Public Document Pack

Notice of Meeting and Agenda

Pensions Committee

2.00 pm, Wednesday 29th June 2022

Harris Suite, Edinburgh International Conference Centre, Morrison Street, Edinburgh / Microsoft Teams (if required)

This is a public meeting and members of the public are welcome to attend in person.

The law allows the Committee to consider some issues in private. Any items under "Private Business" will not be published, although the decisions will be recorded in the minute.

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Contacts

Susan Handyside, Governance Manager, Lothian Pension Fund
Tel: 07771 378 238
Email: Han24S33@lpf.org.uk

Lesley Birrell, Committee Services, City of Edinburgh Council
Tel: 0131 529 4240
Email: lesley.birrell@edinburgh.gov.uk

1. Quorum Check

1.1 The Convener will check to ensure a quorum is in attendance to ensure the meeting can proceed.

2. Order of Business

2.1 Including any notices of motion and any other items of business submitted as urgent for consideration at the meeting.

3. Declaration of Interests

3.1 Members of the Committee and members of the Pension Board should declare any financial and non-financial interests they have in the items of business for consideration, identifying the relevant agenda item and the nature of their interest.

4. Deputations

4.1 If any

5. Minutes

5.1 Minute of the Pensions Committee of 22 March 2022 (circulated) – submitted for approval as a correct record 7 - 16

6. Reports

6.1 Appointments to the Pensions Audit Sub-Committee – report by the Interim Executive Director of Corporate Services, City of Edinburgh Council (circulated) 17 - 20

7. Motions

7.1 If any

8. Resolution to Consider in Private

8.1 The Committee is requested under Section 50(A)(4) of the Local Government (Scotland) Act 1973 to exclude the public from the meeting for the following items of business on the grounds that they would involve the disclosure of exempt information as defined in Paragraphs 1.3 and 6 of Part 1 of Schedule 7A of the Act.

9. Private Business

Nick Smith

Service Director – Legal and Assurance

Committee Members

Councillors Marco Biagi, Steve Burgess, Phil Doggart, Neil Ross and Mandy Watt; John Anzani and Richard Lamont.

Please note that members of the Pensions Board and the Independent Professional Observer will also be invited to attend and participate in the meeting.

Information about the Pensions Committee

The Pensions Committee consists of 5 Councillors and 2 external members and is appointed by the City of Edinburgh Council in its separate capacity as administering authority of the Lothian Pension Fund. The Pensions Committee usually meets 4 times a year (every twelve weeks).

This meeting of the Pensions Committee will be held in the Harris Suite, Edinburgh International Conference Centre, Morrison Street, Edinburgh and remotely by Microsoft Teams (if required). The meeting is open to members of the public.

Pension Board Members

Alan Williamson, Brian Robertson, Darren May, Jim Anderson, Sharon Dalli (Chair), Thomas Carr-Pollock, Tom Howorth, Nick Chapman and Tony Beecher.

Information about the Pension Board

The Pension Board consists of 10 members, 5 members from the employer bodies and 5 members from trade unions representing members within the pension funds as set out in the regulations.

The role of the Pension Board is to help ensure that the operation of the pension funds is in accordance with the applicable law and regulation.

https://www.lpf.org.uk/us .

Independent Professional Observer

Andy McKinnell

Information about the Independent Professional Observer

The Independent Professional Observer is appointed by the Lothian Pension Fund to help strengthen the Lothian Pension Fund's governance. The role is to provide independent observations to the Pensions Committee and Pension Board.

The purpose of the role is to enhance the scrutiny of the decision making and provide the Committee and Board with additional experience and knowledge impartial from the Lothian Pension Fund's Officers.

City of Edinburgh Council Oversight

The City of Edinburgh Council has statutory responsibility to administer the Lothian and Scottish Homes pension funds. In order to most effectively carry out that function (and to reflect the separate statutory responsibilities, and regulation, of the pension funds) the City of Edinburgh Council has delegated management responsibility for the pension funds to the Lothian Pension Fund Group and its two arms-length companies LPFE Limited and LPFI Limited. Critical parent oversight continues to be carried out by the Pensions Committee and Richard Carr, Interim Executive Director of Corporate Services for the City of Edinburgh Council, as the Administering Authority for the Fund, to ensure that its statutory functions are being properly carried out.

Lothian Pension Fund Senior Leadership Team

The senior leadership team responsible and accountable for the business and activities of the Lothian Pension Fund Group are:

David Vallery, Chief Executive Officer
Bruce Miller, Chief Investment Officer
Struan Fairbairn, Chief Risk Officer
John Burns, Chief Finance Officer
Helen Honeyman, Chief People Officer

Further Information and Contact

If you have any questions about the agenda or meeting arrangements, please contact Susan Handyside, Governance Manager, Lothian Pension Fund, Atria One, 144 Morrison Street, Edinburgh EH3 8EX, Tel 07771378238, email Han24S33@lpf.org .

The agenda, minutes and public reports for this meeting can be viewed via the City of Edinburgh Council committee portal.

LOTHIAN
PENSION FUND

Pensions Committee Minutes

2pm, Wednesday 22 March 2022

Present:

Councillors Munn (Convener), Burgess, Child, Rose and Neil Ross; John Anzani and Richard Lamont.

Pension Board Members present:

Jim Anderson, Thomas Carr-Pollock, Nick Chapman, Sharon Dalli (Chair), Tom Howorth and Darren May.

Other Attendees:

Andy McKinnell, Independent Professional Observer, Lesley Newdall, Chief Internal Auditor, City of Edinburgh Council and Nick Bennett, Azets, External Auditor

Apologies:

Tony Beecher, Brian Robertson and Alan Williamson.

1. Quorum

The Clerk confirmed that notice of the meeting had been given and that a quorum was present and the meeting was declared open.

2. Order of Business

The Clerk advised there was no change to the order of business.

3. Declaration of Interests

To note there were no declarations of interest.

4. Minutes

Decision

To approve the minute of the Pensions Committee of 8 December 2021 as a correct record.

5. Pension Board oversight

The Chair of the Pension Board advised the Committee of the relevant discussion and decisions taken at the Pension Board meeting and confirmed that the Pension Board would provide comment on other relevant matters during the meeting.

6. Agenda planning

An overview of proposed reports for future Pensions Committee and Pensions Audit Sub-Committee meetings for June and September 2022 was presented.

Decision

1) To note the agenda planning document.

2) To note that the Pension Board Members were invited to comment on agenda items during Committee meetings.

3) To note that the cyber security maturity assessment report would be submitted to the June 2022 meeting of the Pensions Audit Sub-Committee.

(Reference – report by the Chief Risk Officer, LPF, submitted.)

7. Lothian Pension Fund – Internal Audit Update as at 28 February 2022

Details were provided of the progress of IA assurance activity on behalf of Lothian Pension Fund (LPF) performed by the City of Edinburgh Council's Internal Audit team.

Delivery of the four audits included in the 2021/22 IA annual plan was in progress, with three audits completed and one in progress.

As at 28 February 2022, LPF had 5 open IA findings (1 High; 3 Medium; 1 Low) and 7 supporting agreed management actions (1 High; 5 Medium; 1 Low) raised in the Bulk Transfers, Cessations and Custodian Services reviews. Of these, one medium rated finding raised in the Custodian Services audit was overdue. Implementation progress for this overdue finding would be considered as part of the current Risk Management audit.

Reports detailing the outcomes of the Technology Model Development (some improvement required), Capital Calls (effective) and Receipt of Employer Contributions (effective) reviews were submitted the Committee's review and scrutiny.

Decision

1) To note progress with delivery of the Lothian Pension Fund 2021/22 Internal Audit Annual Plan.

2) To note progress with implementation of agreed management actions to support closure of Lothian Pension Fund internal audit findings raised.

(Reference – report by the Chief Internal Auditor, CEC, submitted)

8. Lothian Pension Fund – Proposed Internal Audit Plan for 2022/23

The Lothian Pension Fund (LPF) proposed Internal Audit (IA) plan for the period 1 April 2022 to 31 March 2023 was presented to the Committee for review and approval.

Two large scale reviews had been included in the proposed plan that focussed on Project Forth design and implementation readiness, and the adequacy and effectiveness of LPF's technology security assurance arrangements. Whilst this was a lower number of audits in comparison to previous years, these reviews should provide assurance on LPF's most significant risks.

The plan would also include ongoing IA follow up on implementation of previously raised findings, and LPF also may be included within the scope of any relevant City of Edinburgh Council thematic reviews included in the Council's 2022/23 IA plan.

Decision

To approve the proposed Lothian Pension Fund 2022/23 Internal Audit plan.

(Reference – report by the Chief Internal Auditor, CEC, submitted)

9. External Audit Annual Plan for 2021/22

Azets, the external auditor to Lothian Pension Fund and Scottish Homes Pension Fund presented its detailed planned programme of work to support the statutory audit 2021/22 as set out in full at Appendix 1 of the report by the Chief Finance officer, Lothian Pension Fund.

Progress against the plan would be reported to future meetings of the Pensions Audit Sub-Committee and thereafter the Committee.

Nick Bennett, Azets presented an overview of the key highlights and themes in the planned programme of work.

Decision

1) To note the planned programme of work to support the statutory audit 2021/22 set out in Appendix 1 of the report - "Lothian Pension Fund External Audit Annual Plan 2021-22" by Azets.

2) To note that progress against the Lothian Pension Fund External Audit Annual Plan 2021-22 would be reported to future meetings of the Pensions Audit Sub-Committee and the Committee.

(Reference – report by the Chief Finance Officer, LPF, submitted)

10. Pensions Administration Strategy Update

The Lothian Pension Funds' Pensions Administration Strategy (PAS) had been reviewed to include references to new guidance and documentation produced by the Scottish Public Pensions Agency (SPPA) regarding ill-health retirement.

The compliance certificate appended to the PAS had been amended to highlight key employer obligations. In addition, the Fund had introduced a new process for the provision of member forms from employers using the existing employer portal, i- Connect and the PAS has been amended to reflect this change.

As required under the Local Government Pension Scheme (Scotland) Regulations, a consultation exercise would be carried out with the Fund's employers following this Committee meeting.

Decision

1) To note that the Fund intended to consult with employers on the revised Pensions Administration Strategy.

2) To approve the draft revised Pensions Administration Strategy, subject to any further amendment arising from the forthcoming employer consultation being reported to Pensions Committee at its next meeting.

(Reference – report by the Chief Finance Officer, LPF, submitted)

11. Pensions Dashboard

On the 31 January 2022, the Department of Work and Pensions published the draft Pensions Dashboard Regulations, with the consultation period running until 13 March 2022.

Information was provided to Members of the ongoing work by the Fund to prepare for connection to the Pensions Dashboard ecosystem.

Decision

To note the report.

(Reference – report by the Chief Executive Officer, LPF, submitted)

12. Lothian Pension Fund Cost Benchmarking

Information was provided about the annual results from benchmarking of investment costs for the Lothian Pension Fund and pension administration costs for Lothian Pension Fund and Scottish Homes Pension Fund (collectively known as LPF).

LPF's annual report for 2020/21 identified £43.9 million of total management expenses, with investment costs (£36.7 million) representing by far the largest proportion of the total as expected.

Benchmarking had been undertaken to help identify areas where improvements could be made to deliver better value for money.

Decision

1) To note the report.

2) To note that the CEM Investment Cost Effectiveness Analysis (to 31 March 2021) and the interim CEM Pension administration benchmarking report 2021 had been provided on a confidential basis to the Conveners of the Committee and Audit Sub-Committee and the Independent Professional Observer.

(Reference – report by the Chief Executive Officer, LPF, submitted)

13. Operating Plan Update

An update was provided on progress against the 2021-2022 operating plan. This quarter the update focussed on performance indicators, pensions administration performance indicators, accreditation, freedom of information requests, employers' survey, web and digital services, pensioner members' survey, amendments to the Local Government Pension Scheme (Scotland) Regulations 2021, membership and cashflow monitoring and an investment strategy update.

Decision

To note the progress of the Fund against the 2021-22 strategy and business plan.

(Reference – report by the Chief Finance Officer, LPF, submitted)

14. Risk Management Summary

In line with the Lothian Pension Fund's (LPF) ongoing risk management procedures, an overview was provided of LPF's risk analysis.

The Risk Management Group continued to meet regularly to assess all elements of the LPF Group's risk framework including the risk appetite, register, overall assurance position and any more granular risks escalation from other sub-groups.

Decision

1) To note the quarterly risk overview as at 15 February 2022.

2) To note the ongoing strategy and development around the Group's risk management framework.

(Reference – report by the Chief Risk Officer, LPF, submitted)

15. Project Forth

The Sub-Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the item of business on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 1.3 and 6 of Schedule 7(A) of the Act.

An update was presented setting out the parameters for a proposed collaboration within the Local Government Pension Scheme.

Decision

Detailed in the confidential schedule, signed by the Convener, with reference to this minute.

(References – Pensions Committee 29 September 2020 (item 18), 29 September 2021 (item 13) and 8 December 2021 (item 11); report by the Chief Executive Officer, LPF, submitted)

16. Strategy and Business Plan Including Operating Plan and Budget for 2022/23

The Sub-Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the item of business on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 1.3 and 6 of Schedule 7(A) of the Act.

Information was provided on the Lothian Pension Fund's Strategy and Business Plan which set out the proposed medium-term strategy for the Fund and the business priorities for calendar years 2022-23. The Plan also incorporated the budget and performance targets for the financial year 2022-23.

Decision

Detailed in the confidential schedule, signed by the Convener, with reference to this minute.

(Reference – report by the Chief Executive Officer, LPF, submitted)

17. Employers Participating in Lothian Pension Fund

The Sub-Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the item of business on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 1.3 and 6 of Schedule 7(A) of the Act.

An update was provided of employers participating in Lothian Pension Fund.

Decision

Detailed in the confidential schedule, signed by the Convener, with reference to this minute.

(Reference – report by the Chief Finance Officer, LPF, submitted)

18. Lothian Pension Fund Contract Awards Update

The Sub-Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the item of business on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 1.3 and 6 of Schedule 7(A) of the Act.

An update was provided of contract awards for various services for the Lothian Pension Fund.

Decision

Detailed in the confidential schedule, signed by the Convener, with reference to this minute.

(Reference – report by the Chief Investment Officer, LPF, submitted)

19. Valedictory Remarks by the Convener and Chair of the Pension Board

The Convener advised that Councillor Maureen Child would not be standing in the forthcoming local elections and he extended thanks on behalf of Committee members to her as a longstanding member of the Pensions Committee and for the invaluable support and experience she had brought to the role.

The Pension Board Chair added her thanks on behalf of Pension Board members to Councillor Child for all her support during her tenure as a Pensions Committee member.

by virtue of paragraph(s) 1, 6 of Part 1 of Schedule 7A
of the Local Government(Scotland) Act 1973.

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Pensions Committee

2.00pm, Wednesday 29 June 2022

Appointments to the Pensions Audit Sub-Committee

1. Recommendations

The Pensions Committee is requested:

1.1 To appoint the membership of the Pensions Audit Sub-Committee for 2022-2023 as set out in the Terms of Reference and Remit in Appendix 1.

1.2 To appoint the Convener of the Pensions Audit Sub-Committee for 2022-2023.

Richard Carr
Interim Executive Director of Corporate Services

Contact: Lesley Birrell, Committee Officer
Legal and Assurance Division, Corporate Services Directorate
Email: Lesley.birrell@edinburgh.gov.uk

Appointments to the Pensions Audit Sub-Committee

2. Main Report

2.1 The Pensions Committee is required to appoint the membership of its Pensions Audit Sub-Committee for 2022-2023. The membership structure and remit are set out in appendix 1 of the report.

2.2 The Committee is also required to appoint the Convener of the Pensions Audit Sub-Committee for 2022-2023. The Convener will be appointed from the membership of the Pensions Committee, excluding the Convener of that Committee.

3. Financial Impact

3.1 Not applicable.

4. Stakeholder/Regulatory Impact

4.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.

5. Background Reading/External References

5.1 City of Edinburgh Council Committee Terms of Reference and Delegated Functions

6. Appendices

6.1 Appendix 1 – Pensions Audit Sub-Committee Terms of Reference and Remit

Appendix1

Pensions Audit Sub-Committee – Terms of Reference and Remit as set out in the City of Edinburgh Council Committee Terms of Reference and Delegated Functions

22. **Pensions Audit Sub-Committee (Parent Committee – Pensions Committee)**

Constitution

22.1 Three members from the Pensions Committee of which a minimum are two City of Edinburgh elected members.

22.2 Two non-voting members of the Pension Board will also be able to attend the Pensions Audit Sub-Committee to oversee its activities.

