largest 350 listed companies in the UK:

- 98% of FTSE 100 companies had ethnic minority representation on their board as of 31 December 2025, up from 95% in 2024 and 52% in 2019. The percentage of ethnic minorities in these companies' UK-based senior management was 11%, in line with the previous year
- 205 of the FTSE 250 companies (82%) met the "One by 2024" target, in line with the previous year, but up significantly from 22% in 2019. The percentage of ethnic minorities in these companies' UK-based senior management was 10%, up one percentage point on the previous year
- 42% of the UK's largest 50 private companies had at least one ethnic minority director on their board, down from 48% in 2024.

Assessment

This year's Parker Review shows that progress continued to be made to increase the representation of ethnic minority talent across the largest listed companies in the UK. For more than a decade, the Parker Review has been a steady voice in this space – pushing UK businesses to recognise and enable the full potential of people from Ethnic Minority backgrounds. In a world of shifting priorities, the Parker Review provides consistency of purpose, clarity of expectation and a framework for action.

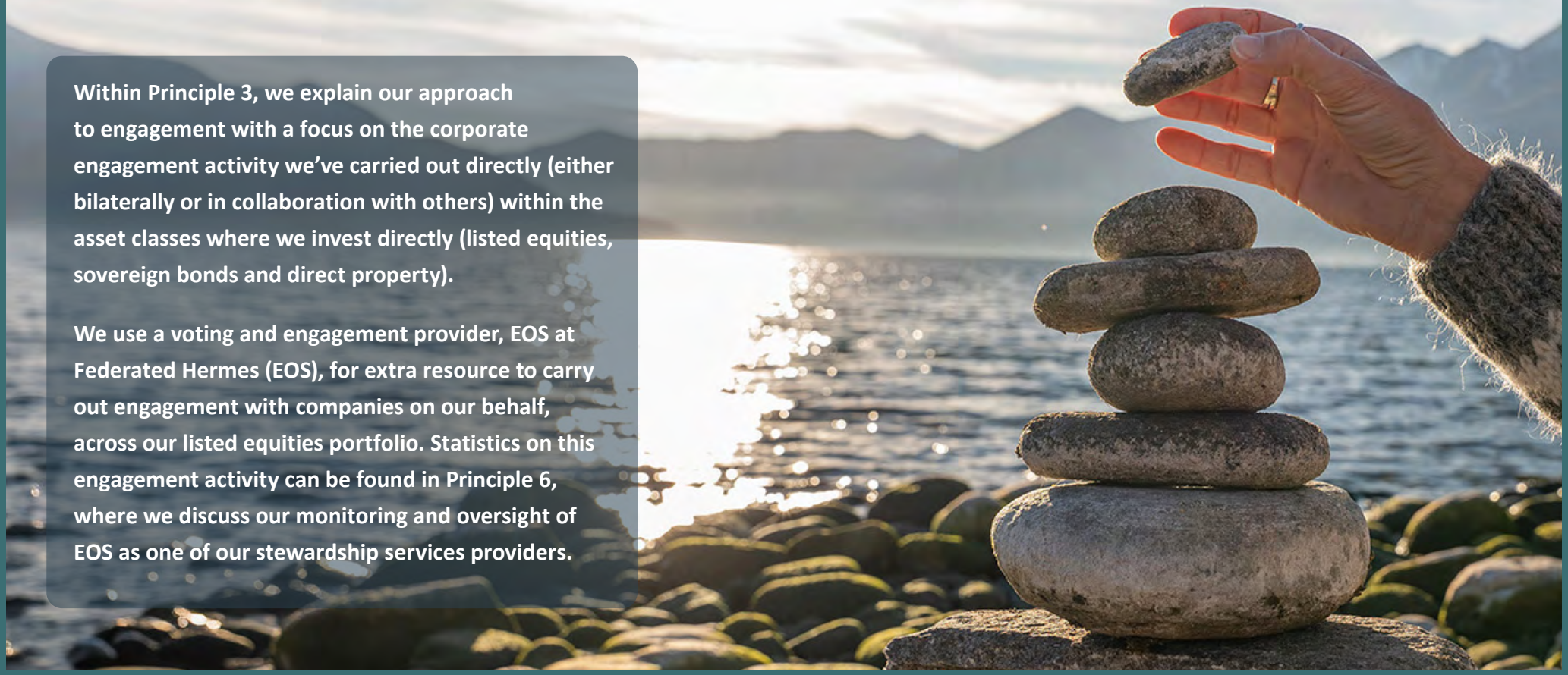
With c.16% of our equities allocation in UK listed stocks, we recognise the importance for UK businesses to secure the best talent – irrespective of ethnicity – into boardrooms and senior management teams, reflecting the diversity of our society. Particularly in times of uncertainty, leadership is needed to create environments where people feel they belong, are valued, and can perform at their best, recognising the power of diverse perspectives in navigating complexity and making better business decisions. That is why we treat the expectations of the Parker Review as a floor, not a ceiling. We've already incorporated the Parker Review targets into our minimum expectations for FTSE 100 and FTSE 250 companies, and we'll continue to monitor progress through the evolution of market norms towards the targets set by the Parker Review.



LOTHIAN PENSION FUND

PRINCIPLE 3:

SIGNATORIES ENGAGE TO MAINTAIN OR ENHANCE THE VALUE OF ASSETS



Within Principle 3, we explain our approach to engagement with a focus on the corporate engagement activity we've carried out directly (either bilaterally or in collaboration with others) within the asset classes where we invest directly (listed equities, sovereign bonds and direct property).

We use a voting and engagement provider, EOS at Federated Hermes (EOS), for extra resource to carry out engagement with companies on our behalf, across our listed equities portfolio. Statistics on this engagement activity can be found in Principle 6, where we discuss our monitoring and oversight of EOS as one of our stewardship services providers.

OUR APPROACH TO ENGAGEMENT

Engagement adds value to the investment process by promoting best practice governance and by highlighting and promoting best practice in dealing with environmental, climate change and social issues. By surfacing risks and opportunities and encouraging management to take action to mitigate or seize opportunities, engagement supports long-term value creation.

We commit significant resources to engagement activity, however there are limits to the influence we can achieve as a single investor and the resources we can reasonably commit. We recognise that progress on ESG issues can often be best achieved through collaboration with other like-minded investors and organisations, and we take an active role in several collaborative engagement initiatives (see below).

We also conduct or support systemic stewardship initiatives to respond to market-wide and systemic risks, as discussed in Principle 2.

Listed equities

As discussed in Principle 1, we've identified 12 ESG issues or themes we consider to be the most financially material for our equities and prioritise these through our engagement and investment research activities. Each year we consult with EOS to review and develop a multi-year engagement plan, which is implemented by EOS. This plan aligns with these priority issues and supports improvements in corporate governance standards more broadly (see Principle 6).

Occasionally, we'll carry out direct engagement with investee companies. Primarily we do this where we have access to management (either due to the significance of our holding or via participation in a collaborative initiative) and have identified an opportunity to add value on specific financially material ESG topics through direct engagement or as part of our escalation approach. Direct engagement allows us to set out our expectations and to explain our interests and motivations. Engagement topics may include capital allocation, shareholder returns, succession planning, audit quality, external board evaluations, climate strategies, treatment of employees and board and company diversity.

We use a variety of engagement approaches, including written correspondence, face-to-face meetings and public communications. We may also escalate engagement through voting activities, for example voting against directors or specific resolutions at a company's annual general meeting. Irrespective of the approach, the goal is always to achieve good financial outcomes for our stakeholders and to encourage positive corporate behaviour.

Where material risks remain, we retain the ability to reduce our position size or sell to mitigate our exposure to these risks on a case-by-case basis.

- We've been carrying out ongoing engagement with Fortum through Climate Action 100+ (CA100+) as a co-lead engager. The objective and outcome of our engagement with Fortum is detailed in the case study on page 36
- As part of our co-filing activity at Shell, we undertook engagement with the company alongside several other co-filers. Our engagement focused on discussion and questions relating to our resolution requesting Shell to disclose strategies for creating shareholder value under scenarios of declining oil and gas demand. More details on this are provided in Principle 4



- In 2025, we joined the CA100+ engagement group for PTT. Due to the engagement cycle, the first meeting we participated in happened after the end of the covering time-period for this Stewardship Report.

OUR APPROACH TO ENGAGEMENT

Sovereign Bonds

As discussed in Principle 2, we engage with the UK Debt Management Office (DMO) to provide feedback on Gilt issuance plans. We also provided feedback to Gilt market dealers on proposed issuance plans such as syndications and potential maturities. Meeting with the DMO enables us to better understand how they plan to fund the government over time (patterns of government issuance) and feed back to them how this does or doesn't relate to our needs as long-term investors. The increased awareness between the borrower (government) and the lender (LPF) helps both collectively align interests by matching supply/demand in aggregate. This supports the long-term interests of our beneficiaries as both inflation and Gilt supply/demand impact UK interest rates and affect the value of our assets and liabilities.

Direct Property

As part of our monitoring and review of direct property assets, we engage directly with tenants and build long-term relationships with them. We ensure that ESG initiatives to mitigate risk and maximise opportunities are implemented at every stage of the ownership cycle. (See the case study on an energy efficiency initiative in Principle 1.)

ESG improvement targets and performance are incorporated into our strategy through asset management plans for owned assets and all new investment acquisition appraisals.

We've expanded our ESG initiatives to address social impact by carrying out a review of our building services contracts related to the day-to-day running of our multi-let assets to ensure all our contractors' employees are paid the Real Living Wage. The Living Wage Foundation asserts that earning the Real Living Wage, as opposed to the minimum wage, makes a huge difference to employees' productivity, mental health and family relationships. In April 2025 we contacted our contractors to confirm implementation of the increased Real Living Wage rates for 2025/26 and we're pleased to report full adoption.

Engagement with External Managers

As discussed in Principle 5, we assess our external managers' approaches to engagement and stewardship as part of our selection process and we engage regularly with our selected managers. We review each manager's approach on a quarterly basis, alongside all other investment matters, including their PRI transparency and Stewardship reports, where available. We regularly challenge our managers on their approach to understand the goals and effectiveness of their engagement activities. Within private markets, we also engage on pipeline opportunities.



CASE STUDY SPOTLIGHT ON COLLABORATIVE ENGAGEMENT PROGRESS – FORTUM

Background

Fortum is a Finnish electrical utility company with operations across the Nordic region and 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 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 Uniper, a primarily fossil-fuel powered German electric utility company. Our engagement focused on asking Fortum to meet the standards embedded in the CA100+ Net-Zero Company Benchmark. This includes 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

Through our engagement with Fortum we believe the company has made significant strides in its decarbonisation efforts:

- 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 and critically, made a commitment to align with the Paris Agreement
- The company also made great strides in detailed disclosures of lobbying activities. Although some of Fortum's associations don't have an official position that would be considered in full alignment, none are in active misalignment with the company's climate advocacy principles and commitments.

Reflection

The outcomes above demonstrated that enough progress had been made for Fortum's climate-related strategy to be considered credible. LPF and the other engagement co-leads asked for Fortum to be removed from the CA100+ focus list to signal that meaningful progress on corporate decarbonisation



gets recognised and rewarded and to enable engagement resources to be redirected toward other companies needing more intensive transition work.

Following a routine review, CA100+ decided to remove Fortum from its focus list in April 2026. While this shouldn't be viewed as an endorsement by CA100+ of Fortum's climate change-related strategy, we welcome the removal as reflecting a material reduction in the climate risk of one of our holdings during this period of our collaborative engagement. We'll continue to monitor Fortum's progress while redirecting our direct engagement efforts to other companies.

LOTHIAN PENSION FUND

PRINCIPLE 4:

SIGNATORIES ACTIVELY EXERCISE THEIR RIGHTS AND RESPONSIBILITIES



This Principle applies primarily to the assets we manage directly (listed equities and direct property). We also exercise rights as a Limited Partner in the vehicles we use to invest in private market funds.

Our voting statistics can be found in Principle 6, where we discuss our monitoring and oversight of our stewardship services providers.

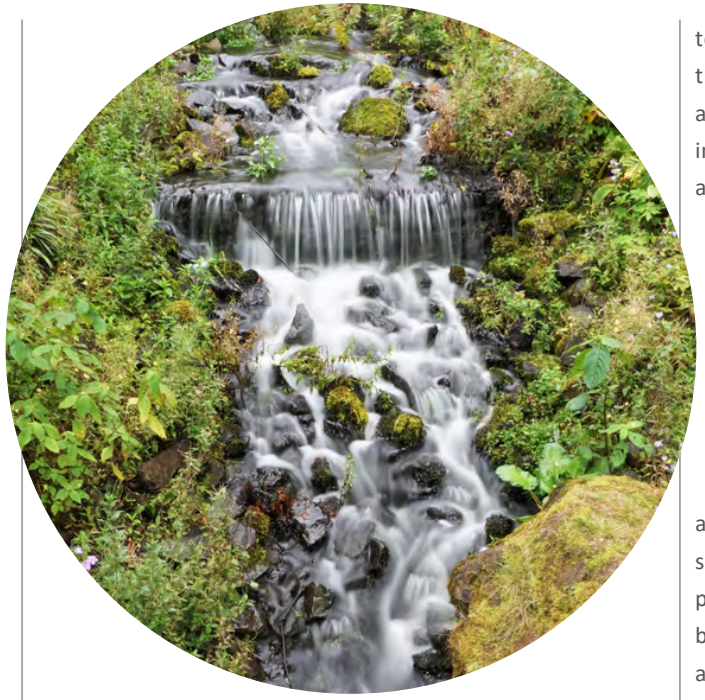
EXERCISING OUR RIGHTS AND RESPONSIBILITIES IN LISTED EQUITIES

We believe that responsible investment involves exercising our rights and responsibilities as an active owner and consider voting to be an integral part of our engagement with companies.

We aim to vote on all resolutions tabled at the General Meetings of our investee companies (listed equities) and also on all LPF consent matters within the funds we've invested in (across private market asset classes). We also hold our managers to account on how they exercise rights and responsibilities on our behalf, for example, our debt managers may exercise their responsibilities to integrate ESG in credit investment through the negotiation of ESG linked ratchets into loan documentation.

The practice of share-blocking in certain geographies, for example Norway, can impact our ability to fully exercise our rights and responsibilities in these markets due to potential liquidity constraints. We have a streamlined internal process for approving votes in share-blocking markets and haven't missed any votes due to share-blocking in the last four years.

As explained on page 23 of our Policy and Context Disclosure, we use a voting and engagement provider, EOS at Federated Hermes (EOS), to provide proxy voting recommendations informed by their engagement with companies and to execute our voting activity across our



directly managed listed equities. However, we retain the right to override voting recommendations. Within this principle, we explain the rationale behind the small number of cases where we've voted differently from EOS's recommendation and we highlight our co-filing activity over the reporting period.

While much focus tends to be on controversial votes and votes against management, we think it's equally important to signal our support for management in situations where they're doing a good job of navigating risks, challenges and complexities. As seen from our voting data provided in Principle 6, we recognise that in many cases boards are managing these issues effectively and we continue to support them in their endeavours.

Voting Transparency

In line with best practice voting disclosure in the UK, we report quarterly on our voting activities on our website. This consists of the votes cast by stock name and rationale for votes against management, abstentions and shareholder resolutions. We also provide quarterly summary statistics on the voting recommendations provided by EOS, by region. Our 2025 voting statistics can be found in Principle 6, where we discuss our monitoring and oversight of EOS.

Voting Considerations and Conflicts of Interest

In recognition of the value of active engagement, EOS works with our portfolio managers to co-ordinate and execute voting instructions. We require EOS to give our portfolio managers notice of voting instructions and allow them to override any EOS recommendation.

EOS voting alerts are reviewed by our portfolio managers

EXERCISING OUR RIGHTS AND RESPONSIBILITIES IN LISTED EQUITIES

and escalated to the Responsible Investment Group where necessary. Significant consideration is given to potentially controversial votes, such as recommendation to vote against management. When there's an issue that we're concerned about e.g. a governance risk identified through our own investment research and direct engagement activities, we'll communicate with EOS about the resolution, to understand the context and their reasons for the recommendation being made.

EOS has multiple clients, who will have different stakeholders with potentially different stewardship priorities. We recognise this could create potential conflicts of interest for our service provider. Although no actual conflicts of interest were identified during the period under review, and differing views on the financial significance of ESG issues are a normal feature of healthy markets, we recognise that the voting advice we receive isn't produced solely to reflect LPF's stewardship priorities. Our ability to override voting recommendations enables us to mitigate this by applying our own assessment of what's in the best interests of our stakeholders.