Quorum

22.3 Two members of the Pensions Audit Sub Committee will constitute a quorum.

Convener

22.4 The Convener of the Pensions Audit Sub-Committee will be appointed from the membership of the Pensions Committee, excluding the Convener of that committee.

Substitution

22.5 Substitutes are permitted from members of the Council who have undertaken and completed appropriate training specified by the Executive Director of Resources.

Delegated functions

22.6. Power is delegated to the Pensions Audit Sub-Committee to consider and make appropriate recommendation(s) to the Pensions Committee:

22.6.1 To ensure systematic appraisal of the control and assurance environment and framework of internal control (including internal audit processes) of pension funds to provide reasonable assurance of the effective and efficient operations and compliance with laws and regulations;

22.6.2. To promote the development of an appropriate risk management strategy and risk management procedures;

22.6.3. To ensure the highest standards of probity and public accountability;

22.6.4. To ensure sound financial procedures are in place for authorising and monitoring expenditure and the allocation of pension fund resources;

22.6.5. To consider and scrutinise an annual report on any companies owned by the Council that are connected to the activities of the pension funds and the Lothian Pension Fund group;

22.6.6. To review the consolidated annual financial statements of the pension funds/Lothian Pension Fund group and the International Standard on Auditing 260 (ISA 260) communication of audit matters;

22.6.7. To agree internal audit plans and to ensure that internal audit work is planned with due regard to risk, materiality and coverage;

22.6.8. To oversee in light of the audit plan the performance of the audit service;

22.6.9. To oversee and review action taken on internal audit recommendations; and

22.6.10. To review all matters relating to external audit, including audit planning, action points and reports, and to monitor the implementation of external audit recommendations.

Pensions Committee

2.00pm, Wednesday, 29 June 2022

Agenda Planning

1. Recommendations

The Pensions Committee (Committee) is requested to:

1.1 agree to hold an additional Pensions Committee meeting at the end August to consider project forth updates in advance of Full Council consideration.

1.2 note the agenda planning document; and

1.3 note that the Pension Board members are invited to comment on agenda items during Committee meetings.

Struan Fairbairn

Chief Risk Officer, Lothian Pension Fund

Contact: Susan Handyside, Governance Manager, Lothian Pension Fund

E-mail: Han24S33@lpf.org.uk | Tel: 07771 378238

Agenda Planning

2. Executive Summary

2.1 This report and the agenda planning document (appendix 1) provide the Committee with an overview of the proposed agendas for future meetings of the Pensions Committee and Pensions Audit Sub Committee and the annual cycle.

2.2 There will, of course, be specific matters and papers which need to be brought to the attention of the committees in addition to those set out herein.

3. Background

3.1 In order for the Committee and Pension Board to gain an overview of the content of future meetings, and also an awareness of the annual cycle of items, an agenda planning document is submitted each quarter.

3.2 Committee meetings are held on a quarterly basis and additionally as required; the Audit Sub Committee meetings are generally held three times a year.

4. Main Report

4.1 The proposed agendas for the September and December meetings are set out below, based on the usual Committee cycle plus any additional and intra-cycle requests.

4.2 In addition to the proposed agendas, committee is requested to consider an additional meeting in August 2022. A meeting in August would allow committee members to receive an update on the new company:

- legal structure statutory process,
- progress on implementation,
- the newco governance structure and an update on the governance; and
- the approach to the ratification by the Full Councils of both CEC and FCPF in September 2022.

4.3 Due to the Council elections an Audit Sub Committee meeting has not been held this quarter. It is expected that committee will agree the membership of the Pension Audit Sub Committee at this meeting when considering the Annual Governance Update.

4.4 It had been anticipated that three reports would be tabled for the June Audit Sub Committee meeting, the Unaudited Annual Report and Accounts as at 31 March 2022, Risk Management Summary and an ICT and Cyber Security Update. The first two reports were already scheduled to be considered by Pensions Committee and the latter report has been moved to the Pensions Committee agenda for consideration.

4.5 The Audit Sub Committee also requested that a further Data Quality update be tabled for consideration in June. This report has been deferred until the Audit Sub Committee meeting in September to allow officers to gather sufficient data to provide a meaningful report.

September 2022

Pensions Committee	**Audit Sub Committee**
• Referrals/ recommendations from Pensions Audit Sub Committee • Audited Annual Report and Accounts of the Lothian Pension Fund and Scottish Homes Pension Fund • Annual Report by External Auditor (if available) • Business and Budget Update • Administering Authority Discretions Policy • Employer Covenant Review • Lothian Pension Fund Contract Awards Report • Employers Participating in Lothian Pension Fund • Risk Management Summary • Project Forth Update	• Audited Annual Report and Accounts of the Lothian Pension Fund and Scottish Homes Pension Fund • Annual Report by External Auditor (if available) • Irrecoverable overpayment of pensions – decisions made under delegated authority • Data Quality Update • Fraud Prevention • Risk Management Summary

December 2022

Pensions Committee	**Audit Sub Committee**
• Referrals/ recommendations from Pensions Audit Sub Committee • Benchmarking • Stewardship and Engagement • Business Plan and Budget Update • Risk Management Summary • Project Forth Update	• EU Tax Claims and Other Income Tax Recoveries • Investment Income Review-Cross-Border Withholding Tax • Pensions Data Quality • Global Custody Services Performance • Risk Management: In-depth review • LPF Group Controls and Compliance

Future Pensions Committee and Audit Sub Committee dates

The Committee meeting dates for 2022/23[1] are set out below and calendar invites will be sent to you via committee services shortly. These meetings will be held in person with the option, if required, to attend virtually.

Pensions Committee	Audit Sub Committee
• Wednesday, 28 September 2022, 2.00pm, • Wednesday, 7 December 2022, 2.00pm, • Monday, 20 March 2023, 2.00pm, • Wednesday, 21 June 2023, 2.00pm,	• Tuesday, 27 September 2022, 2.00pm, • Tuesday, 6 December 2022, 2.00pm, • Monday, 19 June 2023, 2.00pm,

5. Financial impact

5.1 None.

6. Stakeholder/Regulatory Impact

6.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the fund and they are invited to comment on the relevant matters at Committee meetings.

6.2 There are no adverse health and safety, governance, compliance or regulatory implications as a result of this report.

7. Background reading/external references

7.1 None.

8. Appendices

Appendix 1 – LPF's Annual Agenda Planning Cycle

[1] Please note that the 2023 Pension Committee dates will be subject to change depending on progress with Project Forth.

Frequency	Pensions Committee	Audit Sub Committee	Month
Biennial	Pension Administration Strategy (presented in March 2022)	N/A	September
	Administering Authority Discretions Policy. Next review due September 2022	N/A	September
Annually	LPF Strategy and Business Plan (operating plan) and Budget		March
	Audit Plans (Internal and External)	*Draft internal audits and plan will be developed in consultation with the Convenor of the Audit Sub Committee, the CEO (LPF) and, if appropriate, the Independent Professional Observer and circulated to the Audit Sub Committee members for comment.*	March
	Policies and Strategies Update (including revised Pension LPF Budget)	N/A	March
	LPF Annual Report and Accounts (Unaudited)	LPF Annual Report & Accounts (Unaudited)	June
	LPF Internal Audit Opinion	LPF Internal Audit Opinion	June
	Statement of Investment Principles	N/A	June
	Joint Investment Strategy Panel Activity	N/A	June
	Annual Investment Updates - Lothian Pension Fund and Scottish Homes Pension Fund	N/A	June
	Annual LPF Group Governance Update	N/A	June
	Employer Covenant Review	N/A	September
	Audited Annual Report and Accounts of the Lothian Pension Fund and Scottish Homes Pension Fund (including the Annual Report by External Auditor)	Audited Annual Report and Accounts of the Lothian Pension Fund and Scottish Homes Pension Fund (including the Annual Report by External Auditor)	September
	N/A	Irrecoverable overpayment of pensions – decisions made under delegated authority	September
	N/A	Fraud Prevention	September
	Lothian Pension Fund Contract Awards Report	N/A	September

Frequency	Pensions Committee	Audit Sub Committee	Month
	Annual Report by External Auditor	Annual Report by External Auditor	December (or September if available)
	Benchmarking	N/A	December
	N/A	EU Tax Claims and Other Income Tax Recoveries	December
	N/A	Investment Income Review-Cross-Border Withholding Tax	December
	Stewardship and Engagement	N/A	December
	N/A	Pensions Data Quality	December
	N/A	Global Custody Services Performance	December
	N/A	Risk Management: In-depth review	December
		LPF Group Controls and Compliance	December
Semi Annually	Employers Participating in Lothian Pension Fund	N/A	March & September
3 Times per year	Operating Plan and Budget Update	N/A	March[1], September & December
	Referrals / recommendations from Pensions Audit-Sub	N/A	June, September & December
Quarterly	Risk Management Summary	Risk Management Summary (In-depth report in December)	March, June, September and December

[1] The March update will have the dual purpose of an operating plan update, budget review and budget approval for the forthcoming financial year.

Frequency	Pensions Committee	Audit Sub Committee	Month
Every 3 years	Actuarial Valuation: LPF SHPF Funding Strategy Statement (review due June 2023 with final version presented for approval in March 2024) Operating Plan (next due March 2023)	N/A	December or March March
As required	Delegated authorities (provider appointments) Discretions (death grants etc.) N/A Regulatory Update Investment Strategy Reviews (at least every 3 years - next due June 2024)	N/A N/A Internal Audit Reports N/A N/A	

Pensions Committee

2.00pm, Wednesday, 29 June 2022

LPF Unaudited Annual Report (and Financial Statements) 2022

1. Recommendations

The Pensions Committee (Committee) is requested to:

1.1 note the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2022 for Lothian Pension Fund and Scottish Homes Pension Fund;

1.2 note that the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2022 will be submitted to the auditor, Azets Audit Services Limited, by the due date of 30 June 2022;

1.3 note that, at the time of writing, final proof reading of the report, as appended, is still underway and therefore potential corrections and any minor amendments will be completed prior to release to the auditor and publication on the website.

1.4 note that as a result of the outcomes of the local government elections and the resulting changes in membership of both the Pensions Committee and Pensions Audit Sub-Committee, there hasn't been a prior audit committee to review these accounts and so the Committee may wish to consider more fully in the absence of such audit review and recommendation(s).

John Burns
Chief Finance Officer, Lothian Pension Fund

Contact: Jason Koumides, Financial Controller, Lothian Pension Fund

E-mail: Kou24J11@lpf.org.uk | Tel: 0333 996 1932

Susan Macfarlane, Head of Communications, Lothian Pension Fund

Email: Mac93S33@lpf.org.uk | Tel: 0333 996 1972

2. Executive Summary

2.1 The purpose of this report is to present the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2022 for Lothian Pension Fund and Scottish Homes Pension Fund.

2.2 A copy of the unaudited Pension Funds' Annual Report 2022 is attached as Appendix 1.

2.3 Lothian Pension Fund (Group) net asset valuation as at 31 March 2022 highlights significant recovery from the prior year's fall in global and UK equity markets, with the total of £9,605.2m reflecting an increase of £911.6m (10.5%).

2.4 Given its mature membership profile, net assets of the Scottish Homes Pension Fund fell from £157.5m to £154.2m as at 31 March 2022, a decrease of £3.3m (2.1%).

3. Background

Statutory provisions and accounting guidance
Local Government (Scotland) Act 1973

3.1 Section 95 of the Local Government (Scotland) Act 1973 states that "every local authority shall make arrangement for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs". The Service Director: Finance and Procurement serves as the Section 95 Officer for all of the City of Edinburgh Council's accounting arrangements, including those of the Pension funds, however, this Section 95 responsibility has been delegated to the Chief Finance Officer, Lothian Pension Fund.

The Local Authority Accounts (Scotland) Regulations 2014

3.2 These stipulate that "The Annual Accounts must be submitted to the auditor no later than 30 June immediately following the financial year to which the Annual Accounts relate". It is within the Pensions Committee's remit to consider the unaudited Annual Report for the pension funds.

The Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2022
Amendment of the Local Authority Accounts (Scotland) Regulations 2014

3.3 Lothian Pension Fund does not intend to utilise the provisions made in *The Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2022* to revise the timetable for its Annual Accounts completion.

Accounting and other guidance

3.4 The content of the "Pension fund annual report" is governed by Local Government Pension Scheme (Scotland) Regulations 2018, Regulation 55. This regulation states:

"(1) An administering authority must, in relation to each year beginning on 1st April 2015 and each subsequent year, prepare a document ("the pension fund annual report") which contains –

(a) a report about the management and financial performance during the year of each of the pension funds maintained by the authority;

(b) a report explaining the authority's investment policy for each of those funds and reviewing the performance during the year of the investments of each fund;

(c) a report of the arrangements made during the year for the administration of each of those funds;

(d) for each of those funds, a statement by the actuary who carried out the most recent valuation of the assets and liabilities of the fund in accordance with regulation 60 (actuarial valuations of pension funds), of the level of funding disclosed by that valuation;

(e) the current version of the statement under regulation 53 (governance compliance statement);

(f) for each of the funds, the fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices;

(g) an annual report dealing with –

(i) the extent to which the authority and the Scheme employers in relation to which it is the administering authority have achieved any levels of performance set out in a (pension administration strategy); and

(ii) such other matters arising from a pension administration strategy as it considers appropriate;

(h) the current version of the statement referred to in regulation 56 (funding strategy statement);

(i) the current version of the statement under regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (statement of investment principles);

(j) the current version of the statement under regulation 59 (statements of policing concerning communications with members and Scheme employers); and

(k) any other material which the authority considers appropriate"

3.5 Local authorities are required to account for pension funds in accordance with the applicable Code of Practice in Local Authority Accounting in the United Kingdom (the Code). The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approval accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The Code now requires that preparers have regard to Chartered Institute of Public Finance and Accountancy (CIPFA) guidance "Accounting for Local Government Pension Scheme Management Costs".

3.6 In March 2016, CIPFA revised and updated this guidance. Whilst the underlying principle of transparency of investment cost remained unchanged, a degree of relaxation to full cost disclosure was introduced. Specifically, for complex "Fund of Find" structures, "Investment costs incurred by a separate legal entity, or in respect of investment decisions over which the pension fund has no control, should not be includes in the (Pension) Fund Account……If pension funds wish to provide information about the total cost of Fund of Fund investments, this should be included as part of the Investments section in the Annual Report".

3.7 The financial statements of Lothian Pension Fund and Scottish Homes Pension Fund continue to include full transparency of all investment management fees.

3.8 With the, FCA regulated, investment services company, LPFI Limited, commencing trading on 28 February 2017, consolidated financial statement have again been prepared for Lothian Pension Find for the year 31 March 2022. These consolidated financial statements combine those of the Fund (the parent entity) and its controlled entities (the investment staffing company, LPFE Limited, and now also LPFI Limited) as defined in International Accounting Standard (IAS) 27.

4. Main Report

LPF Unaudited Annual Report 2022

4.1 A copy of the unaudited Annual Report (and Financial Statements) for the year to 31 March 2022 for Lothian Pension Fund and Scottish Homes Pension Fund is attached as Appendix 1.

4.2 In considering the unaudited Pensions Funds' Annual Report, Committee should note the following:

Financial Summary

4.3 Lothian Pension Fund (Group) net asset valuation as at 31 March 2022 highlights significant recovery from the prior year's fall in global and UK equity markets, with the total of £9,605.2m reflecting an increase of £911.6m (10.5%).

4.4 Given its mature membership profile, net assets of the Scottish Homes Pension Fund from £157.5m to £154.2m as at 31 March 2022, a decrease of £3.3m (2.1%).

Governance

4.5 The Annual Report includes an Annual Government Statement which sets out details of how the Funds are governed and the internal controls that are in place to manage risk. This mirrors the requirement to have a similar statement within the Financial Statements of the Council.

4.6 The Annual Report also encompasses a Governance Compliance Statement, which is a requirement of the LGPS Regulations. Its purpose is to record the extent to which the constitutional governance arrangements comply with best practice guidance issues by the Scottish Public Pensions Agency.