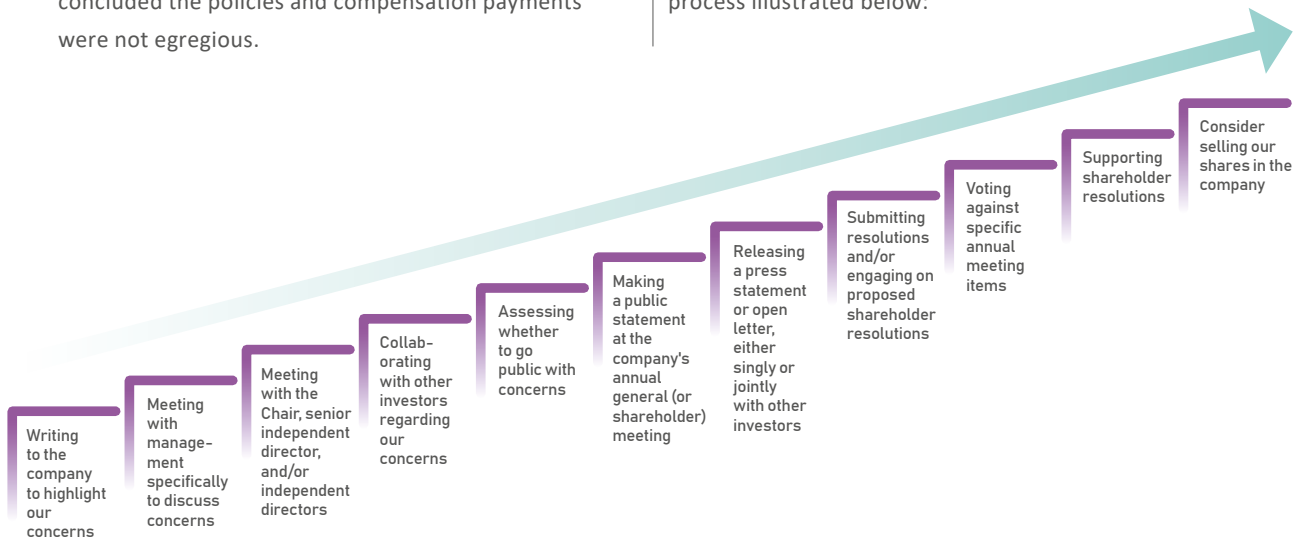
In practice, the number of voting recommendations that we override each year is minimal. During 2025, we chose to execute our right to vote differently from the recommendation for nine votes over three annual general meetings (AGM):

- At BP's AGM in April 2025, we voted against the re-election of BP's chair, Helge Lund. Our rationale is set out in the case study on page 41
- At Wolters Kluwer's AGM in May 2025, we voted in favour of the re-election of the Chair. Our rationale was that as the CEO was in the midst of leaving the company, we considered it inappropriate to support changing the Chair at the same time
- At Trigano's AGM in January 2026, we voted in favour of approving the remuneration policies (three in total) and compensation reports (four in total) for certain senior executives and board members. Following direct engagement with the company on the subject, we concluded the policies and compensation payments were not egregious.

Escalation Process

We expect companies to advise us when there are material changes and issues which impact long term shareholders. Our initial position is to support the board and management to improve the corporate strategy to the benefit of shareholders.

When appropriate and where we have concerns, we'll begin a dialogue (either directly, through EOS, or via collaborative initiatives) and put forward proposals for the board's consideration. If our concerns aren't adequately addressed, we may consider a range of options as part of the escalation process illustrated below:



EXERCISING OUR RIGHTS AND RESPONSIBILITIES IN LISTED EQUITIES

As no two engagement escalations are the same, different steps may be taken in a different order for different cases. However, selling our shares isn't among the first steps. It's often the last step on the long escalation ladder, as engaging and addressing an issue in an undervalued firm, can create financial returns for long-term investors. The case study on page 41 includes some of our escalation actions taken during this report's covering period.

Co-filing activity

We're prepared to file or co-file shareholder resolutions on important topics at our investee companies. In January 2026, we joined Follow This (a non-profit shareholder advocacy group) and 22 institutional investors in filing a shareholder resolution at the 2026 AGMs of Shell and BP. The co-filed institutional investors had €1.5 trillion assets under management.

The resolutions requested that both companies disclose strategies for creating shareholder value under scenarios of declining oil and gas demand. This marked a strategic shift in co-filing strategy by Follow This in requesting disclosures on financial performance and value creation strategies rather than Paris-aligned emissions reduction targets.

While both companies confirmed that the resolutions complied with the required administrative criteria and met the applicable capital threshold, only Shell accepted the resolution onto their AGM agenda. (See the case study on page 41 for more details).



CASE STUDY VOTING AND ENGAGEMENT ESCALATION AT OIL & GAS COMPANIES

Background

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

While we vote at the Annual General Meetings (AGM) of all our holdings, we've chosen to highlight our activities at fossil fuel companies as we consider them higher profile voting decisions, usually involving climate related proposals, and often require additional scrutiny.

HIGHLIGHTED ENGAGEMENT AND VOTING ACTIVITY IN 2025

	bp		equinor		Shell	
	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%		
Present plan to reach Paris Agreement goals and net-zero emissions by 2050, and terminate all overseas oil and gas projects			Against	0.64%		
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.

THE PARIS AGREEMENT 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**.

2°C

CASE STUDY VOTING AND ENGAGEMENT ESCALATION AT OIL & GAS COMPANIES

Activity and Rationale

The table, on page above, highlights a selection of our voting activity at a some of our fossil fuel holdings. Our rationale for these voting decisions is as follows:

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 could demonstrate their capital expenditure is resilient. LPF re-iterated these asks in a meeting with BP's Chief Financial Officer, Kate Thomson. Despite announcing a re-set of its strategy at the end of February 2025, BP did not table a "say on climate" vote at is April 2025 AGM
- We escalated our engagement by voting against the re-election of BP's Chair, Helge Lund, at BP's 2025 AGM, 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 and reduced visibility on the company's decarbonisation strategy. While we viewed the pre-AGM announcement of Helge Lund's intention to step down as Chair positively, and noted that this led some proxy advisors to recommend supporting his re-election, we were concerned about the timeframe proposed by the company for the succession process
- We also voted against BP's remuneration report as the updated bonus structure for 2025 removed specific metrics related to transition growth engines and we had concern over the lack of downward adjustment due to a fatality.

Equinor (14 May 2025)

- We voted against the company's Energy Transition Plan as the ambition had been scaled back, resulting in less alignment with the goals of the Paris Agreement. Equinor's increased investment in international oil and gas projects raised concerns about its capital allocation discipline
- We voted against the following shareholder resolutions as we considered them to be overly prescriptive for the company's strategy and potentially limiting operational scope which may not favour shareholder interests:
  - Equinor shall discontinue the wind power business and decommission all wind power plants
  - 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
  - Equinor shall present a plan for how the company will reach the Paris Agreement goals and net-zero emissions by 2050 and terminate all overseas oil and gas projects.
- We 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 expectations. We supported this ask as Equinor is majority owned by the Norwegian government, so it would provide the company's board with the opportunity to show shareholders how its updated energy transition strategy aligns with the Norwegian government's expectations.

Shell (20 May 2025)

- We voted against the remuneration report due to concerns related to pay-for-performance outcomes.
- We voted for the shareholder resolution requesting disclosure of information regarding the company's assessment of the consistency of its Liquified Natural Gas (LNG) expansion strategy with its own strategic climate targets, as we considered this information would be useful for shareholders.

CASE STUDY VOTING AND ENGAGEMENT ESCALATION AT OIL & GAS COMPANIES

Outcome and Reflection

BP

- At BP's AGM, the Chair (Helge Lund) was re-elected with support from only 75.7% of shareholder votes. A vote where over 20% of shareholders vote against 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.
- On 21 July, BP announced that Albert Manifold (former CRH Chief Executive Officer) had been appointed as BP's new Chair, with effect from 1 October. Unfortunately, Manifold also failed to engage broadly with shareholders and pushed for a faster strategic reset focused on fossil fuels.
- Further leadership turbulence was created when BP announced in December 2025 that the CEO, Murray Auchincloss, was stepping down and his replacement, Meg O'Neil, would be joining BP from Woodside Energy in April 2026. We therefore decided to join an initiative led by Follow This to co-file a shareholder resolution calling for BP to be more transparent about their approach to climate risk management – specifically requesting disclosure of the company's strategy for creating shareholder value in plausible scenarios of declining oil and gas demand.
- We were disappointed that BP decided to exclude our co-filed shareholder resolution from the company's ballot in April 2026. We considered this decision to signify poor governance and escalated our concerns in a public letter. In May 2026, BP removed Manifold as Chair over governance and conduct concerns. Existing board member, Ian Tyler, was appointed interim Chair with immediate effect, while the Amanda Blanc, BP's senior independent director has been tasked to oversee the search for the next Chair.
- We'll continue to give significant consideration to voting at BP, especially regarding matters of governance and sustainability. We will continue to engage with BP on its approach to navigating the energy transition while also supporting energy security and affordability.