4.7 Related to the Annual Governance Statement is the Statement of Responsibilities for the Statement of Accounts. This sets out the respective responsibilities of the Administering Authority and those delegated to the Chief Finance Officer, Lothian Pension Fund.

4.8 The funds have separate Actuarial Statement, prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2014. This provides a summary of the triennial valuation as at 31 March 2021, with commentary by the actuary of the experience over the subsequent year.

5. Financial impact

5.1 There are no direct financial implications as a result of this report.

6. Stakeholder/Regulatory Impact

6.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the fund and they are invited to comment on the relevant matters at Committee meetings.

6.2 There are no adverse health and safety, governance, compliance or regulatory implications as a result of this report.

7. Background reading/external references

7.1 None.

8. Appendices

Appendix 1 – Unaudited Annual Report (and Financial Statements) 2022 for Lothian Pension Find and Scottish Homes Pension Fund

Appendix 2 – City of Edinburgh Council – Statement on the system of internal financial control by Service Director: Finance and Procurement

Appendix 3 – Lothian Pension Funds – Statement on the system of internal financial control by Chief Finance Officer, Lothian Pension Fund

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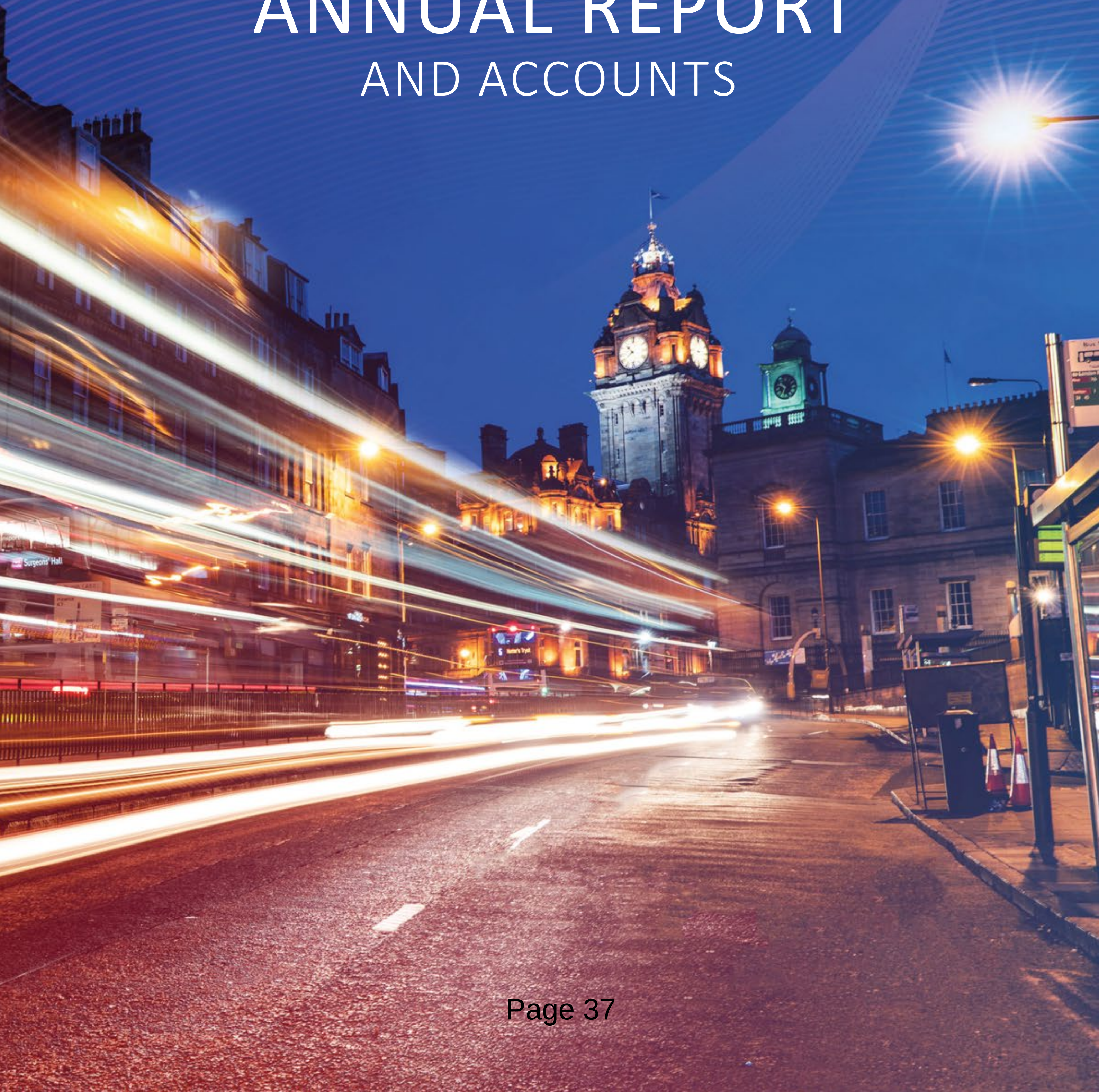
Appendix 1

LOTHIAN
PENSION FUND

2021/22

ANNUAL REPORT
AND ACCOUNTS




ONE PENNY
MD

CONTENTS

A REVIEW OF 2021/22

I am delighted to present Lothian Pension Fund's annual report 2021/22. As the world continues to face significant and unpredictable challenges, it is our responsibility as a pension fund to offer stability to our scheme members and employers.

In June 2021 we welcomed a new CEO, David Vallery, and notwithstanding the continued difficulties that virtual working arrangements have presented to all of us throughout the year, David and his team have continued to ensure that scheme members and employers are placed at the heart of everything we do.

In the pages that follow, the team will set out how we have worked toward developing and improving over the last year. The report will highlight the progress we have made in terms of our pensions administration and investments, as well as our strategy and business plan. The report will also highlight key projects, including developing our Stewardship Report, the digital transformation agenda and the implementation of new legislation.

I want to acknowledge the commitment and professionalism of the LPF team and thank them for their hard work that ensures we continue to deliver outstanding pension and investment services for the benefit of members and employers.

As we look forward to 2022/23, the Lothian Pension Fund has announced it is exploring the possibility of a merger with Falkirk Council Pension Fund, reinforcing the stability of the Funds and strengthening resilience in its governance arrangements. I have been proud to be part of this project and wish the Lothian and Falkirk pension fund every success with this forward-looking initiative.

As always, the success of the Fund depends on all of us and I would like to thank the Committee, Pension Board, and all the Fund's employees for their continued commitment to its scheme members.

Rob Munn
(Formerly) Convenor of the Pension Committee
2021/22
Lothian Pension Fund
29 June 2022

A REVIEW OF 2021/22

In June 2021, I was proud to join Lothian Pension Fund (LPF) and honoured to take over the role of Chief Executive Officer from Doug Heron.

My initial impression was of a skilled, professional, and highly motivated team who are committed to their roles and have a desire to deliver the best possible service to the members and employers of LPF and our partner Funds. This initial impression has only deepened as I learned more about the complexities and challenges of the local government pension scheme and observed the diligence and care with which all colleagues go about their business.

In my first annual review as CEO of LPF, I'm pleased to share some of our key highlights and achievements during 2021. These include: how we reviewed and updated our strategy and business plan; how we've helped members during the year; our commitment to responsible investment; and lastly the important decision made by the Pensions Committee to explore a merger with our long-standing collaborative partner, Falkirk Council Pension Fund.

At the time of writing, the conflict in Ukraine is continuing. Our thoughts are with the many individuals directly affected by the conflict and we can only wish for a speedy resolution however unlikely this is beginning to seem. More widely, the conflict has exacerbated the increase and availability of fuel and certain food stuffs across the world, which combined with the post Covid-19 supply problems, has put inflation and cost of living increases at a generational high.

Whilst we have very limited ability to influence this at LPF, we've focused on making the best investment decisions we can, while continuing to assess the geopolitical risks, changing market implications and the potential impact on portfolios as the situation unfolds. Our purpose and objectives have never been more important and we're working hard to provide our members with the security and peace of mind to achieve the retirement they want. You can hear more about some of our members' retirement goals throughout the report.

Progress against our Strategy and Business Plan

We launched our new Strategy and Business Plan at the start 2022. It's underpinned by four strategic goals:

- Develop and deliver a member and employer proposition for service excellence
- Earn an appropriate risk adjusted investment return as responsible investors
- Extend collaboration and services to existing partners and deepen where possible
- Achieve greatness in our people, teams and culture.

These goals are set by our Vision "to deliver outstanding pension and investment services for the benefit of members and employers." Despite the strain of the pandemic, we were able to make good progress towards delivering these goals and you can read more about our progress throughout this report.

A REVIEW OF 2021/22

There for our members and their families during a difficult time

With the COVID pandemic continuing throughout 2021, our offices remained closed during most of the year with colleagues continuing to work from home. In September we commenced a phased return to the office before reverting to home working again in December with the outbreak of the Omicron variant.

Despite the disruption and uncertainty this caused, it was another year of success and progress for LPF. We continued to deliver for our members, paying out £187,667,492 to 34,774 members and welcomed 6,196 new members in 2021/22.

Providing excellent customer service to our members and employers is at the heart of what we do, so we were delighted to achieve Pensions Administration Standards Association (PASA) reaccreditation along with the Customer Service Excellence Award.

We’ve continued to make good progress on our digital transformation agenda. In September 2021, we successfully migrated our IT platform from the City of Edinburgh environment to a bespoke platform. This creates a more agile and tailored solution to our needs.

We also launched our new website in March 2022, where members and visitors can now learn more about us, read our latest news and publications, access their pension, and view our vacancies in one, easy to navigate place. In addition, we issued our first ever electronic communication to members in the form of the Penfriend e-zine to our active members. This enables us to communicate more frequently with the large number of our members who have opted into electronic communications.

Once the office re-opened following the easing of lockdown restrictions, we were pleased to be able to re-introduce inbound calls from 1 February 2022 through our new and improved phone system. This is a great step forward for service excellence and member feedback has been very positive. Our new IT system has given us scope to do this more efficiently and effectively than before.

WHAT OUR MEMBERS SAY:

"I think you provide an excellent service."

A REVIEW OF 2021/22

Secure benefits and a higher funding level

Benefits in Lothian Pension Fund are protected by a statutory guarantee and members can be confident their pensions will be paid when they fall due. Every three years we're required to appoint an independent actuary to undertake a valuation. The most recent valuation was conducted with a reference date of 31 March 2020 and the results are included in this report. The total valuation level for Lothian Pension Fund was 106%. Put simply, this is a measurement of the sufficiency of the assets the Fund holds today to meet the benefits members have earned and expect to receive in the future. A valuation above 100% is a positive result, but benefit obligations increase every day and the Fund is required to generate positive asset returns and collect contributions to ensure the funding level remains sufficient.

The total assets of the Fund at the end of March 2022 were £9,607m (end of March 2021 £8,698m).

Investing in our people

In 2021 we recruited 13 new colleagues in a number of roles across the organisation. These hires will not only ensure that we remain adequately resourced to deliver what we need today but will enable us to continue to improve our capabilities and the services we deliver to our members and employers tomorrow.

We continued to focus on our colleagues and we were proud to reach number 37 in the Sunday Times 'Scotland's 40 Best Companies to Work For' and number 25 in the 'Financial Services' 30 Best Companies to Work For'.

The LGPS in Scotland

LPFI continued to provide advisory services to the LGPS's of Fife, Falkirk, Scottish Borders, and Northern Ireland, and now manage assets for Falkirk (two sovereign bond portfolios) and for Fife (a global equity portfolio).

Work to explore a merger with the Falkirk Council Pension Fund has continued and in December 2021, the Pension Committees of both funds approved a merger, subject to consideration and ratification by the full councils of the respective Administering Authorities.

With LPF and FCPF representing a combined 115,000 members, 98 active employers and £12.7bn of assets, a merger could have significant benefits for members, employers, and colleagues of both funds. It will continue to build an increasingly resilient pension fund provider for the City of Edinburgh and Falkirk councils with operational scale to leverage contracts and investment in new technology.

A REVIEW OF 2021/22

Work to take this proposal forward will continue this year, subject to approval by both the City of Edinburgh and Falkirk Councils, and regulatory approval in both Scotland and the UK. If it’s approved, the merger is expected to take place in 2023.

Maintaining momentum on responsible investment

Our focus and commitment to being a responsible investor continued. The 2020 Stewardship Report published in November 2021, sets out how we’re delivering against the 12 principles set out by the Financial Reporting Council and includes case studies of our activities. We’re delighted that it has met the expected standard of reporting in 2021 and LPF is now listed as a signatory to the UK Stewardship Code.

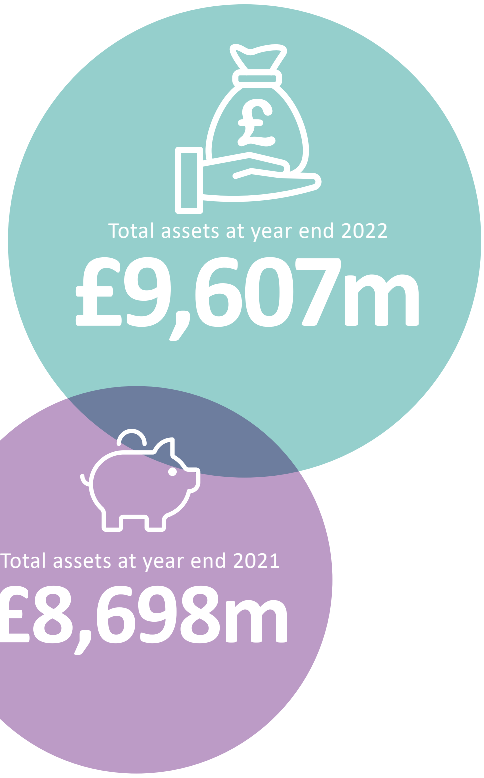
Stewardship is the responsible oversight, management, and allocation of capital to create long-term value for clients and beneficiaries that lead to sustainable benefits for the economy, the environment and society. Our report demonstrates the nature of our commitment to stewardship, for the benefit of our stakeholders.

We published Issues 4 and 5 of our ESG e-zine, ENGAGE, which gives detailed information on LPF’s approach to ESG and our responsible investment activities. We also signed our support of the Asset Owner Diversity Charter and the 2021 Global Investor Statement to Governments on the Climate Crisis.

On page 19, we detail the investment return earned over the year and provide an investment summary of how this return has been achieved in difficult and volatile markets.

McCloud and the matter of historic age discrimination

The 'McCloud judgement' is a court ruling which found that the transitional protections for older workers provided in 2015, alongside the move of the Local Government Pension Scheme (LGPS) in Scotland from a final salary benefit structure to a career average scheme, were age discriminatory. Following this judgement, the government has been consulting on a revised scheme to extend similar protection to more workers and thereby rectify this prior discrimination on an equitable basis. We remain ready to implement the required changes when the details are finalised and will be ready to communicate with employers and members on the requirements and implications.



A REVIEW OF 2021/22

Affordability of pensions

During the year we assisted two employers with a managed exit from the Fund and we have a total of 20 funding agreements in place for employers who have previously exited, in respect of satisfying their obligations to the Fund in regards to their employees. We also responded to a consultation from the Scottish Public Pensions Agency on proposed amendments to the Scheme regulations which would allow greater flexibilities to help funds manage employer exits. Our response highlighted the approach we've taken to work with employers exiting the fund.

Oversight and governance of the Fund

Throughout this report, there's comment from Sharon on behalf of the Pensions Board, from Rob on behalf of the Committee, Hugh on behalf of the LPFI and LPFE Boards and from Andy as our Independent Professional Observer. Each of these roles and the bodies they represent perform a vital function in supporting the governance of Lothian Pension Fund. Beyond fulfilling their prescribed roles, each has provided me and the colleagues in the Fund with encouragement, counsel, and guidance, and on behalf of the team, I wish to express our collective gratitude.