Equinor

- Our voting activity at Equinor highlights that we'll not automatically vote in favour of climate transition plans and each one needs to be evaluated for robustness. We also 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, in each case only 0.14% of shareholders voted in favour.

Shell

- While the shareholder proposal for LNG disclosure at Shell's AGM did not receive shareholder approval, it was 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 will require a significant change in the shape and structure of the global economy. Ahead of the 2026 AGM season, we decided to join an initiative led by Follow This to co-file a shareholder resolution calling for Shell to be more transparent about their approach to climate risk management – specifically requesting disclosure of the company's strategy for creating shareholder value in plausible scenarios of declining oil and gas demand.
- As discussed in Principle 3, as part of our co-filing activity at Shell, we undertook engagement with Shell in February 2026, alongside several other co-filers. We welcomed Shell's decision to include our co-filed resolution on their 2026 ballot. While this only received support from 13% of shareholders, Shell's CEO Wael Sawan commented "We are making progress towards our financial and climate targets, providing the oil and gas the world needs today while helping to build the energy system of the future."

EXERCISING OUR RIGHTS AND RESPONSIBILITIES IN OTHER ASSET CLASS

Sovereign debt

In Principle 2 we provide examples of exercising our rights and responsibilities by engaging with policymakers and responding to industry consultations.

Private markets

For our private market investments across private equity, private debt, infrastructure, forestry and property funds, we scrutinise corporate actions which require investor approval (such as fund term extensions) and vote in accordance with our fiduciary duty. We typically invest as Limited Partners and we engage with our external managers (the General Partners in these investment vehicles) to understand their rationale for such requests.

Where we're able to obtain a position on the investors' advisory committee for a fund (e.g. through the size of our investment) we'll secure additional rights and responsibilities (including being consulted on proposed changes to the fund's investment guidelines, approving certain matters such as changes to key executives, scrutinising potential or actual conflicts of interest and the related mitigating actions). We aim to use our rights and responsibilities to improve the value of the assets in our portfolio, in line with our fiduciary duty.

While the options available to us in terms of escalation of stewardship activities to influence issuers in closed ended investment funds (private equity, private debt, infrastructure and indirect property asset classes) are more limited, we do make it clear that concerns or a lack of transparency will feed into the assessment of subsequent investment opportunities presented by that manager.



Exercising rights and responsibilities in direct property

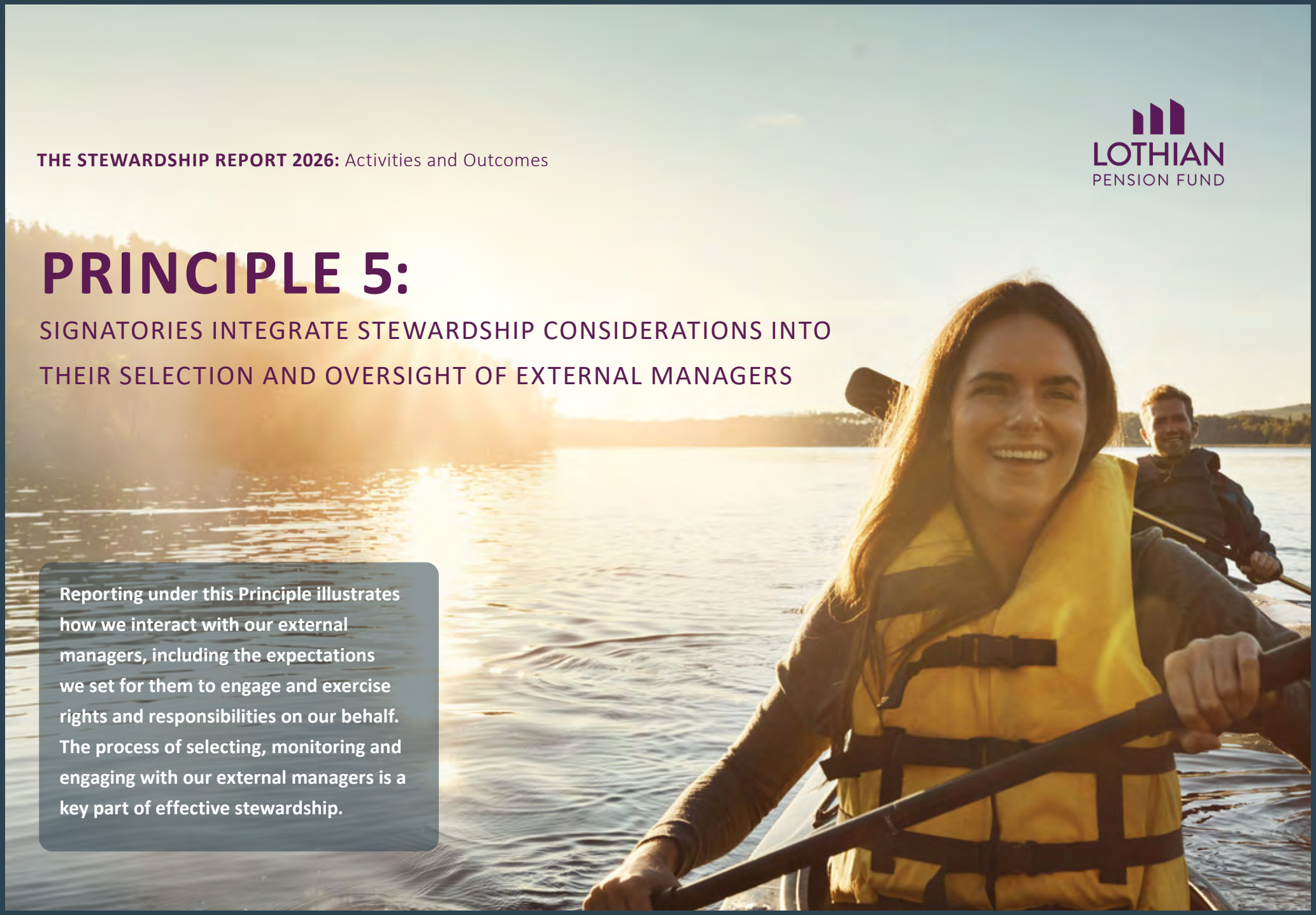
For our direct property portfolio, we aim to improve the value of the assets in our portfolio in line with our fiduciary duty. This includes consideration of health and safety issues and other regulations to ensure we're a good landlord. We continue work with our external management team and occupational tenants to improve the energy performance of our assets to ensure future compliance with proposed regulations.

Following the launch of the Better Building Partnership's Green Lease Toolkit in January 2024, we conducted a review of the property leases to consider how best to adopt elements of the toolkit and incorporate them within the LPF portfolio. As a result, we made changes to expand the green lease clauses within our standard form of lease, and to engage earlier in negotiations with all new tenants to have these incorporated in the agreed terms. This promotes greater alignment between the Fund, as landlord, and the tenant, as occupier. The overall objective is to identify areas of mutual value where co-operation between the stakeholders will improve the sustainability of commercial buildings. The leases and legal documents continue to be assessed and updated in co-operation with our legal partners.

LOTHIAN PENSION FUND

PRINCIPLE 5:

SIGNATORIES INTEGRATE STEWARDSHIP CONSIDERATIONS INTO THEIR SELECTION AND OVERSIGHT OF EXTERNAL MANAGERS



Reporting under this Principle illustrates how we interact with our external managers, including the expectations we set for them to engage and exercise rights and responsibilities on our behalf. The process of selecting, monitoring and engaging with our external managers is a key part of effective stewardship.

EXPECTATIONS WHEN SELECTING NEW EXTERNAL MANAGERS

During the selection process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes and in their active ownership activities. We aim to ensure alignment of our external managers' mandate with our stewardship priorities.

When investing via a segregated mandate, we may use the mandate to clearly state the investment objectives, including stewardship expectations or rules. When investing via a pooled product we may ask the manager to attest to alignment with our Statement of Responsible Investment Principles in our Investment Management Agreement.

When selecting a new manager for listed equities or corporate bonds, our ambition is to appoint managers who will not subscribe to new financing for companies or projects that are assessed as having a business plan that is incompatible with the aims of the Paris Agreement. This ambition was a key consideration during the review and evaluation process for a new corporate bond manager and in the co-design of bespoke mandate rules during the appointment stage. More information is provided in the case study on page 50.



When undertaking due diligence on new private market investment opportunities, we assess the manager's approach to incorporating ESG issues into their investment analysis and decision-making processes. Where available, we review PRI reports, GRESB sustainability assessments and product level TCFD reports. We encourage managers to articulate their approach to ESG and sustainability. Where appropriate, we seek improvements to both the management and implementation of that approach. For example, we encourage managers to become signatories to the PRI and to the UK Stewardship Code, where appropriate.

EXTERNAL MANAGER MONITORING

We monitor all our external managers to ensure they continuously maintain their responsible investment and stewardship commitments. We expect our appointed managers to demonstrate how they incorporate ESG issues into their ownership policies and practices, and material misalignment from our expectations will lead to review.

Equities and debt

We monitor our managers' implementation of their approach on a quarterly basis alongside all other investment matters. Some of the content which our managers must include in their quarterly reports is specified by regulations, but we agree the extent of additional content we require to be included in such reports upon appointment.



In addition to the quarterly reports that managers provide, we issue a quarterly questionnaire to address other material points, including ESG issues.

Members of our internal investment team meet with our external managers quarterly to understand any changes that might affect the management of our mandates. Our Chief Executive Officer and the Chief Investment Officer review all external mandates with the internal investment team, with any issues and escalation actions discussed at the quarterly JIF meetings.

Private markets fund managers

To monitor our diversified portfolio of private market funds, the largest portion being infrastructure assets, we review each manager's quarterly updates of activity, performance and portfolio construction to demonstrate adherence to the fund's agreed strategy. Monitoring includes performance, risk, ESG issues and portfolio construction relative to diversification constraints.

Our portfolio managers are in regular contact with our fund managers, attending annual investor meetings and reviewing the periodic reporting and updates received. This may include discussion of future investment opportunities, redemption queues or forecasts of cash distributions from maturing investments. This regular contact ensures that our managers understand our views and expectations. In some cases, an LPF representative will sit on the advisory board of the fund to review matters such as management of conflicts of interest which require investors' consent. As discussed in Principle 4, this supports us to exercise relevant rights and responsibilities, by providing greater transparency and a forum for constructive challenge.

General

We don't necessarily expect our external managers to be the “finished article”. In some instances, we'll consider selecting managers with less-developed approaches to responsible investment if we can be assured that there's a demonstrable road map towards improvement and development. One example where this may be the case is in relation to infrastructure and real estate investments, where ESG and responsible investment reporting may not be as established as in other asset classes.

We believe we can add value in working with managers at this level if we're confident in the investment case and their overall philosophy.



EVOLVING EXPECTATIONS ON CLIMATE STEWARDSHIP

Our monitoring (and selection) processes for external managers incorporate ESG assessments, which continue to be refined as industry practices evolve and our policies and expectations change over time. A good example of this is our update to our climate-related commitments with the adoption of our Climate Change Policy (CCP) in March 2025. Our approach is to work with managers, notifying them of our updated policies and requesting them to confirm their approach remains aligned with ours. We've found a willingness to evolve alongside us, through enhanced reporting on ESG analysis and engagements or discussions to gain a better understanding to ensure we're aligned. Where we're not aligned and see no pathway to alignment, we would ultimately expect to terminate the mandate.

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. We've been engaging with our managers on steps that they could take to align their practices with our aims and objectives.



- A small proportion of our equities are managed by Baillie Gifford, who carry out voting and engagement with investee companies on our behalf. Information on this voting and engagement activity is published on our website on a quarterly basis alongside the reports provided by EOS on voting and engagement for our internally managed equities. We meet with Baillie Gifford on a quarterly basis where we may discuss aspects of their voting and engagement activities in more detail.
- In June 2025, we arranged a workshop to explore our manager's approach to climate scenario analysis
- The workshop focused on the qualitative framework that Baillie Gifford uses to consider the potential impact of three narrative climate scenarios (hothouse world, disorderly transition and orderly transition) to enhance the investment process. The aim is to find resilient, adaptable companies and to spot and avoid potential investment pitfalls, recognising that the outlook for certain stocks, sectors and regions radically differs, depending on how the climate transition progresses and whether it's driven by technology innovation or policy/ politics. This was followed some stock specific examples demonstrating how the insights from this research were being integrated in specific investment decisions.

In 2025 we completed a review of credit strategies with a focus on managers' approaches to net zero alignment. This led to the appointment of a new corporate bond mandate with customised ESG rules in July 2025, which is discussed in the case study on page 50.

We monitor private market funds in a similar way, engaging to promote higher standards of reporting and identifying managers with whom we won't invest in the future due to concerns over their approach to managing climate risk.

HOLDING MANAGERS TO ACCOUNT

We've set clear expectations of stewardship in our mandates with external managers. We'll challenge them if we feel that they're not delivering on the stewardship commitments they've made to us (which we'll capture in our monitoring reports). We've not had to challenge any of our external managers during the time-period covered by this Stewardship Report. But we've pre-identified escalation options where improvements have not been made following an initial notification of concern.

Typical escalation options:

- Notifying the external manager about their placement on a watch list
- Engaging the external manager's board or investment committee
- Reducing our exposure to the external manager until any non-conformances have been rectified
- Terminating the contract with the external manager (or not reappointing them) if failings persist over a period of time.



CASE STUDY

APPOINTMENT OF NEW CORPORATE BOND MANDATE WITH CUSTOMISED CLIMATE RULES

In 2024/2025 we carried out a selection process for a new corporate bond mandate. The tender process outlined our expectations around ESG integration particularly consideration of climate-related risks. Our review and evaluation included a thorough consideration of how alignment with our responsible investment objectives could potentially be achieved. In July 2025, we appointed Royal London Asset Management (RLAM) as our new corporate bond manager with a co-designed mandate.

LPF's climate-related criteria and expectations

A key criterion for selecting and designing a new mandate was alignment with our approach to managing climate change risk, which distinguishes between secondary investment (the trading of securities) and primary investment (providing capital to companies through subscribing to new bonds or 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, RLAM stood out because they already had a framework in place for assessing climate risks in a way that could align with our approach.

Working with RLAM on a bespoke mandate

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. This framework 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 our 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.

Reflection

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.



LOTHIAN
PENSION FUND

PRINCIPLE 6:

SIGNATORIES MONITOR AND HOLD TO ACCOUNT STEWARDSHIP SERVICE PROVIDERS



HOW WE UTILISE EOS AS OUR ENGAGEMENT AND VOTING PROVIDER

Engagement

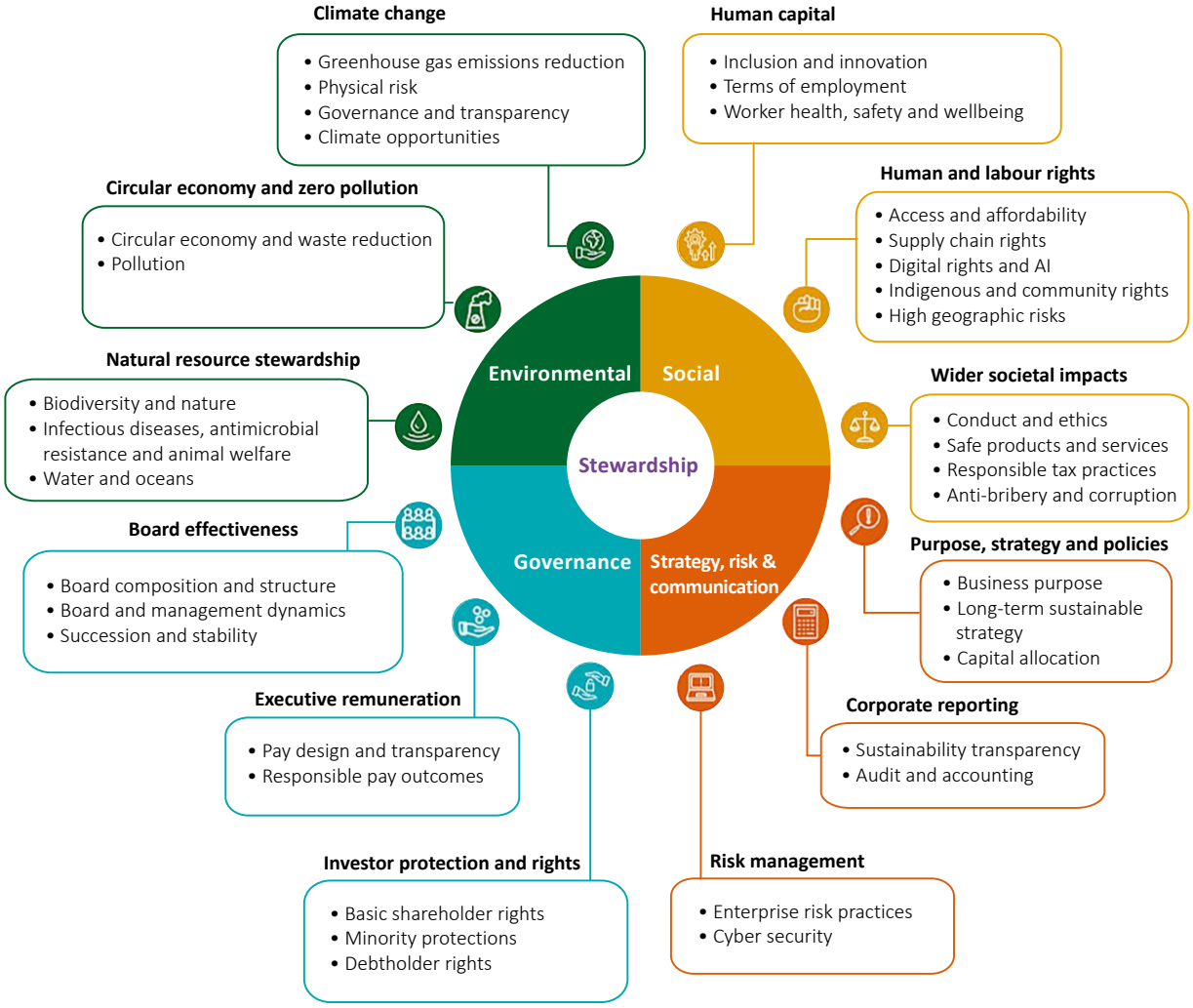
We utilise a voting and engagement provider, EOS at Federated Hermes (EOS), to provide extra resources to carry out engagement with companies on our behalf, across our listed equities portfolio. Each year, we consult with EOS to develop an engagement plan that aligns our priority issues and supports the wider goal of driving higher standards of corporate behaviour. EOS engagement themes for 2025-2027 cover 12 main priorities (as illustrated on the right), with 36 related sub- themes.