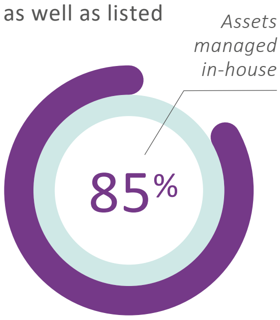
David Vallery
Chief Executive Officer
Lothian Pension Fund
29 June 2022

GOVERNANCE AND RISK

Lothian Pension Fund (LPF) administers the Local Government Pension Scheme (LGPS) in Edinburgh and the Lothians. We're a multi-employer scheme with over £9.6 billion of assets at end March 2022 and were 106% funded at our last valuation in 2020, managing 97,206 records of 92,250 members and 66 employers. Lothian Pension Fund is the second largest LGPS fund in Scotland.

We also manage the Scottish Homes Pension Fund on behalf of the Scottish Government. This is a closed fund and has 1,416 deferred and pensioner members with £0.15 billion investments. Members of Homeless Scotland Action were transferred into this fund recently.

Our investment team is unique in Scotland in holding FCA authorisation. We manage over 85% of assets in-house investing in infrastructure, property and timberland in the private market portfolios as well as listed equity and bond portfolios.



We established a regulated investment vehicle in 2015 which provides investment advisory, deal execution and portfolio management services to the group and certain external partner LGPS funds.

In March 2017, we became the first UK Local Government pension fund awarded accreditation for the Pensions Administration Standards Association and have retained the Customer Service Excellence Award for over 10 years.

The day-to-day running of LPF is carried out by a specialist team who undertake pension administration, accounting and investment functions.

Our comprehensive website provides easy access to all relevant pension information at www.lpf.org.uk. This includes our Annual Report and Accounts of the Fund, Statement of Investment Principles, Funding Strategy Statement and Pensions Administration Strategy and Pensions Discretions Policy.

COLLEAGUE PROFILE

"I enjoy working for LPF as we have a great team who always put our members first. We're always looking for ways to improve our processes to ensure members enjoy the best possible experience with us."

Andrew Crawford, Pensions Administration Team Manager

GOVERNANCE AND RISK

The Pensions Committee and Pensions Audit Sub-Committee

All LPF matters are overseen by the Pensions Committee, supported by the Audit Sub-Committee, and its members act in a 'quasi trustee' capacity for the two funds.

The Pensions Committee normally holds four meetings and the Audit Sub-Committee holds three meetings per year. This year, however, the Pensions Committee held an additional meeting. LPF's governance structures continued to operate as designed, with future meetings of the Committees and Pensions Board being held remotely until such time as they can revert to usual arrangements.

The table below shows the Committee members for the year 2021/22:

COMMITTEE MEMBERS FROM 1 APRIL 2021 - 31 MARCH 2022

PENSIONS COMMITTEE	PENSIONS AUDIT SUB-COMMITTEE
Councillor Rob Munn (Interim Convener until 5 December 2021 and appointed Convener on 6 December 2021)	Councillor Cameron Rose (Convener)
Councillor Alasdair Rankin (until 6 December 2021)	Councillor Maureen Child
Councillor Maureen Child	John Anzani (Member representative)
Councillor Neil Ross	
Councillor Steve Burgess	
Councillor Cameron Rose	
John Anzani (Member representative)	
Richard Lamont (Employer representative, VisitScotland)	

GOVERNANCE AND RISK

The Pension Board

The Pension Board was set up on 1 April 2015 as a result of the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014.

The role of the Pension Board is to help ensure that the operation of LPF is in accordance with the applicable law and regulations. The Board attend all Pensions Committee meetings and two representatives also attend the Pensions Audit Sub-Committee meetings.

The membership comprises ten members, five representatives appointed from the employer bodies and five representatives appointed by trade unions for the membership of LPF. The Pension Board membership for 2021/22 is shown in the table below. There was one vacancy as of 31 March 2022.

MEMBER REPRESENTATIVES

Jim Anderson	Unison (Chair)
Thomas Carr Pollock	GMB
Brian Robertson	Unite
Thomas Howorth	Unison
Tony Beecher	Unite (appointed May 2021)

EMPLOYER REPRESENTATIVES

Sharon Dalli	Police Scotland
Darren May	Scottish Water
Alan Williamson	Edinburgh College
Nick Chapman	Lothian Valuation Joint Board (appointed May 2021)

The Committee and Board members must attend no less than 21 hours of training per year as outlined in LPF's training policy which is available on our website at www.lpf.org.uk.

All new members of the Pensions Committee and Pension Board attend induction training. Other training provided internally covered topics including investment strategy, governance and responsible investment. In addition the Committee and Board held a strategy session/blue sky thinking day in May.

Committee and Board representatives also attended external conferences, held virtually this year, including the LGPS Seminar Scotland, as well as a variety of Local Authority Pension Fund Forum (LAPFF), Pensions and Lifetime Savings Association (PLSA) and Hymans Robertson webinars.

All members of both the Pension Committee and the Pension Board achieved the required training hours during 2021/22. Pensions Committee members have collectively attended 184 hours of training as at 31 March 2022 and members of the Pension Board undertook 387 training hours.

GOVERNANCE AND RISK

Scheme Advisory Board (SAB)

The Scheme Advisory Board for the Local Government Pension Scheme in Scotland was set up following the Public Service Pensions Act 2013. The Board's main function is to advise Scottish Ministers, when requested, on the desirability of changes to the Scheme. They can also provide advice to scheme managers and pension boards in relation to effective and efficient administration and management of the Scheme in Scotland.

The membership of the Scheme Advisory Board comprises of seven representatives each from member and employers with a Joint Secretary to support each group, and included Councillor Alasdair Rankin until June 2021, and Councillor Cameron Rose from June 2021 to May 2022. Brian Robertson, one of the trade union representatives on LPF's Pension Board was the chair of the SAB during the year. There's more information on the Scheme Advisory Board at www.lgpsab.scot.

LPFE and LPFI boards

LPF colleagues are employed by an arms-length company, LPFE Limited (LPFE), which is wholly owned by the Council (in its capacity as administering authority for LPF). It's supervised by a Board of Directors, chaired by the City of Edinburgh's Service Director: Finance and Procurement and includes the Convenor of the Pensions Committee. Our team carry out certain activities through our Financial Conduct Authority authorised vehicle, LPFI.

LPFI is also wholly owned by the Council (in its capacity as administering authority for LPF) and is supervised by a Board of Directors chaired by the Council's Head of Finance. Both the Boards of LPFI and LPFE comprise two independent Non-Executive Directors Leslie Robb and Andy Marchant.

All the operations, costs and liabilities in relation to LPF, including those of LPFE and LPFI, are borne by LPF.

The day-to-day running of LPF is carried out by a specialist investment and pensions team. Our functions include investments, finance and operations, people and communications, ICT oversight and governance, legal, risk, and compliance.

Our investment responsibilities include carrying out in-house investment management and the monitoring and selection of external investment managers, as well as external facing collaborative initiatives with other like-minded pension funds.

LPFE Ltd	LPFI Ltd
Hugh Dunn, CEC, Service Director: Finance and Procurement (Interim Chair, from 20 February 2022)	Hugh Dunn, CEC, Service Director: Finance and Procurement (Chair)
Stephen Moir (Chair until 20 February 2022)	Struan Fairbairn, LPF, Chief Risk Officer (Company Secretary)
Leslie Robb, Non-Executive Director	Leslie Robb, Non-Executive Director
Andy Marchant, Non-Executive Director	Hugh Dunn, CEC, Service Director: Finance and Procurement (Chair)

GOVERNANCE AND RISK

LPFE Ltd	LPFI Ltd
Katy Miller, CEC, Head of HR	Leslie Robb, Non-Executive Director
Councillor Rob Munn, Convener of the Pensions Committee (from 6 December 2021 to 5 May 2022)	Andy Marchant Non-Executive Director
Councillor Alasdair Rankin, Convener of the Pensions Committee (until 6 December 2021)	John Burns, LPF, Chief Finance Officer
Doug Heron, LPF Chief Executive Officer (until 16 July 2021)	Bruce Miller, LPF, Chief Investment Officer
David Vallery, LPF Chief Executive Officer (from 6 August 2021)	David Vallery, LPF, Chief Executive Officer (from 19 July 2021)
	Doug Heron, LPF, Chief Executive Officer (until 2 August 2021)

Joint Investment Strategy Panel

Investment strategy guidance is provided by the same Joint Investment Strategy Panel (JISP) that advises the Falkirk Council and Fife Council pension funds. The membership of the panel includes the Chief Investment Officer (LPFI), a second senior investment professional and three external independent advisers. As from 31 December 2021 two external advisers sit on the Panel.

The Pensions Committee of each pension fund agrees their own investment strategy but delegates the implementation of strategy, including selection of investment managers, to officers.

The JISP advises the three pension fund administrating authorities on implementation of their respective investment strategies. The assets of Lothian Pension Fund, Falkirk Council Pension Fund and Fife Council Pension Fund remain separate, including the Scottish Homes Pension Fund being separate to Lothian Pension Fund.

From 1 April 2021 to 31 March 2022 JISP met quarterly, the table below sets out the panel's membership.

JOINT INVESTMENT STRATEGY PANEL

Bruce Miller	Chief Investment Officer (LPFI)
Steward Piotrowicz	Senior Investment Portfolio Manager (LPFI)
Scott Jamieson (until 31 December 2021)	External Advisor
Kirstie MacGillivray	External Advisor
Stan Pearson	External Advisor

A nominated officer from Lothian Pension Fund, Falkirk Pension Fund and Fife Pension Fund attend each meeting of the Panel.

GOVERNANCE AND RISK

The Senior Leadership Team (SLT) of the Lothian Pension Fund as at 31 March 2021 comprised:

- Doug Heron, LPF Chief Executive Officer (until 16 July 2021)
- David Vallery , Chief Executive Officer (from 16 July 2021)
- Bruce Miller, Chief Investment Officer
- Struan Fairbairn, Chief Risk Officer, (Legal, Risk, Compliance and Governance)
- John Burns, Chief Finance Officer
- Helen Honeyman, Chief People Officer

Risk Management

LPF has a comprehensive risk management framework in place across its business functions and group entities. This includes maintaining a group risk appetite, risk register and assurance mapping process, in conjunction with other underlying business and compliance processes.

Our risk register is formally considered by the Risk Management Group quarterly but is also updated on an ad hoc basis where required. The Risk Management Group is responsible for implementation and oversight of the risk management framework, and comprises senior officers of each function within the group, as well as the Senior Leadership Team (SLT).

GOVERNANCE AND RISK

Risk analysis and reporting is provided to the Pensions Committee and Audit Sub-Committee on a quarterly basis. In addition, the full risk register is circulated to the conveners of the Pensions Committee and Audit Sub-Committee, Chair of the Pension Board and Independent Professional Observer each quarter.

As at 15 February 2022, the last meeting of the Risk Management Group in the year, the most significant risks (after taking account of risk reduction controls and as assessed using a score out of 100) are shown in the table below.

Description	Impact	Probability	Risk Score
Staff Resource within the Fund not sufficient to carry out core tasks	6	6	36
Project and change activities fail to deliver expected objectives, with negative impact on daily operations	4	8	32
Cybersecurity protections and/or back-up not sufficient to prevent cyber-attacks or minimise their impact	8	4	32
Failure of IT systems used in the Fund with serious consequences for investment management, benefit administration and oversight activities	6	5	30

COUNCILLOR CAMERON ROSE

The Audit Sub Committee has continued to exercise appropriate oversight of both the audit and risk processes working with both external and internal auditors and the management team. The Committee is satisfied that the fund continues to operate within reasonable risk boundaries with management clearly setting out and managing the wide range of risks the fund is exposed to. The final aspects of both the annual external and internal audit processes are underway with neither expected to raise material issues. It has been a pleasure to be Convener of the Audit Sub Committee over the last ten years and I wish LPF success going forward.

(Formerly) Convener of the Audit Sub Committee in 2021/22

GOVERNANCE AND RISK

Separately, we maintain a detailed risk monitoring and assurance process for LPFI which focuses on the specific risks associated with that entity and its regulated business. This process changed from the Internal Capital Adequacy Assessment Process (ICAAP) to the Internal Capital Adequacy and Risk Assessment (ICARA) from January 2022, in line with the FCA's new Investment Firms Prudential Regime. The LPFI board has oversight of this process.

Risk Assurance

LPF operate a bespoke assurance framework designed to ensure we have effective controls and oversight across the 'four lines of defence', being:

1. Business units
2. Control functions and internal oversight bodies
3. Internal audit
4. External audit and other external assurance

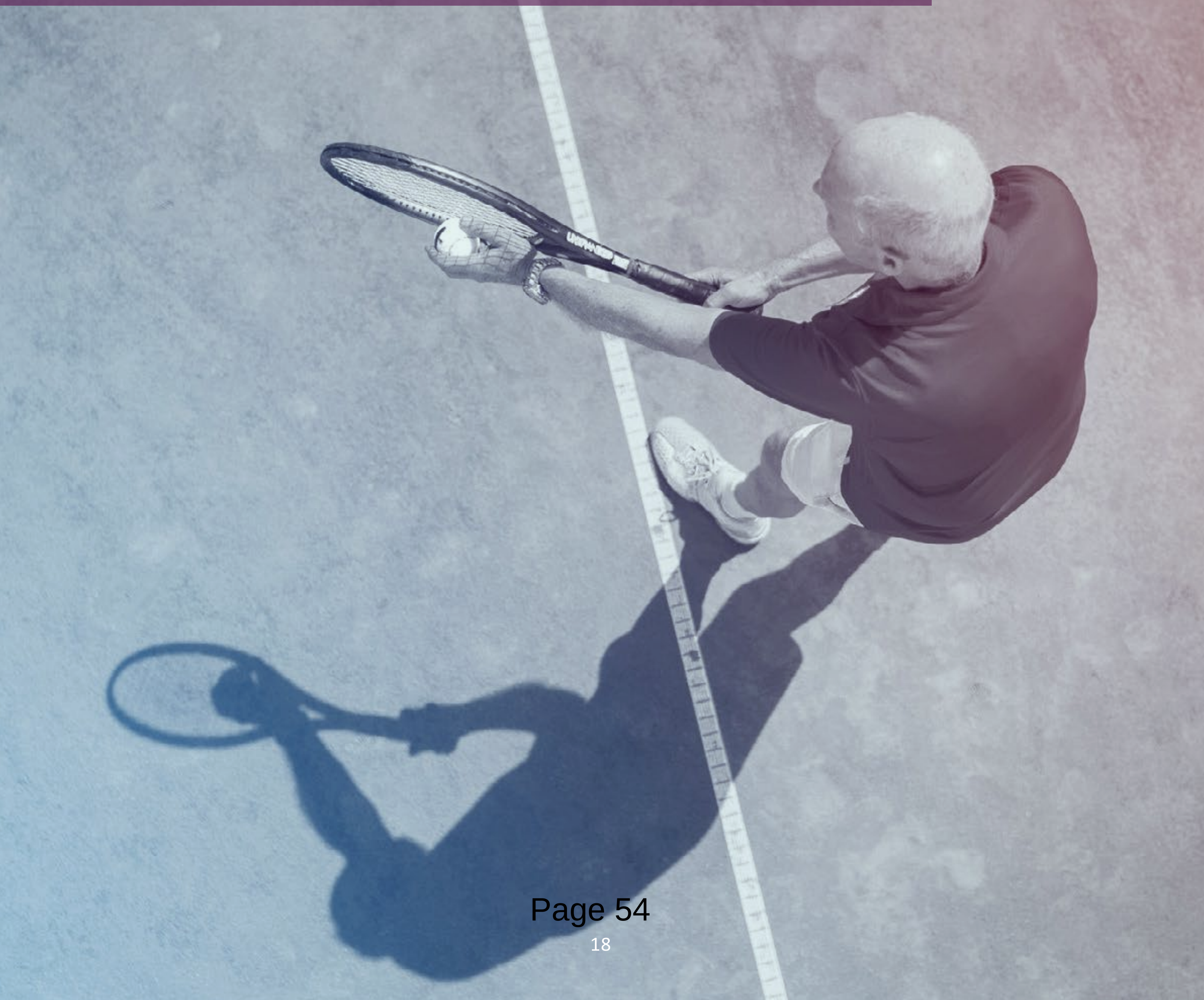
We maintain an assurance overview and mapping document which is updated on an ad hoc basis and reviewed annually by our Audit Sub-Committee.

All this is designed to ensure that we meet our objectives, are adequately resourced, managed to high professional standards, meet legislative requirements and have high customer satisfaction.

LOTHIAN
PENSION FUND

LPF RETIREMENT GOALS

'After 50 years in education, I'd like to perfect my serve with some tennis lessons'



INVESTMENT

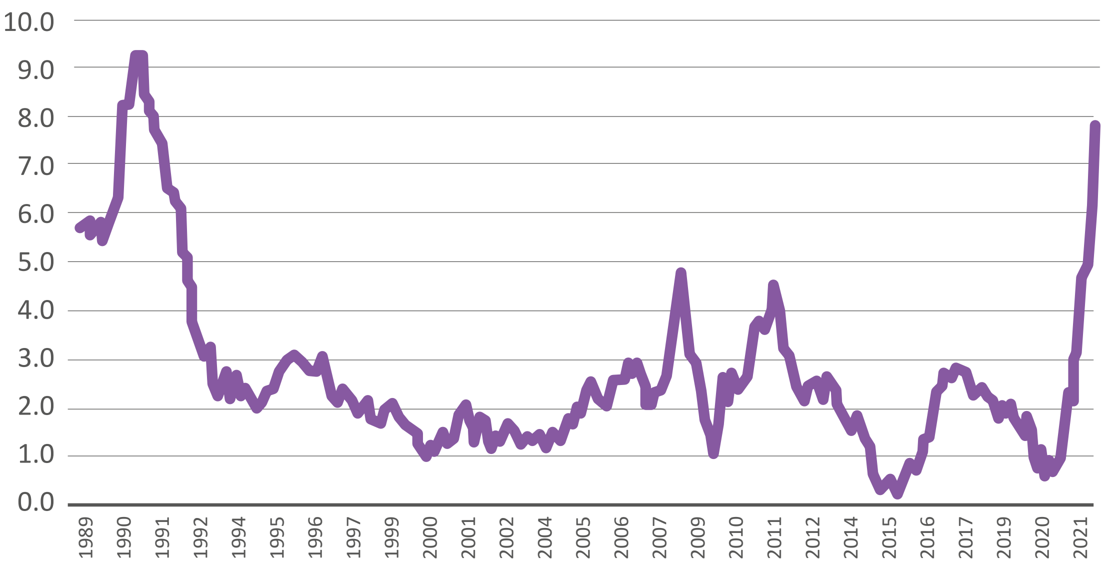
Investment markets

For the 12 months to 31 March 2022, UK equities (FTSE All Share) returned +13% (source: FTSE), while global equities returned +12% (MSCI ACWI, in GBP (source: MSCI)). Returns for Sterling-based investors were boosted by a weaker pound (global equities returned +7% in USD terms) and underpinned by strong returns from developed markets (+16% in GBP) in contrast to emerging market equities which fell (-7% in GBP), in part reflecting the different pace at which economies are recovering from COVID-induced slowdowns.

Supply chains across the global economy experienced significant disruption as some countries re-opened and others locked back down. Rising energy prices, boosted by a combination of rebounding demand and an unexpected shortfall in renewables generation, have also been a major factor in inflation moving progressively higher over the past year. Against this backdrop, government bond yields rose over the period. Previous talk of inflation being transitory seems to have receded, with most central banks around the world having started to move rates higher. Corporate bonds, which had traded in a relatively narrow range over much of 2021, sold off during Q1 2022 as government bond yields rose and credit spreads widened. In the UK, 10-year gilt yields rose from just under 1% to 1.61% over Q1 2022, which equates to a fall in value of c.6%.

Loose monetary policy, brought about by decades of disinflation, has collided with soaring commodity prices, brought about by a combination of underinvestment in production growth and the invasion of Ukraine by Russia impacting commodities supply. Meanwhile, the pandemic continues to disrupt society and economic growth, with China currently in rolling lockdowns across much of the country. While central banks are now tightening monetary policy through higher rates to combat inflation, many believe that the global economic outlook has already begun to deteriorate, and the concern is that central banks may tighten too far. The heightened volatility in markets observed in early 2022 seems likely to continue for some time yet.

UK INFLATION RATE (CPIH), Year-on-Year

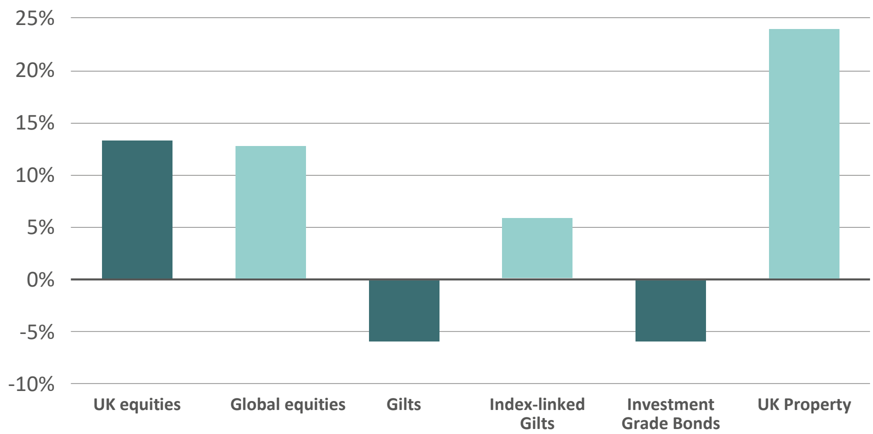


INVESTMENT

Investment markets

The bar chart below shows the index returns over 12 months to 31 March 2022 for a range of asset classes.

RETURN TO 31 MARCH 2022

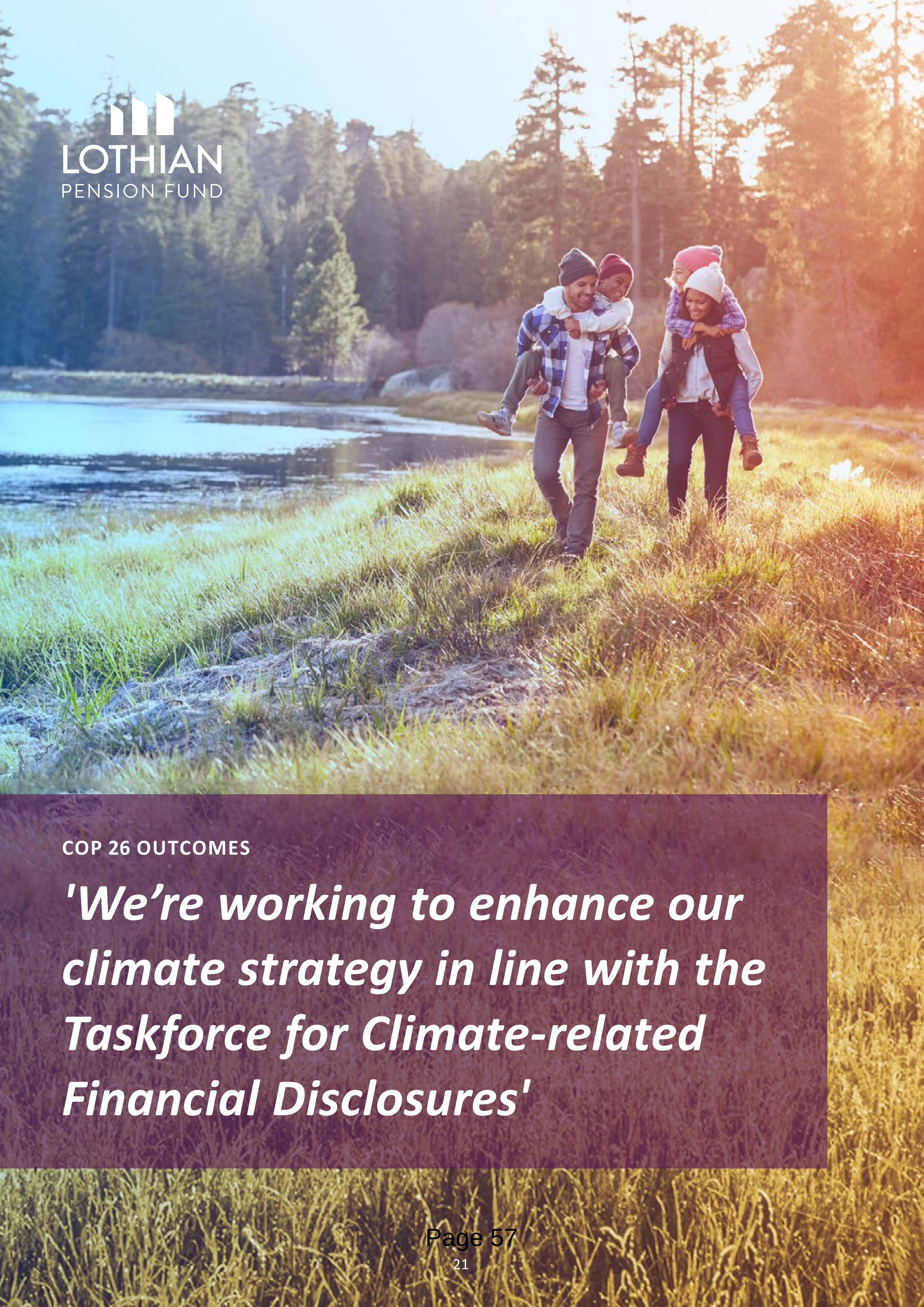


Source: Portfolio Evaluation, Bloomberg

HUGH DUNN

It has been an extremely busy year for LPFI Ltd and LPFE Ltd. In addition to the strategic advice LPFI provides to Falkirk and Fife, this is the first year providing an extended portfolio management service for both Falkirk and Fife. I was also delighted to become interim Chair of LPFE in February. Our LPF colleagues, all of whom are employed by LPFE Ltd, have worked incredibly hard this year to continue to deliver an excellent service for our scheme members and employers, and I would like to thank everyone for their continued commitment and hard work.

City of Edinburgh Council Service Director: Finance and Procurement, and the Chair of the LPFI Board and the Interim Chair of the LPFE Board



COP 26 OUTCOMES

'We're working to enhance our climate strategy in line with the Taskforce for Climate-related Financial Disclosures'

RESPONSIBLE INVESTMENT

Our investment principles

Responsible Investment is a core part of our investment policy and we always operate within the policy, legal and regulatory frameworks that apply to us. We invest in the interests of our beneficiaries and employers and our fiduciary duty requires us to act in a financially prudent manner, taking ESG factors into consideration in the context of the financial risk that arises from the investment.

As an asset owner in the public sector, striving for high standards of transparency within the constraints of commercial sensitivities, we're understandably subject to considerable scrutiny of our investments. To assist our many stakeholders better understand the philosophy behind our overall approach to Responsible Investment, we released our Statement of Responsible Investment Principles (SRIP) in summer 2020. In this document, we lay out in detail our implementation of responsible investment on an asset class by asset class basis, as well as outlining how we utilise all the tools at our disposal to achieve our stewardship aims.

WHAT OUR MEMBERS SAY:

"Colleagues couldn't be more helpful from start to finish."

RESPONSIBLE INVESTMENT

Responsible Investment (RI) and Stewardship Reporting

Over the past few years our reporting on responsible investment has become increasingly detailed, and during 2021 we decided to move our reporting on RI to a standalone document – our Stewardship Report.

Our inaugural Stewardship Report was published in October 2021, and covers the year to 31 December 2020. Our Stewardship Report was assessed by the Financial Reporting Council and attained the new and more stringent reporting requirements of the UK Stewardship Code 2020. Annual reporting of stewardship activities will continue via the Stewardship Report, and we expect this to be released every October.

The report explains the core activities that we undertake, both individually as a fund, and collectively with like-minded organisations. These actions include voting on the resolutions of the companies in which we're invested and engaging with a high percentage of them, often through our engagement partners, to drive positive change in corporate behaviour and mitigate investment risk. We employ an engagement partner, currently Federated Hermes EOS, and work with other organisations, such as Climate Action 100+ and the PRI (Principles for Responsible Investment) to promote responsible investing.

Our Engage e-zine regularly updates our ongoing work in responsible investment, and highlights how we go about making a positive impact through our investment and business activities. From pioneering work on the Asset Owner Diversity Charter, to engaging with the UK Government on measuring inflation, to building a giant sewer in London, Engage highlights the wide variety of impacts that our investment activities make.

LOTHIAN
PENSION FUND

LPF SUPPORTING FUTURE ASSETS

'LPF is proud to continue working with Future Asset, who strive to provide an opportunity for girls to learn about investment'

RESPONSIBLE INVESTMENT

Climate Change

As of November 2021, 192 states and the EU had ratified or acceded to the Paris Agreement of the United Nations Framework Convention on Climate Change. The only significant emitter still not party to it is Iran. Under the agreement, each country must determine, plan and regularly report on the contribution it undertakes to mitigate global warming. The three key aims of the agreement are:

- Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognising that this would significantly reduce the risks and impacts of climate change
- Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that doesn't threaten food production
- Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

Separate to this, but part of the overall worldwide change in attitude towards greenhouse gas emissions, the Financial Stability Board (FSB) of the Bank of England launched the Taskforce on Climate-Related Financial Disclosures (TCFD). TCFD aims to: "develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders." Further information is available at www.fsb-tcfd.org.

As asset owners, we've been engaging with the companies in our portfolios to enhance disclosures on emissions in line with the recommendations of TCFD, as well as working alongside peer organisations to promote the aims of the TCFD and reporting our approach to climate change-related risks and opportunities.

RESPONSIBLE INVESTMENT

As part of the TCFD resources, investors and asset owners also have guidance on how to report their approach to climate-related risks and opportunities. These recommendations are split into four key areas of reporting.

Governance relates to the organisation's governance and climate-related risks and opportunities.

Strategy relates to the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

Risk management relates to the processes used by the organisation to identify, assess and manage climate-related risks.

Metrics and Targets relates to metrics and targets used to assess and manage relevant climate-related risks and opportunities.

The TCFD is in its relative infancy and we're challenging companies to improve their disclosure and rapidly integrating the specifics of climate change into the risk management and governance of LPF. Over the last few years, we've undertaken substantial work on the issue, as detailed in our Stewardship Report.

RESPONSIBLE INVESTMENT

Climate Change – Governance

The Pensions Committee's approach to climate change risks is encapsulated in the Statement of Responsible Investment Principles.

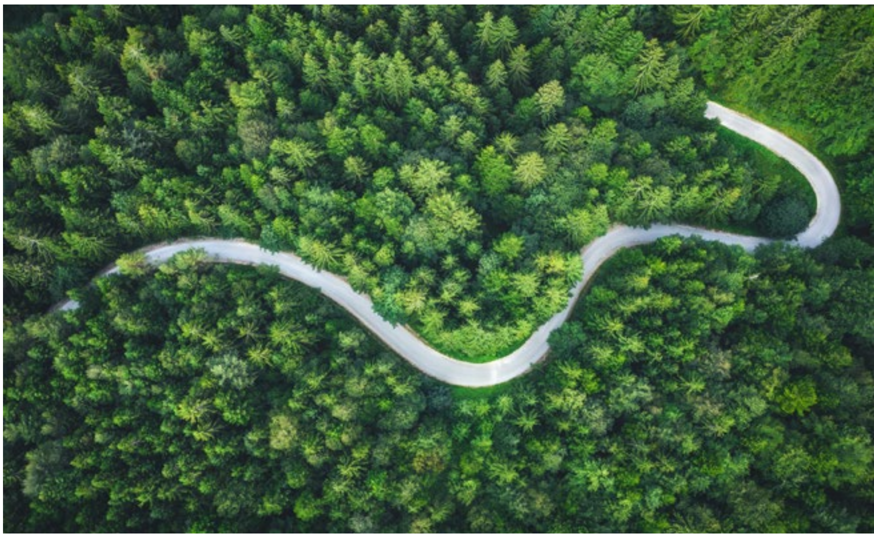
The Committee and Board considers climate-related issues as part of its annual review of our approach to Stewardship. Climate-related risks and opportunities are an integral part of our overall investment process. The Pensions Committee is responsible for setting investment strategy and delegates implementation of strategy to officers taking advice from the Joint Investment Strategy Panel and working with investment managers. Climate-related risk management is reviewed as part of the regular monitoring process for all investment mandates and includes scrutiny of how ESG analysis is integrated into investment decision-making.