Voting

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 applies both global and regional voting guidelines to its recommendations, which we review annually.

In recognition of the value of active engagement, EOS works with our portfolio managers to coordinate and execute voting instructions. We require EOS to provide our portfolio managers with notice of voting instructions and allow them to override any EOS recommendation. Generally, we follow EOS's voting policy and voting recommendations which are informed by their engagement with companies.



OVERSIGHT OF EOS AS OUR ENGAGEMENT AND VOTING PROVIDER

We frequently discuss voting-related issues with EOS, especially during voting season when there's a concentration of activity. We also review global developments in governance standards with them each year so we can be sure our voting policies are updated and aligned as appropriate.

We participate in EOS' biannual client advisory meetings, which are an effective means of reviewing current practices, monitoring performance and providing meaningful input into engagement priorities.

Within our contract with EOS, we outline key performance indicators to which we measure EOS's service delivery. These include:

- On demand access to EOSi portal and ISS platform
- Timely and proactive provision of voting alerts, thematic ESG alerts, engagement progress updates and individual company case study reports
- Execution of voting rights in line with our policy to vote 100% of our shares
- Provision of quarterly voting record, voting statistics, and engagement statistics which we can publish publicly (via our website)
- Provision of annual report with LPF specific voting and engagement statistics
- Scale of engagement programme coverage: details enable us to prioritise our direct and other collaborative engagements (e.g. through CA100+) on holdings not covered by EOS.

100% of LPF's ballots were voted in 2025/26 (on par with the prior period), which we monitor from the confidential voting reports that we generate through the ISS Platform. This was supported by EOS procedures for notifying us of votes requiring an administrative declaration, as well as by direct access to EOS's client relationship and voting support team, enabling LPF's internal portfolio managers to resolve issues promptly.

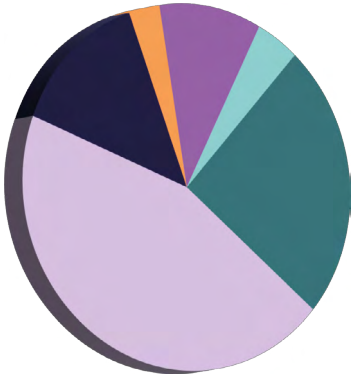
In the period under review, we logged an issue in voting for two items at one AGM, where the incorrect voting policy had been applied. While this error did not impact the result at the AGM, we engaged with EOS to understand what had happened. EOS were transparent about what had caused the issue (human error) and the control improvements that they implemented as a result. We gained comfort that this would prevent reoccurrences.



EOS ENGAGEMENT STATISTICS

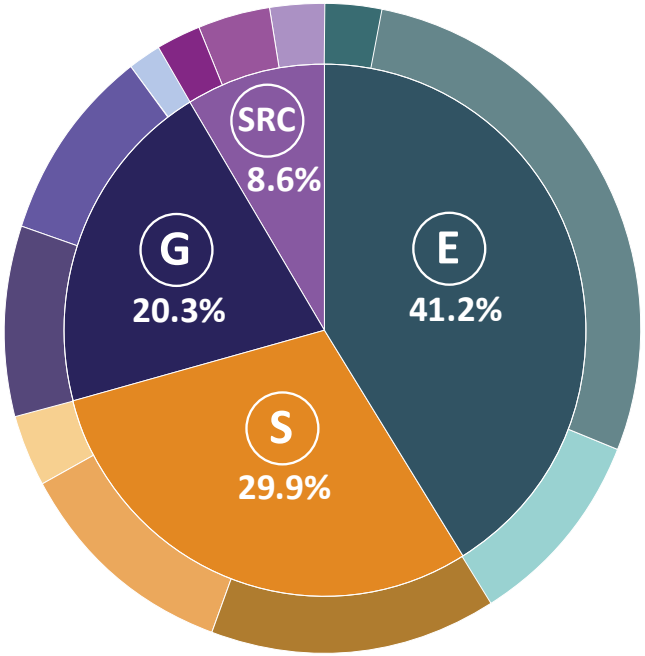
EOS provide us with an Annual Report which includes statistics around engagement that they have carried out on our behalf during the calendar year.

In 2025, EOS engaged with 139 of our portfolio companies on 817 environmental, social, governance, and strategy, risk and communication issues and objectives. The charts show the breakdown of companies engaged by region and the spilt of engagement by theme. EOS' holistic approach to engagement means that they typically engage with companies on more than one topic simultaneously.



COMPANIES ENGAGED BY REGION

- Developed Asia **10.1%**
- Emerging & Developing Markets **4.3%**
- Europe **24.5%**
- North America **44.6%**
- United Kingdon **13.7%**
- Australia & New Zealand **2.9%**



ENGAGEMENT BY THEME

- **Environmental 41.2%**
  - Circular Economy & Zero Pollution **8.0%**
  - Climate Change **68.0%**
  - Natural Resource Stewardship **24.0%**
- **Social 29.9%**
  - Human & Labour Rights **50.0%**
  - Human Capital **38.1%**
  - Wider Societal Impacts **11.9%**
- **Governance 20.3%**
  - Board Effectiveness **45.2%**
  - Executive Remuneration **46.4%**
  - Investor Protection & Rights **8.4%**
- **Strategy, Risk & Communication 8.6%**
  - Corporate Reporting **25.7%**
  - Purpose, Strategy & Policies **44.3%**
  - Risk Management **30.0%**

EOS ENGAGEMENT STATISTICS

Milestone status of engagement

To measure progress and achievement of engagement objectives, EOS use a four-stage milestone strategy.