RESPONSIBLE INVESTMENT

Climate Change – Strategy and Risk Management

We recognise the outsized impact that some specific sectors and industrial activities have on climate change by virtue of the magnitude of their greenhouse gas emissions. While many prefer to label companies in carbon-intensive industries as 'bad' and those in low-carbon and alternative energy businesses as 'good', history shows that firms need to reinvent themselves to survive. LPF strives to influence and support positive changes by corporate leaders to achieve sustainability for their firms and for society. Consequently, we have a policy of engagement rather than blanket divestment, which allows us to exert influence on companies to improve their business practices, align with the Paris goals, and disclose internal climate-related risk and opportunity management with TCFD compliant reporting.

Our approach to engagement relies heavily on our engagement and voting partner, EOS at Federated Hermes (EOS). EOS engages with companies on a range of engagement issues, including climate change. The internal team also engages with company management on a regular basis as part of company meetings and investment conferences.



In addition, we're a member of the Climate Action 100+ investor initiative and are actively participating in engagement with two of the 166 target companies in its list of systemically important carbon emitters.

Regular training and development for all colleagues on climate related issues is provided. This includes governance functions, management, investment decisions makers, pensions administration colleagues. This creates an internal culture that's serious about the risks to capital posed by the low carbon transition as well as the physical risks of climate change.

The Fund's investments can be broadly classified as follows: fundamentally managed equity; quantitatively managed equity; passively managed government debt; directly owned commercial property and externally managed funds (covering all asset classes). As part of the stock selection process for the fundamentally managed portfolios, any fundamentally material climate-related risks and opportunities (such as carbon pricing and the low carbon transition) are individually assessed and monitored by the managers. The quantitative portfolios are monitored for material risks arising from ESG issues on a regular basis. Both the fundamental and quantitively managed equity funds utilise engagement with managers to improve practices. The selection and monitoring process for external managers incorporates ESG assessments, which continue to be refined as the industry evolves.

RESPONSIBLE INVESTMENT

Our internal managers continue to monitor opportunities in the green energy and future technology space, both in the public and private markets. Much of the public spending on green energy is undertaken by the incumbent energy providers (the diversification of carbon-extractive companies and carbon burning utilities).

With a research budget specifically allocated to data services targeting ESG and climate-related risks and opportunities, we produce an annual carbon footprint for listed equities and corporate bonds. This measures the weighted average carbon intensity of the portfolio as a whole. More importantly, it allows us to identify important factors, such as high carbon emissions, to guide our company engagements and forward-looking analysis of the risks to the Fund's invested capital from the low carbon transition.

While it's widely acknowledged that climate change is one of the great issues facing society, it's one of several risks that we must mitigate. In that sense, it's no different to any other risk. We believe in a holistic, integrated approach to analysis taking all risks, including climate-related risk, into consideration.

Climate Change – Monitoring and Metrics

The Pensions Committee and Pension Board review ESG (including climate related) issues at least annually as part of oversight of the stewardship of Fund assets. Officers and the Joint Investment Strategy Panel of advisers monitor investment mandates and individual investments at least quarterly.

In-line with TCFD best practice, we report a measure of carbon efficiency (the weighted average carbon intensity, with units of tons CO2/$M sales). We use a carbon efficiency measure as it allows us to look on a granular basis at how well a company is managing its emissions, rather than simply what its absolute emissions are. By looking at companies with similar activities, it's possible to use this metric to separate those companies with good practices from those with bad practices. We weight these intensities according to the portfolio position sizes and add all the weighted intensities to give a figure for the portfolio and the index. In practice, however, investment managers use a variety of data on individual companies to assess prospects rather than a single carbon metric.

RESPONSIBLE INVESTMENT

	2018 Weighted Average Carbon Intensity (tons CO2/$M sales)	2019 Weighted Average Carbon Intensity (tons CO2/$M sales)	Year on year change	2020 Weighted Average Carbon Intensity (tons CO2/$M sales)	Year on year change	2021 Weighted Average Carbon Intensity (tons CO2/$M sales)	Year on year change	2022 Weighted Average Carbon Intensity (tons CO2/$M sales)	Year on year change
LPF All Equities	328.6	325.2	-1.0%	294.9	-9.3%	270.1	-8.4%	224.9	-16.7%
MSCI ACWI	218.9	200.2	-8.5%	178.1	-11.1%	155.1	-12.9%	151.0	-2.6%
LPF All Equities & Corporate Bonds						266.0		220.1	-17.3%

Source: MSCI

Under the Greenhouse Gas (GHG) Protocol, Scope 1 emissions are defined as direct GHG emissions that are controlled or owned by an organisation, while Scope 2 emissions are indirect GHG emissions that are the result of an organisation's energy use, such as electricity, steam, heat or cooling.

These numbers are presented on the basis of Scope 1 and 2 carbon emissions. Recent advances in data and methodology, especially in the adoption of a new approach to standardised emissions counting pioneered by the Partnership for Carbon Accounting in Financials (PCAF) allow us to present combined data for our equity and corporate bond holdings. We have an ambition to report all our carbon intensity data across all our assets in the 2022/23 annual report.

As data from the Transition Pathway Initiative (TPI) and Carbon Action 100+ are developing and improving, it has become increasingly incorporated into the equity management process. The TPI data showing Paris Alignment is an important indicator for risk management purposes.

There's no reduction in real world global carbon emissions when LPF sells carbon intensive businesses.

Global Real Estate Sustainability Benchmark (GRESB) data in the infrastructure and real estate asset classes is tracked and incorporated into reporting in these areas.

Carbon intensity numbers are currently treated as outputs of the investment process rather than targeted inputs into the investment process. This is because these numbers are fundamentally easy to “game”. We firmly believe that global decarbonisation will provide benefits to society and the environment, and we therefore support efforts to reduce carbon emissions.

Our reported portfolio level carbon intensity numbers could easily be brought down by selling the most carbon intensive stocks and replacing those investments with lower emission stocks. While this might be considered “good” optically, companies will continue to emit carbon in the same manner whether LPF sells or retains the shares.

Our involvement in Climate Action 100+ reinforces our belief that engaging with companies to help them pivot their businesses towards a lower carbon future is a far more responsible approach than being an irresponsible divestor. We’ll continue to engage with our holdings rather than setting specific carbon intensity targets for our overall portfolio.

FUNDING STRATEGY STATEMENT

The Funding Strategy Statement was revised at the 2020 Actuarial Valuation and reflects CIPFA guidance: "Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme 2016".

The fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy), or asset returns (derived from the investment strategy). A formal review of the fund's investment strategies is undertaken at least every three years to ensure appropriate alignment with liabilities. Further information on the investment strategies can be found in LPF's Statement of Investment Principles also available at www.lpf.org.uk.

The next triennial valuation for both funds will be undertaken as at 31 March 2023.

WHAT OUR MEMBERS SAY:

"It is great to be able to just go online and get information on your pension and related details."

LOTHIAN PENSION FUND

LPF RETIREMENT GOALS

'I'd like to spend more time not acting my age with my friends'

FINANCIAL PERFORMANCE

Administration expenses

A summary of the Fund's administrative expenditure for 2021/22, against the budget approved by the Pensions Committee, is shown in the table below.

The budget focuses on controllable expenditures, so excludes all benefit payments and transfers of pensions from the Fund. Similarly, income doesn't include contributions receivable and pension transfers to the Fund. The total net cost outturn of £36,434k against the budget of £30,533k represented an overspending of £5,901k (19%) for the Fund.

The most significant budget variances serving to generate this overspending were:

- **Employees – £305k underspend.** Various planned recruitment processes were delayed at the start of the financial year due to the COVID pandemic which led to an underspend. These posts have now been filled. Variable pay awards were also lower than the full budgeted award
- **Supplies and Services – £298k underspend.** Underspending occurred against budget for investment systems, while the roll out of a secure document management and governance portal has been delayed to after the embedding of the new IT provider
- **Investment managers fees – Uninvoiced – £6,290k overspend.** Above budget spend is the result of an increase in investment property operational costs. The in-house property management team have been actively reviewing the Fund's portfolio with a majority of costs in relation to refurbishing existing properties and looking at new opportunities. Other costs were broadly in-line with budget
- **Support Costs – £143k underspend.** The budget contained a provision for transition costs between CGI and the Fund's new ICT provider, Cased Dimensions. Transition and parallel running costs between the providers were below budget, but ongoing costs are as expected
- **Income – £454k under-recovery.** Income in relation to collaborative partners is based on a cost sharing mechanism. Due to underspend against budget, in particular staff costs, as well as the lower than expected deal flow in relation to collaborative investments, income was below budget.

FINANCIAL PERFORMANCE

	Approved budget	Actual outturn	Variance
	£000	£000	£000
Employees	5,859	5,554	(305)
Transport and premises	254	221	(33)
Supplies and services	2,292	1,944	(298)
Investment managers fees - invoiced*	3,300	3,294	(6)
Investment managers fees - uninvoiced*	18,700	24,990	6,290
Other third-party payments	1,426	1,362	(64)
Capital funding - depreciation	249	255	6
Direct Expenditure	**32,080**	**37,670**	**(5,590)**
Support costs	685	542	(143)
Income	(2, 232)	(1,778)	454
Total net controllable cost to LPF	**30,533**	**36,434**	**5,901**

**Does not include performance element. In 2021/22, £9m was paid in fees in relation to the Fund's private market investments.*

Reconciliation to total costs	Actual outturn
	£000
Actual outturn on budgeted items above	36,434
Securities lending revenue included in income above	407
Investment management fees deducted from capital – performance related element	8,967
IAS19 LPFE retirement benefits	(2,015)
LPFE deferred tax on retirement benefits	173
Corporation tax	31
Total cost to LPF (inclusive of full cost investment management fees)	**43,997**
Per Fund Accounts	
Lothian Pension Fund Group	43,937
Scottish Homes Pension Fund	60
Total	**43,793**

FINANCIAL PERFORMANCE

LOTHIAN PENSION FUND

Cash-flow

Cash-flow to and from a pension fund is very dependent on the profile of its membership. Specifically, a maturing membership, where the proportion of active to deferred and pensioner members is reducing, would be expected to see a reduction in contributions received, together with additional outlays on payments to pensioners.

The tables below show the projected cash flow, as reported to Pensions Committee on 22 March 2022, against the actual movement for the year. It's important to distinguish between the basis of preparation for these, with the projected figures prepared on a cash basis, i.e. from when cash is received by the Fund, compared to the accruals basis of the Financial Statements to reflect accounting standards.

	2021/22 Projected	2021/22 Accruals basis	2021/22 Cash Basis
Income	**£000**	**£000**	**£000**
Contributions from employers	200,400	189,944	200,181
Contributions from employees	52,050	53,201	53,054
Transfers from other schemes	20,000	5,130	17,544
	272,400	**257,275**	**270,779**
Expenditure			
Pension payments	(196,000)	(195,116)	(195,116)
Lump sum retirement payments	(60,000)	(58,705)	(60,453)
Refunds to members leaving service	(500)	(531)	(531)
Transfers to other schemes	(6,000)	(5,874)	(5,874)
Administrative expenses	(2,900)	(2,820)	(2,800)
	(265,400)	**(263,046)**	**(264,774)**
Net additions/(deductions) from dealings with members	**7,000**	**(5,771)**	**(6,005)**

It's worth highlighting the impact that the basis of preparation has on LPF's net additions/deductions in value from our dealings with our members. 2020/21 included a one-off event where an employer, Visit Scotland, centralised its membership into Lothian Pension Fund. Due to the late receipt of one of the payment tranches, some of this income is reflected in the current year. Under accruals basis, this was reflected in last year's figures, however the cash value of the transfer was received in 2021/22.

FINANCIAL PERFORMANCE

Cash-flow (cont.)

Lothian Pension Fund	Actual	Cash flow forecast									
	2021 /2022 £m	2022 /2023 £m	2023 /2024 £m	2024 /2025 £m	2025 /2026 £m	2026 /2027 £m	2027 /2028 £m	2028 /2029 £m	2029 /2030 £m	2030 /2031 £m	2031 /2032 £m
Pensions income	257.3	260.9	264.2	267.6	271.0	274.5	278.1	281.7	285.3	289.1	292.9
Pensions expenditure	(263.0)	(272.2)	(282.7)	(293.7)	(305.1)	(317.1)	(329.6)	(342.8)	(356.5)	(370.9)	(386.0)
Net pensions cash flow	**(5.7)**	**(11.3)**	**(18.5)**	**(26.1)**	**(34.1)**	**(42.6)**	**(51.5)**	**(61.1)**	**(71.2)**	**(81.8)**	**(93.1)**
Net investment income	**228.7**	**233.2**	**237.9**	**242.7**	**247.6**	**252.6**	**257.7**	**262.9**	**268.2**	**273.6**	**279.1**

The above figures are the estimated annual cash flow on pensions activity and investment income for the next ten years. The forecast is based on the 2021/22 actual cash flows (included for comparison) adjusted for actuarial assumptions.

Throughout the forecast period it's expected that investment income will provide multiple cover for negative net pensions cash flow, with no asset sales being required to fund on going pensioner payments.

SCOTTISH HOMES PENSION FUND

	2021/22 Projected	2021/22 Cash Basis	2021/22 Accruals basis
Income	**£000**	**£000**	**£000**
Administration charge	90	90	90
Expenditure			
Pension payments	(6,500)	(6,360)	(6,360)
Lump sum retirement payments	(750)	(546)	(514)
Transfers to other schemes	(100)	-	-
Administrative expenses	(90)	(53)	(53)
	(7,440)	**(6,959)**	**(6,927)**
Net additions/(deductions) from dealings with members	**(7,350)**	**(6,869)**	**(6,837)**

Scottish Homes Pension Fund is a mature fund with no active members. As a result, pension outlays are met from investment income, supplemented by asset sales. Net pension outlays were £6.8 million which is broadly in line with the prior year.

Membership statistics and funding statements from the Actuary are provided for both funds in the Fund Accounts sections.

FINANCIAL PERFORMANCE

Cash-flow (cont.)

Scottish Homes Pension Fund	Actual	Cash flow forecast									
	2021 /2022 £m	2022 /2023 £m	2023 /2024 £m	2024 /2025 £m	2025 /2026 £m	2026 /2027 £m	2027 /2028 £m	2028 /2029 £m	2029 /2030 £m	2030 /2031 £m	2031 /2032 £m
Pensions income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pensions expenditure	(7.3)	(6.8)	(6.9)	(6.8)	(6.8)	(6.7)	(6.7)	(6.6)	(6.6)	(6.5)	(6.4)
Net pensions cash flow	**(7.3)**	**(6.8)**	**(6.9)**	**(6.8)**	**(6.8)**	**(6.7)**	**(6.7)**	**(6.6)**	**(6.6)**	**(6.5)**	**(6.4)**
Net investment income	**1.9**	**2.0**	**2.0**	**1.9**	**1.8**	**1.7**	**1.7**	**1.7**	**1.6**	**1.6**	**1.6**

The estimated annual cash flows for Scottish Homes Pension Fund is based on actuarial analysis of the fund's membership profile. Although investment income is below the annual pension outgoings, no asset sales are required to meet the shortfall. Instead the all gilt investment strategy incorporates these cash flow requirements, with redemption dates of gilts tying into the fund's liquidity needs.

2020 Actuarial Valuations

The most recent triennial assessment of the funding position of the pension funds was undertaken by LPF's Actuary as at 31 March 2020. The valuation set employer contribution rates for the three year period from 1 April 2021. The Funding Strategy Statement was reviewed and amended following consultation with employers.

For Lothian Pension Fund, the funding level increased from 98% at 31 March 2017 to 106% at this valuation. The deficit of £145million at 31 March 2017 became a surplus of £408 million at 31 March 2020.

Lothian Pension Fund requires employers to provide written confirmation that minimum contribution rates set by the Actuary are affordable, as it's not in the best interests of the individual employers or the fund for employers to continue to accrue unaffordable pension liabilities. The fund continues to work with employers to put in place funding agreements to address repayment of debt when an employer leaves, to avoid employer default or insolvency.

The funding level for Scottish Homes Pension Fund at 31 March 2020 was 117.7%, increased from 104.7% from the 2017 actuarial valuation. Consultation was undertaken with the Scottish Government on the potential benefits offered by revising the Funding Agreement for this fund. However, it advised that it didn't want to revisit this and, as a result, the investments of the fund are now fully invested in UK government bonds and cash.

The next triennial valuation for both funds will be undertaken as at 31 March 2023.

FINANCIAL PERFORMANCE

Investment management cost transparency

Local authorities are required to account for pension funds in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council, where these provide additional guidance. Guidance is still awaited from CIPFA as to how these costs should be standardised and reported in the Annual Reports of LGPS Funds.

The Chartered Institute of Public Finance and Accountancy (CIPFA) published this guidance in July 2014, which promoted greater transparency of investment management fees. These principles were adopted as best practice in the presentation of the Lothian Pension Fund audited Annual Report 2015. In June 2016, CIPFA revised its guidance including the following: "Investment costs incurred by a separate legal entity, or in respect of investment decisions over which the pension fund has no control, should not be included in the Fund Account."

The revised guidance changed the disclosure of fees for fund of funds investment arrangements. A 'fund of funds' is an investment holding a portfolio of other investment funds rather than investing directly in funds. Typically, fees are payable to the 'fund of funds' manager as well as to the managers of the underlying funds. Generally, under the revised guidance from CIPFA, the second and third layer of fees would not be disclosed with just the fees from the 'fund of funds' manager stated.

In the preparation of the Fund's Annual Report for 2014/15 and 2015/16, the Fund made efforts to be completely transparent on the totality of costs incurred for managing its investment assets. The Fund's disclosures included all layers of fees. At its meeting on 28 September 2016, the Pensions Committee instructed the Committee Clerk to communicate to CIPFA, Audit Scotland and the Scottish Local Government Pension Scheme Advisory Board (SLGPSAB), the Committee's and Convener's disquiet with the relaxation of the principle of full cost transparency of investment management fees, as explicit in CIPFA's revised guidance "Accounting for Local Government Pension Scheme Management Costs".

COLLEAGUE PROFILE

"I really appreciate the support and opportunities I've been given at LPF; it's allowed me to progress my career beyond the trainee role I was recruited into and helped me to gain a professional qualification."

Laura Forsyth, Senior Finance Manager

FINANCIAL PERFORMANCE

In May 2018, CIPFA published: "Proposals for LGPS Fund Reporting in a 'Pooled World.'" This sets out proposals for revised reporting for LGPS pension funds to meet several objectives, including:

- To further enhance reporting of costs reflecting the introduction of the LGPS SAB Code of Transparency for asset managers
- Initiatives underway by the Financial Conduct Authority (FCA) and Department for Work and Pensions (DWP) which aim to create more transparent and granular reporting standards for both providers and trustees

In March 2019, CIPFA published "Preparing the annual report – Guidance for Local Government Pension Scheme Funds (LGPS) 2019 Edition." The purpose of this guidance is to assist local government pension funds with the preparation and publication of the annual report required by Regulation 55 of The Local Government Pension Scheme (Scotland) Regulations 2018.

The Pensions and Lifetime Saving Association (PLSA) has also issued cost data templates to support its Cost Transparency Initiative. The aim of this initiative is to provide a standardised way for asset managers to report costs and charges to investors. Such further cost disclosure will be included within the notes to the financial statements.

The financial statements of Lothian Pension Fund and Scottish Homes Pension Fund continue to include full transparency for both funds' internal and external investment management fees.

COLLEAGUE PROFILE

"I enjoy the variety of my role and the challenges the role brings."

Donna Gammack, Business Support Manager

FINANCIAL PERFORMANCE

	Lothian Pension Fund		Scottish Homes Pension Fund	
	2020/21	2021/22	2020/21	2021/22
	£000	£000	£000	£000
Investment management expenses in compliance with CIPFA guidance	37,468	42,319	112	112
Investment management expenses per financial statements	38,479	43,146	112	112
Disclosure in excess of CIPFA guidance	**1,011**	**827**	**0**	**0**

Utilising its internal investment management expertise, the investment strategy of Lothian Pension Fund has evolved to move away from complicated and expensive investment vehicle structures, such as fund of funds, to increased direct investment, e.g. in infrastructure. This significantly reduces the layers of management fees incurred.

The Fund is now at the realisation stage of its fund of fund investments, with its holdings in listed private equity and infrastructure funds being reduced and those receipts serving to fund additional direct investments. It's expected that over time these disclosures will continue to fall. Crucially, the disclosure of the full costs of investment management remains fundamental to effective comparison between LGPS funds, particularly given the common use of fund of fund investment vehicles.

FINANCIAL PERFORMANCE

Investment cost benchmarking

Investment strategy focuses on risk-adjusted returns net of costs. The Fund has participated in investment cost benchmarking provided by CEM, an independent benchmarking expert for global pension funds with a database of 314 pension funds representing £8.2 trillion in assets. To provide a relevant comparison, CEM calculates a benchmark based on fund size and asset mix, which are key drivers of investment costs.

The latest analysis available (for the year to 31 March 2021) showed that LPF's investment costs of 0.35% of average assets were significantly lower than CEM's benchmark cost of 0.45%, an equivalent annual saving of approximately £8.2m. This saving largely reflects the fact that the Fund manages a relatively high percentage of assets internally compared with other similar pension funds and that it has low exposure to fund-of-fund investment vehicles.

COLLEAGUE PROFILE

"My role is chiefly to generate rental income and add value to the property portfolio to pay pensions. I particularly enjoy building good relationships with our tenants and consultants."

Lisa Pollock, Property Asset Manager

PERFORMANCE AND ADMINISTRATION

Key Performance Indicators 2021/22

Our strong commitment to customer service drives continuous service development, ensuring the best possible service, whilst recognising potential demands of the future. We set challenging performance targets and measure these through both key indicators which are reported to our Pensions Committee and Pension Board, and internal indicators, which are reported to internal management. This year we've focused on improving the services we provide digitally to enable members quick and easy access to their personal information.

The table shows our performance against these targets.

2020/2021		Target	2021/2022
Retained	Maintain Customer Service Excellence Standard (CSE) (Annual assessment)	Retain	Retained
Met	Audit of Annual Report and Accounts	Unqualified opinion	Not yet assessed
100%	Proportion of members receiving a benefit statement by August	100%	100%
96%	Overall satisfaction of employers, active members and pensioners measured by surveys	92%	96.5%
99.5%	Percentage by value of pension contributions received within 19 days of end of month to which they relate	99%	99.8%
Not met	Investment performance and Risk of Lothian Pension Fund over a rolling five-year period	Meet benchmark monthly	Not met 0.91*
Met	Monthly pension payroll paid on time	Met	Met
2.85%	Level of sickness absence	4.0%	2.5%
100%	All colleagues complete at least two days training per year	Yes	100%
73%	Colleague engagement index	Greater than 70%	76%

**Sharpe ratio measuring annualised portfolio return less risk free return divided by standard deviation of monthly returns. Benchmark 0.93.*

LOTHIAN PENSION FUND

LPF RETIREMENT GOALS

'Getting back to spending quality time with the best dance partner in the world'

PERFORMANCE AND ADMINISTRATION

Value for Money
Pension Administration Benchmarking

Value for Money is the term used to assess whether an organisation has obtained the maximum benefit from the services it acquires or provides, within the resources available to it.
It has three components to take account of: economy, efficiency and effectiveness.

For many years, LPF has participated in benchmarking provided by the Chartered Institute of Public Finance and Accountancy (CIPFA). The purpose of this is to help identify the areas where we can make improvements to deliver better value for money. The benchmarking facilitates:

- Comparison between costs and performance
- The provision of evidence to support decisions on budget relating to the sustainability and capability to enhance customer satisfaction
- Sharing of information and ideas with peers
- A review of performance trends over time.

The outputs and analyses have served to supplement internal performance management information.

The Pensions Administration Standards Association (PASA)

Holding PASA Accreditation is the gold standard for quality in pensions administration. We're proud to hold accreditation, as we believe that it's important that we can demonstrate that we're carrying out our role as a LGPS efficiently and effectively. The PASA standards are an excellent external validation of these capabilities.

PERFORMANCE AND ADMINISTRATION

We participated in the pension administration survey carried out by CEM for the first time in 2019. This gave us further insight into pension administration cost and quality of service and we've continued to participate since then.

Although CIPFA is exclusive to local authority funds, the CEM peer group also included UK private sector schemes. Participating funds from both private and public sectors were of a significantly larger size than us. CEM's benchmarking results categorised our pension administration service as "low cost; high service standard".

Interim results show that cost per member of £25.59 is lower than the adjusted average of £41.15, and a service score of 67 out of 100, which is higher than the peer median of 62. Reasons for the higher score compared to the peer group include:

- Paying retirement lump sums more quickly
- Providing assistance to vulnerable members, including offering specially formatted printed materials and including notifications on our website
- Carrying out targeted campaigns including encouragement to update beneficiary information.

WHAT OUR MEMBERS SAY:

"Over many years I have been very pleased with all the aspects of the service, especially when phoning and receiving the newsletter.
You're an example of how to do customer care.
Thank you so much."

PERFORMANCE AND ADMINISTRATION

Customer and complaint feedback

Listening to feedback is key to our services and LPF carry out surveys to monitor individual and overall satisfaction. Our overall satisfaction continues to improve and in 2022 remains above the 92% target at 96.5%.

We also monitor complaints and ensure we respond to and resolve all complaints where possible, within 20 working days.

We investigate and learn from both formal and informal complaints to ensure we're continuously improving our services. Complaints are split by those about the service we provide and those about how Scheme Regulations are applied.

We carried out 21,986 processes in 2021/22 and there were very few complaints made; less than 0.01%. Complaints covered a broader range of issues including the apportionment of cash equivalent transfer values for divorce purposes, aggregating previous membership and late payment of retirement benefits for members who held an AVC with Prudential. (Prudential had issues following an IT system upgrade.)

Internal Dispute Resolution Procedure (IDRP)

Pensions law requires that the Local Government Pension Scheme must have a formal procedure in place for resolving disputes arising from the running of the scheme. The IDRP is a two-stage process. An external independent appointed person deals with disputes at the first stage and the second stage is dealt with by the Scottish Ministers.

In 2021/22, there were three stage 1 disputes for investigation. If a member remains dissatisfied with the Stage 1 decision, they have six months to take their appeal to Stage 2. In 2021/22, there was one Stage 2 dispute. These disputes are included in the statistics below.

Reason for dispute	Stage 1 outcome	Stage 2 outcome	On-going
Decision on who to pay a lump sum death grant to	1 ongoing	0	1
Non return of contributions on re-joining LGPS	1 ongoing	0	1
Awards, e.g. early payment of deferred pension on health grounds	1 ongoing	1 ongoing	2

Further information about the IDRP and complaints procedure is available on our website at www.lpf.org.uk/aboutus.

PERFORMANCE AND ADMINISTRATION

Our data

We issued 100% of benefit statements by the statutory deadline of 31 August 2021. This is the third year in a row we've achieved this target which was set by The Pensions Regulator in 2015. Previous years saw us achieve 99%.

We measure our pension record keeping standards against The Pensions Regulator's best practice guidance. Poor record-keeping can lead to significant additional costs in areas such as administration, error correction, claims from members as well as fines from The Pensions Regulator.

All our employers submit monthly contribution and pensionable pay data through our employer data portal, and we audit submissions to ensure the continuation of data accuracy.

We utilise a Data Quality Service provided by the administration software supplier to determine the scores for our common and conditional data as required by The Pensions Regulator. The scores are based on the percentage of clean member records; those considered to be without a single data failure.

The following scores were submitted to The Pensions Regulator for the 2021 annual scheme return. Lothian Pension Fund and Scottish Homes Pension Fund scored 98.4% and 97.5% respectively for common data (2020 scores were 98.3% and 96.7% respectively) and 99.5% and 99.9% for conditional data (2020 scores were 96.9% and 99.3% respectively). The quality of data continues to be considered to be of a high standard.

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Customer Service Excellence (CSE)

We're proud to have held the Customer Service Excellence (CSE) Award (previously known as Charter Mark) since 2008.

The CSE Awards were established to provide a practical tool for service providers to drive customer-focused change within their organisation. It has helped us to become even more efficient and effective and provide an excellent service to our members and employers.

Yearly formal assessments are carried out by a licenced certification body and we're delighted to have received successful inspections for the last 14 years.

PERFORMANCE AND ADMINISTRATION

Rectification of age discrimination - McCloud and Sargeant judgements

When public service pension schemes were reformed following the Public Service Pensions Act 2013, protections for older scheme members were introduced. In December 2018, the Court of Appeal ruled that the transitional protections included in the Judges' ("McCloud") and Firefighters' ("Sargeant") pension schemes constituted unlawful age discrimination. Following this, in July 2019 a Written Ministerial Statement confirmed that the UK Government believed that the ruling applied to all the main public service pension schemes and that the discrimination would be addressed in all the relevant schemes, including Local Government Pension Scheme (LGPS) in Scotland.

On 4 August 2020, the Scottish Public Pensions Agency (SPPA) issued a statutory consultation on the proposed remedy, with this closing in October 2020. As anticipated, it's proposed that a comparison will be made between the benefits payable under the current rules with the entitlements which would have been paid if the Scheme had not changed in 2015, and with any higher sum being paid to the member. This protection will apply automatically and members who meet the qualifying criteria won't need to take any action. Many members' benefits won't change or will only see a small increase because of low salary growth since the new scheme was introduced.

As the changes will be backdated to April 2015 and apply to qualifying members who left the LGPS after that date, implementation of the remedy is expected to be extremely challenging from both administration and communications perspectives. SPPA has not yet published its formal response to its consultation.

In late February 2022, SPPA advised that "The Public Service Pensions and Judicial Offices Bill is currently working its way through the committee stage and is on track to get Royal Assent early in 2022. The Department for Levelling-up, Communities and Housing in England and Wales (DLUCH) has confirmed that it intends that the final McCloud remedy regulations will be made in Summer 2022. Scheme regulations will then be backdated to 1 April 2014. Scottish Ministers intend to mirror those regulations. It is intended that Scheme regulations will be made in the second quarter of 2022, coming into force on 1 April 2023. The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2022 will be backdated to 1 April 2015.

In preparation for rectification of member benefit entitlements, we've:

- Communicated to employers through regular bulletins the anticipated data collection requirements associated with the extension of the final salary underpin, e.g., part-time hours, service breaks
- Established a voluntary pilot project with a large employer to streamline data gathering and analysis
- Recruited new Trainee Pensions Administrators to ensure we have sufficient resources to deal with both remedy and current workloads
- Assigned a Project Manager
- Engaged in ongoing liaison with our pensions administrator software provider to clarify bulk processing functionality
- Ensured we're aware and alert to any emerging national guidance from the Local Government Association
- Continued engagement with the other Scottish LGPS administering authorities

PERFORMANCE AND ADMINISTRATION

Pension administration

Our in-house pension administration team provides a dedicated service for the pension fund members. We monitor the time taken to complete our procedures. Key procedures include: processing of retirement and dependent benefits; providing information for new members; and transfers and retirement quotes. Our non-key procedure measure incorporates other pension administration measures, for example: aggregation (joining two periods of membership together); recalculation of pension benefits due to a backdated pay award; and updating member details (bank details, marital status) etc. During the year we identified that our non-key workload was experiencing a backlog. As we were comfortable that our critical and key performance measures were in an overall stable position, the team targeted non-key work. This allowed us to maintain overall levels of member satisfaction whilst keeping in mind the importance of maintaining our critical and key measures.

Despite the challenging environment, 97.42 % of key procedures in 2021/22 were completed on target.

PERFORMANCE AND ADMINISTRATION

The table below shows performance against key procedures in 2021/22.

2020/21		Target	2021/22
96.8%	Proportion of critical pensions administration work completed within standards – individual performance within this indicator are shown below	Greater than 92%	97.4%
94%	Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request	91%	97.7%
98.8%	Pay lump sum retirement grant within seven working days of receiving all the information we need from the member	96%	98.7%
94.6%	Acknowledge of the notification of the death of a member to next of kin within five working days.	96%	95.6%
100%	Respond in writing within 20 working days to formal complaints that have escalated from frontline resolution, or recorded directly as an investigation	96%	100%
96.3%	Notify early leavers entitled to deferred benefits of their rights and options within 10 days of being informed of end of pensionable service.	91%	94%
78.1%	Proportion of non-key procedures completed within standard including Additional Regular Contributions, responding to member communications, updating nominations and maintaining the member database.	75%	79.1%
93.2%	Notification of dependant benefits within five working days of receiving all necessary paperwork	96%	93.5%
98.1%	Payment of CETV within 20 working days of receiving all completed transfer out forms	96%	98.8%
86.1%	Provide transfer-in quote within 10 working days of receiving the Cash Equivalent Transfer Value (CETV) from member's previous pension provider.	96%	93%
88.8%	Notify members holding more than three months, but less than two years' service, of their options at leaving. As there is a one month and a day lying period, the target is within 10 days of the end of the lying period or after the employer providing full leaving information if later.	85%	94%
99.3%	Pay a refund of contributions within seven working days of receiving the completed declaration and bank detail form.	91%	99.2%
99.5%	Estimate requested by employer of retirement benefits within 10 working days	91%	99.7%
99.3%	Pay any lump sum death grant within seven working days of receipt of the appropriate documentation	96%	97.1%

PERFORMANCE AND ADMINISTRATION

Online services

We continue to encourage members to visit the website and access the online service. 48.6% of all members have registered for the My Pension Online and for active members, this figure rises to 55.1% using the service. To increase this, we've worked with employers to obtain email addresses where these aren't held.