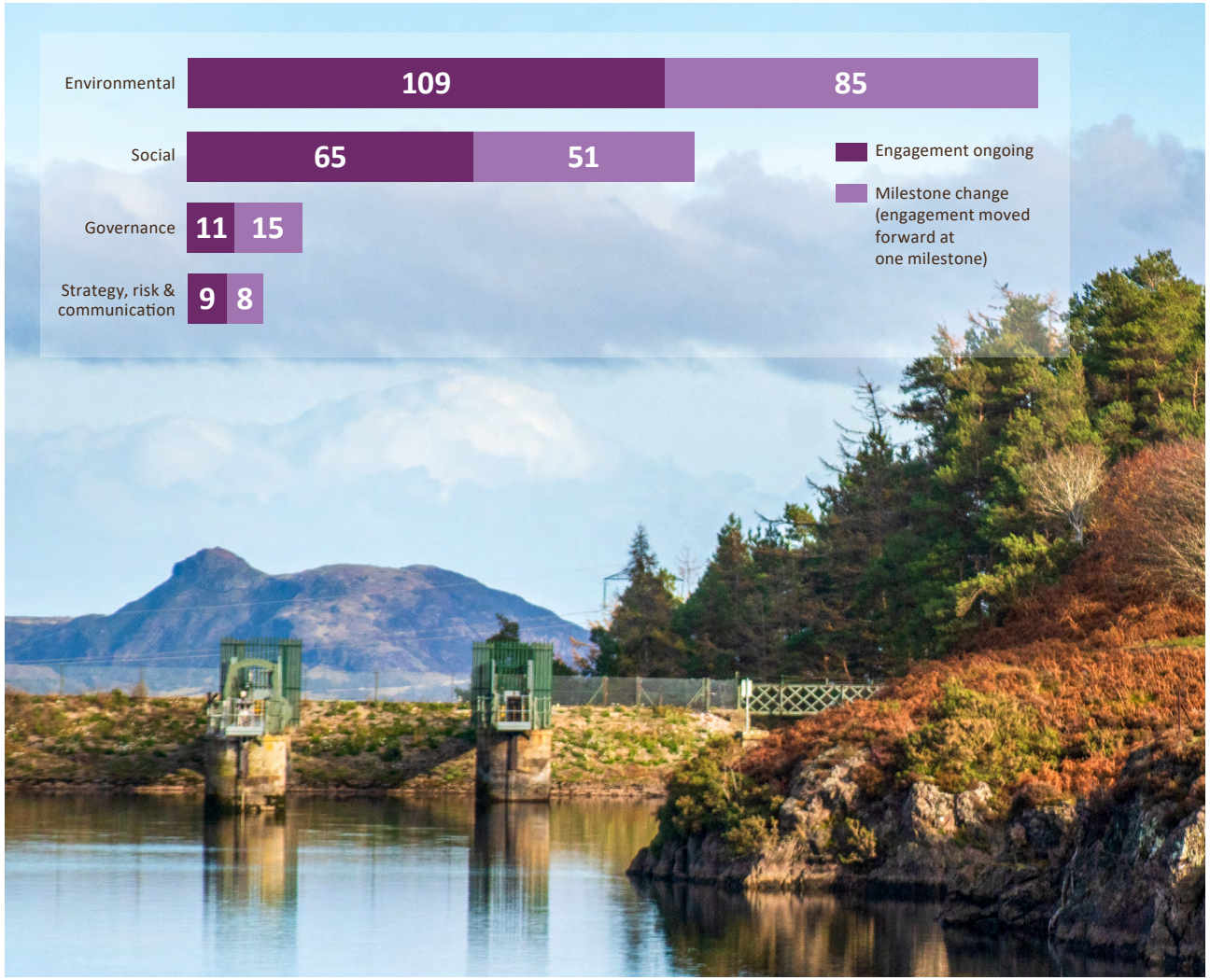
Milestone 1:
Concern raised with the company at the appropriate level

Milestone 2:
The company acknowledges the issue as a serious investor concern, worthy of a response

Milestone 3:
The company develops a credible strategy to achieve the objective, or stretching targets are set to address the concern

Milestone 4:
The company implements a strategy or measures to address the concern

EOS made solid progress in delivering engagement objectives across regions and themes. At least one milestone was moved forward for about 45% of its objectives during the year. The following chart describes how much progress has been made in achieving the milestones set for each engagement.

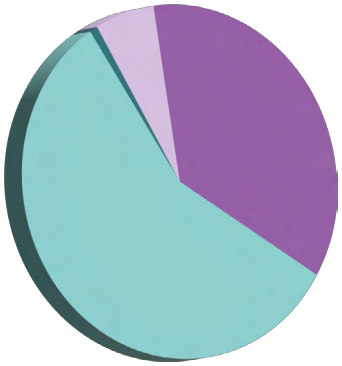


OUR VOTING STATISTICS VIA EOS

EOS provide us with an Annual Report which includes our voting statistics from the calendar year. At one meeting we abstained from voting on re-election of the Chair due to concerns over inadequate management of climate-related risk.

100% of LPF's ballots were voted in 2025. This means we voted on 6,793 resolutions at 441 meetings. At 254 of those meetings (58%), we opposed one or more resolution.

The issues on which we voted against management (in-line with EOS recommendations) are presented above right.



MEETINGS INSTRUCTED

- For **36.3%**
- Against **57.6%**
- Abstain **0.2%**
- For by Exceptions **5.9%**



RESOLUTIONS INSTRUCTED AGAINST MANAGEMENT

- Board structure **45.5%**
- Remuneration **24.0%**
- Shareholder resolution **14.9%**
- Capital structure and dividends **5.4%**
- Amend articles **2.5%**
- Audit and accounts **4.9%**
- Poison pill/Anti-takeover device **0.4%**
- Other **2.5%**

Reflections on the 2025 voting season

Shareholders and companies grappled with heightened geopolitical tensions and policy uncertainty in the 2025 voting season. In Europe and Australia, environmental topics remained high on the agenda, while in North America there was a marked reduction in the number of shareholder proposals filed. This was accompanied by a decline in their quality, as new guidance from regulators, and resource constraints for co-filers, limited the number of proposals making it on to the ballot. Across Asia, we saw notable improvements in board independence. Female representation on boards also improved, helped by regulations in markets such as China.

Environmental topics:

We continued to raise concerns about the inadequate management of climate-related risks and opportunities by voting against the re-election of relevant directors at companies where insufficient management of these risks and opportunities was indicated. Over the last five years, EOS has worked with companies, auditors, standard-setters and industry bodies to improve financial reporting on climate-related risks and opportunities (see case study on page 59). We welcome regulatory developments that are driving improved climate disclosures, with stock exchanges in Hong Kong and China introducing new climate reporting standards based on global guidelines, with the first reports due in April 2026.

OUR VOTING STATISTICS VIA EOS

Human rights proposals:

In North America, we saw several shareholder proposals relating to artificial intelligence (AI), with increasingly sophisticated requests and scrutiny of company practices. Many of these proposals explored the intersections of AI and other topics such as climate change, data privacy, and human capital. While such proposals were often filed with technology companies on the frontline of AI development, companies in other sectors received them as well.

Tax transparency:

We advocate for increased tax transparency including country-by-country reporting, on the basis that this is in the interests of companies and investors. In response, new reporting standards and regulatory requirements are emerging. The EU and Australia now require certain multinational companies to file country-by-country reporting publicly. However, increased tax transparency regulatory requirements have not fully eliminated the relevance of shareholder proposals seeking greater tax transparency. In 2025, we saw tax-related shareholder proposals filed at several North American companies. We believe public disclosure often encourages further board and management scrutiny and provides investors with information that may be useful in their decision making.



Executive pay:

We continued to see significant levels of CEO pay and complex structures in various sectors and markets. As part of our engagement and the implementation of our voting policies, we emphasised the need for a clear link between pay and performance, as well as a consideration of the broader stakeholder environment when determining executive pay policies.

Board composition:

Where board composition best practice or listing rule obligations exist in a country, we generally expect companies to adhere to these or provide an explanation as to why they do not. In alignment with the Parker Review expectations (see case study in Principle 2), our UK vote guidelines indicate a vote against the board chair or nomination committee chair if the company is listed on the FTSE 100 and women comprise less than 25% of the executive committee and direct reports. In 2025, our gender diversity thresholds were raised for markets such as Japan, South Korea, and Brazil. The practice of supporting female directors by exception was maintained where appropriate, to encourage board diversity in markets that lag others in their region. Regulatory developments also played a role. The Hong Kong Stock Exchange introduced new requirements effective from 1 July 2025, banning single gender boards.

Board independence:

Across most markets, we generally advocate for fully independent audit committees and majority-independent nomination and remuneration committees, all chaired by independent directors and excluding executive members. In 2025, our voting policies were updated to reflect voting against CEOs serving on board committees. This is due to concerns that their influence may potentially weaken committee functions.

Auditor tenure:

In North America, excessive auditor tenures persisted at certain companies, with no plans to rotate the auditor. In Europe, it's common to rotate the audit firm before its tenure reaches 20 years, and tenures running longer than that can raise questions about independence and conflicts of interest. However, many North American companies maintain that their long-tenured auditors have acquired the necessary experience to audit their complex businesses, and therefore are an asset rather than a risk. Our voting policy indicates votes against the audit committee chair and the ratification of the external auditor where the audit firm had been in place consecutively for an excessive period, for example over 100 years, with no review or consideration of auditor rotation.

HOW WE UTILISE AND MONITOR LAPFF'S ENGAGEMENT SERVICES

The Local Authority Pension Fund Forum (LAPFF) is a collaborative shareholder engagement group, comprising over 80 UK local authority pension funds and seven of the LGPS pension fund pools in England and Wales. It promotes the highest standards of corporate governance to protect the long-term value of local authority pension funds.

LAPFF carryout engagements with companies on behalf of its members, participate in collaborative initiatives (which we can be involved in/support, such as the initiative to write to FTSE 100 companies discussed in Principle 2), highlight co-filing opportunities, provide alerts on upcoming votes, and produce policy and sector research papers. We monitor LAPFF through attending their quarterly business meetings and reviewing the corresponding engagement report and papers.

We assess LAPFF's work plan on an annual basis and provide feedback to ensure alignment with our stewardship priorities.

OVERSIGHT OF INVESTMENT CONSULTANT

In 2025 we engaged Hymans Robertson to review our approach to investing in oil & gas stocks. We used the National LGPS Framework for Investment Management Consultancy Services to procure an investment consultant with the necessary skills and experience for this specialist project in a cost-efficient manner.

The project was overseen by our Head of Responsible Investment with findings reported to the Chief Investment Officer and shared with the broader investment team. The project findings did not lead to any changes of our approach during the year to March 2026. However this topic remains an area of high interest for many of our stakeholders, and we continue to explore how we can enhance our approach through 2026.



LOTHIAN PENSION FUND

CASE STUDY Q&A WITH EOS ON CLIMATE ALIGNED ACCOUNTING

Justin Bazalgette, EOS
Themes: Climate Change, Corporate Reporting
Haonan Wu, EOS
Themes: Climate Change, Investor Protection & Rights

Over the last five years, we have worked with companies, auditors, standard-setters and industry bodies to improve financial reporting on climate-related risks and opportunities. Although companies may make bold commitments to net zero, with interim targets and ambitious plans for delivery, in many cases their financial statements shed little light on the assumptions made in relation to these material commitments. As a result, investors are unsure how the company's climate commitments have been accounted for, reducing confidence in capital allocation decisions. Where explanations have been given, investors would also like to see companies provide a sensitivity analysis, checked by the auditor, to show how changes in the assumptions might affect the company accounts.

Q. What progress have we seen on this topic since 2023? Can you give some examples of good company engagements and outcomes?

A. We have noticed improvements in companies making a clear link to climate-related risks and opportunities in their financial statements, providing clarity to investors. Companies such as Shell, BP and Rio Tinto are leading in this area, but we have seen recent progress from others. For example, since 2020 we have engaged on this topic with CRH, a global construction materials company in a high-emitting sector. After several discussions with the board chair and audit chair, in 2025 CRH included detailed information in its International Financial Reporting Standards (IFRS) submission as to how it had accounted for its energy transition strategy. The new auditor, Deloitte, was also clear about how it had audited the company's approach to climate business risk in the accounts.

However, there are many uncertainties and assumptions being made by companies that remain undisclosed, preventing a thorough understanding of how a company has assessed the financial implications of its long-term climate commitments. Whilst some company disclosures in their financial statements have improved, auditor commentary on their assessment of how the company has accounted for climate risk is less developed.

Few companies are providing any information relating to scenario analysis, but this is important for understanding the extent to which the physical risks of climate change itself, and regulatory and market responses, will impact asset valuations, capital expenditures, ongoing compliance expenses, and revenue opportunities.

Q. Were there any notable developments in the 2025 voting season?

A. Our focus has been on those companies identified as the most impacted by the Paris Agreement. But we have also engaged with banks such as Westpac, HSBC, BNP Paribas and others in relation to the assumptions they have made about long-term credit losses, and their disclosures. In the 2025 voting season, three Japanese megabanks – MUFG, SMBC and Mizuho – received shareholder proposals calling for the disclosure of the financial risk audit. We recommended support for these.

Q. Are you seeing some regional differences?

A. A 2024 report from Carbon Tracker, a climate-focused NGO, indicated regional differences in company disclosure. The UK market is leading, followed by the EU and Australia. Japanese and US companies generally provide more limited references. Auditor commentary on company climate disclosures has been even lower, with auditors in Germany and France often making little or no mention of how they have audited the impact of climate-related risks and opportunities.

In 2025 we saw a significant reaction to the US administration's policies, with some companies reducing their climate-related disclosures in the financial statements of their GAAP-compliant reporting. However, many US companies have maintained their commitments to the Paris Agreement and their energy transition strategies, as material matters affecting their business model. This demonstrates the financial risks and opportunities presented by climate change, and the importance of effective management strategies to long-term financial success.

CASE STUDY

Q&A WITH EOS ON CLIMATE ALIGNED ACCOUNTING

In developed Asia and emerging markets, we are seeing companies beginning to shift from scoping their climate change commitments and improving their reporting and target setting, to aligning their accounts with these commitments. We expect this to continue in 2026.

Q. What have we done to try to overcome the challenges that persist in certain markets?

A. We have engaged with standard setters, seeking more clarity on how their standards should be interpreted by companies. In June 2025, following engagement by EOS and investors, the International Accounting Standards Board (IASB) issued a near-final draft of illustrative examples showing how climate-related risks and other uncertainties should be reported using its IFRS accounting standards. In late November 2025, it issued the final version, with minor amendments.

Most countries base their accounting standards on those of the IASB, with the US an exception in using the Financial Accounting Standards Board. We have highlighted the IASB's draft to the high-emitting companies in our engagement programme and their auditors, asking them to confirm that they will assess their current reporting and improve their disclosures in line with the IASB's illustrative examples.

We have also engaged with the four big audit firms, advocating for better assessments within the audit report of how a company has treated climate-related risk in its accounts. If a high-emitting company states that there is no financial impact to the accounts from climate-related opportunities or risks, it is reasonable to seek to understand the rationale behind this conclusion. Also, the assessment should be financially grounded and independently verified by the auditor to give investors confidence that it is an accurate reflection. Investors may not necessarily agree with the way the company has assessed the financial impact of its climate commitments, so this disclosure would allow them to raise questions and seek clarity.

We have engaged directly with auditor professional bodies in France and Germany, where we see the biggest gaps in auditor assessment, and participated in investor roundtables to raise awareness. For example, we presented at a panel discussion organised by the Global Accounting Alliance at the launch of the International Standard on Sustainability Assurance (ISSA5000) in March 2025.

We emphasised that financially material disclosures had a significant impact on investor due diligence. Therefore, clarity on how companies had assessed issues such as climate-related opportunities and risks in their accounts was a research factor in understanding the long-term business risks involved. When a company has made longterm commitments about a financially material matter, it should explain how it has considered and quantified the risks in its disclosures.

Q. How will we engage on this in 2026?

A. We are hopeful that the IASB's clarification of how companies should handle uncertainties such as climate in their financial statements will lead to a significant step forward in providing investors with the information that they need for decision-making. Our engagement will focus on supporting companies to ensure that their disclosures follow the illustrative examples published by the IASB, and advocating for auditor commentary.

Companies in Asia are increasing their climate change commitments and targets, with the Singapore and Hong Kong listing bodies mandating that companies follow the Task Force on Climate-related Financial Disclosures framework. We also expect the implementation of IFRS S2 to help with our request for companies to disclose a scenario analysis. This is a sustainability disclosure standard that focuses on climate-related physical and transition risks. In Japan and South Korea, we expect to see alignment with IFRS S2 within the local standards.

We plan to engage with national reporting standards regulators, encouraging them to confirm that they expect companies to follow the IASB illustrative examples. They should also clarify what action they will take if companies fail to do so in their 2025 disclosures. In short, with the IASB publication, IFRS S2, and the EU Corporate Sustainability Reporting Directive requirements, 2026 should see a significant step forward in climate-aligned accounting and auditing.

GLOSSARY

AGM	Annual General Meeting: a yearly company meeting where shareholders can vote on key issues and elect board directors
AOC	Asset Owner Council: a forum for sharing best practice on investor stewardship and responsible investment implementation and to support engagement with regulators in a coordinated way
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
CEO	Chief Executive Officer
EOS	EOS at Federated Hermes: engagement and voting provider for LPF
ESG	Environmental, Social and Governance
FTSE 100	Financial Times Stock Exchange 100: comprised of the 100 most highly capitalised, well-established companies listed on the London Stock Exchange
FTSE 250	Financial Times Stock Exchange 250: comprised of 101 to 350 of well-established companies (after the FTSE 100) listed on the London Stock Exchange. They're referred to as mid cap companies
GRESB	An investor-led, sustainability benchmarking provider for real assets, covering real estate and infrastructure assets
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 Lothian Pension Fund)
LAPFF	Local Authority Pension Fund Forum: a collaborative shareholder engagement group, comprising UK local authority pension funds and most of the LGPS pension fund pools
LGPS	Local Government Pension Fund
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
SRIP	Statement of Responsible Investment Principles
TCFD	Task Force on Climate-related Financial Disclosures
TPI	Transition Pathway Initiative

LOTHIAN
PENSION FUND

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