The services provided via the My Pension Online portal continue to increase. In addition to the growing number of services that can now be performed online, in March 2022 we implemented a new facility which allows active members to see and request payment of voluntary retirement benefits online. This is in addition to the service currently provided for deferred members where they can also choose to view information on transferring their benefits to a new scheme.

We've had a voicemail solution in place since April 2020, due to home working and issues with phone lines. In February 2022 we launched a new incoming call platform replacing voicemail, which allows us to accept incoming calls from customers.

When calling, customers are initially presented with options to put them through to the right person or team. They're also provided with information about our online facility, website hub, and further information on the option they've chosen e.g. requesting an estimate, transferring pension rights and paying extra into the scheme. Once fully embedded, we'll use the system to respond to incoming email enquiries with an improved customer experience, as a history of the email conversation previously received will be available for the member of staff dealing with the enquiry.

Our new website went live in March 2022 and provides a single integrated platform, which will allow development of further online services in the future.

Our employers also use a variety of digital services including providing monthly contribution returns via a secure transfer portal, allowing data to be automatically uploaded to the pension software system. This has significantly improved the provision of employer data, allowed automation of tasks, and considerably simplified the year end processes. We now receive member specific documents through i-connect rather than Go Anywhere. This reduces risk as the document is automatically uploaded onto the member's record.

WHAT OUR MEMBERS SAY:

"I have nothing but positive comments
to make about the service at LPF.
If only all services were as good as this one."

PERFORMANCE AND ADMINISTRATION

Unclaimed Monies Account

When a member leaves the Fund with less than two years membership, they're entitled to a refund, a transfer to another pension provider or to defer their decision for five years. Where we don't receive a response, we now hold these records as 'Status 9: Frozen Refund' with a marker to show why the money hasn't been paid out. Examples of reasons for the refund not yet being paid include when the member has elected to delay making their decision for five years, or where the member no longer lives at the address we hold and is therefore 'gone away'.

We began contacting these members in January 2022 to encourage them to take payment of their money. As of 14 March 2022, we've written to 1101 members and this has resulted in the Fund making payment to 52 members so far which represents £26,945.34 of money previously classed as unclaimed. We continue to issue communications and we expect to write to the remaining unclaimed refund members over the next four months. The exercise will be repeated annually.

Employer performance

The Pensions Administration Strategy sets out the roles and responsibilities of both the Fund and employers, specifying the levels of services the parties will provide to each other, and referring to four key areas where the Fund will pass on the costs of poor performance from employers:

- Late payment of contributions
- Late submission of membership information at the end of the year
- Failure to supply the Fund with information required to provide members with pensions savings statements
- Failure to provide details of member contributions monthly.

These areas are particularly important to ensure compliance with legislation, including accurate data to administer the career average pension scheme and the requirement to provide members with a pension forecast by 31 August each year. Charges for late payment of contributions are as stated in the Scheme Regulations, whilst other recovery of costs has been set to reflect the additional time spent in resolving queries and pursuing late information.

PERFORMANCE AND ADMINISTRATION

Since the strategy was introduced, provision of early leaver and retiral information from employers has been well below the expected standard. During 2021/22, our officers took a variety of approaches to improve employer performance, including:

- Providing training to payroll/HR colleagues via Microsoft Teams
- Presenting performance updates at virtual meetings
- Escalating to senior officers at annual employer meetings
- Monitoring with employers where performance has been particularly poor.

To improve service to members, indirect costs can now be recovered from an employer if any persistent and ongoing administration failures occur, with no improvement demonstrated or if they're unwilling to resolve the identified issues.

We monitor employer performance against the standards set out in the Pension Administration Strategy. Results are reported to employers in an annual performance report, with more regular reporting for larger employers.

Overall employer performance for 2021/22 is shown below, with 2020/21 shown for comparison purposes.

		2020/21			2021/22		
Case type	Target (working days)	Number received	Number within target	% within target	Number received	Number within target	% within target
New members	20	4,314	3,294	76%	6,099	5,335	87%
Leavers	20	2,580	1,214	47%	3,529	2,074	59%
Retirements	20	1,160	469	40%	1,425	544	38%
Deaths in Service	10	20	11	55%	32	20	63%

PERFORMANCE AND ADMINISTRATION

All employers are now submitting new starters through i-Connect which has improved the performance this year. We expect further improvement next year with only exceptional cases not being met in target.

Whilst the provision of leaver information within target has improved, a high percentage are still being received out of target. One of our largest employers identified a high amount of historical cases and this has impacted the fund result negatively. We continue to provide missing leaver queries to employers on a monthly basis, and our year end process helps identify historical cases to employers which require urgent attention.

Most retirement information continued to be provided out of target. Similar to last year, just over a quarter of retirements out of target are received between 10 and 19 days before the member's retirement date, but just over 40% are received after the member's retirement date.

Employer	Number of late payments	Employer	Number of late payments
Scotland's Learning Partnership	12	Bellrock	1
Children's Hearing Scotland	3	COSLA	1
Edinburgh Development Group	3	Museums Galleries Scotland	1
Baxterstorey	2	Penumbra	1
Canongate Youth Project	2	Skanska	1
TOTAL			**27**

Contributions by value paid on time

99.7% of contributions by value were paid on time. Of the 976 payments made, 27 were paid late and these are shown in the table. The option to levy interest on overdue contributions was not exercised in 2021/22 as late contributions weren't received significantly later than the 19th day.

OUR COLLEAGUES

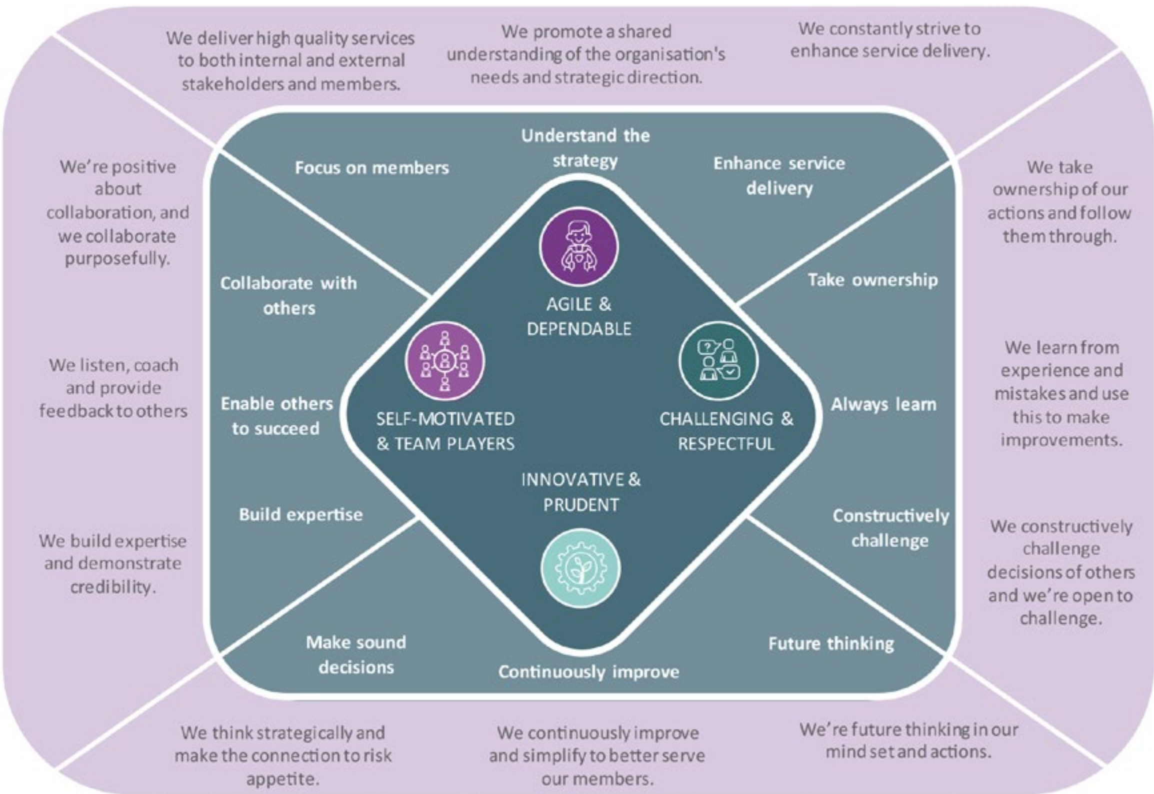
Our colleagues

Engaging our colleagues is critical to delivering our strategy and ambition. We firmly believe that having happy and motivated colleagues helps us deliver for our members, employers and stakeholders.

Our core values

We're passionate about pensions and our values are enduring principles that inform, inspire and instruct our day to day behaviour. We're proud to be:

- **Agile and dependable**
  We approach work with an open and flexible attitude and take responsibility to manage our work effectively and efficiently. We also embrace new processes in a consistent and reliable way.
- **Self-motivated and team players**
  We actively participate as individuals, taking pride and responsibility in what we do. At the same time, we show awareness for the team and ensure our objectives support the team's objectives.
- **Challenging and respectful**
  We appreciate the need to challenge status quo and ask questions in a constructive and respectful way.
- **Innovative and prudent**
  We always look to improve processes and practices and ensure we do this in a way that's safe and protects LPF from unnecessary risk.



OUR COLLEAGUES

Inclusivity

We're one team, but we represent many ideas, experiences and backgrounds. We value everyone's contributions and believe that everyone should be their whole self at work. We want a diverse, inclusive and respectful workplace and this will be achieved by driving a positive environment. As at 31 March 2022 our permanent headcount was 52% female and 48% male.

We recognise the many strengths and talents our diverse colleagues bring to the workplace so we're taking steps to make sure that LPF is as inclusive as possible for both our colleagues and members:

- In 2019, we signed up to Disability Confident and more importantly, committed to review and improve everything we do with respect to recruitment and employment. Through Disability Confident, we'll 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 proud to be one of the first firms in Scotland to partner with Future Asset and offer work experience placements for senior school girls. Future Asset aims to raise aspirations and confidence in girls in S4-S6, encouraging them to choose ambitious career paths, and informing them about rewarding opportunities in investment
- We've joined several organisations supporting the Scottish launch of a nationwide initiative focused on increasing diversity and inclusion in the asset management, professional services and financial services industries
- We continue our work on the Scotland chapter of the Diversity Project, which aims to accelerate progress toward a more inclusive culture in the investment and savings sectors across all demographics, including gender, ethnicity, sexual orientation, age and disability.

LOTHIAN PENSION FUND

LPF RETIREMENT GOALS

'I'm looking forward to no overtime at work and lots of quality time with family'

OUR COLLEAGUES

Gender Balanced

We continue to work towards our goal of being fully gender balanced across the organisation by 2030.

- As at 31 March 2022 we have, on aggregate, 40% women in our top three leadership layers and across the whole company, 52% of our workforce are women
- Our mean gender pay gap is 21.2%
- Our positive action approach for gender, which is benchmarked externally, is helping to ensure that our people policies and processes are inclusive and accessible, from how we attract and recruit, to how we reward and engage our colleagues. With this in mind, we launched our all-inclusive gender-neutral parent policy covering maternity, paternity, surrogacy and adoption in 2021
- In 2021 we recruited 13 colleagues; 38% of these were women.

Performance and Reward

During the first half of 2021, our focus was on our new performance management process and supporting our colleagues and managers through the goal setting and quarterly check ins.

Our approach to performance management provides clarity for our colleagues about how their contribution and performance links to our vision and values. We're transparent with our pay structures to ensure our colleagues understand that they're paid fairly for their performance in line with industry best practices.

We make sure that colleagues have a common awareness of the financial and economic factors affecting LPF's performance through fortnightly all colleague calls and quarterly events. More information on our remuneration policies and employee share plans can be found later in this document.

Developing Skills and Capabilities Culturally

Becoming a learning organisation is one of our priorities. We ensure that colleagues have the required skills and qualifications to perform their roles and prepare them for the future. We're committed to developing colleagues in key areas we've identified that will help build the right knowledge, skills and behaviours to help them stay relevant and employable, and support our ambition and purpose. In addition, we're encouraging agility and shifting mindsets so that a focus on the future, continuous learning, knowledge-sharing and reflective practice becomes the norm.

LOTHIAN PENSION FUND

OUR COLLEAGUES

The Scottish Government and Scottish Funding Council launched the Flexible Workforce Development Fund in 2017. The academic year 2020-21 was the first year that the funding was made available to small and medium sized enterprises to support with the upskilling and reskilling of workforces, address skills gaps and contribute to recovery from the Covid-19 pandemic. We worked closely with Edinburgh College to secure £5,000 funding and created a bespoke management training programme devised to upskill our management population. The programme was rolled over a series of half day sessions for our management population and focused on performance management, difficult conversations, assertiveness skills, effective leadership and leading and motivating teams.

Investing in Colleagues

Our digital e-learning platform, ComplianceServe, gives our colleagues the opportunity to expand their own development as well as complete our quarterly core learning. This platform allows us to regularly report on our company learning targets and our colleagues can record all their continued professional development (CPD) in one place. As at 31 March 2022, 100% of our colleagues had completed their 20 hours of annual CPD.

Health and Wellbeing

We firmly believe that colleague wellbeing is linked to a successful and happy workforce. All colleagues have access to our free Employee Assistance Programme which offers help and advice on topics like health, legal, finance and lifestyle.

We take our colleagues' wellbeing very seriously and to support this, we launched a suite of Moments that Matter documents focusing on mental health, physical health, financial health and life changing events. These documents are aimed to help colleagues and managers recognise signs and symptoms of wellbeing concerns and where to find help and support. They're also available to our members on our new website www.lpf.org.uk.

We also run weekly virtual WorkFit fitness classes to help keep our colleagues healthy and moving.

Throughout 2021 we held various sessions focusing on wellbeing. During Mental Health Awareness Week, we planned daily activities to promote metal health and we invited a mindfulness coach along to discuss how we can use mindfulness to keep healthy at work and reduce stress, and how to restore balance in our mental and physical health by understanding key stressors.

During Pride month we raised awareness of the current issues facing the LGBTQA+ community by sharing key messages with the team and suggesting ways for everyone to get involved. We also invited an external guest speaker to discuss the importance of inclusion in the workplace and share their experiences.

On Mental Health Day, we welcomed another guest speaker to discussed physical, social and mental wellbeing and how to overcome the challenges of lockdown.

Management commentary approved by:

Andrew Kerr	**David Vallery**	**John Burns**
Chief Executive Officer	Chief Executive Officer	Chief Finance Officer
The City of Edinburgh Council	Lothian Pension Fund	Lothian Pension Fund
29 June 2022	29 June 2022	29 June 2022

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Investment Strategy

The Pensions Committee's amendments to Fund strategy over the financial year are presented in the table below.

The objective of the Fund's investment strategy is the achievement of the discount rate, the return that the actuary prudently assumes will pay pensions as they fall due and will also be consistent with affordable and stable employer contribution rates.

The Fund's investment strategy reflects the duration of its liabilities, the pensions it will pay in the future. For most employers, these liabilities stretch decades into the future. Consequently, the strategy allocates a substantial portion of the Fund to assets that are expected to grow in real terms over the long term, such as equities. However, given that these types of assets are volatile, and that the future is uncertain, the strategy includes other asset types to diversify risk.

The macroeconomic backdrop also influences the formation of the investment strategy and its implementation and, given the potential for a more inflationary future than that of recent years, this supports the emphasis on real assets that have a history of protecting investors from the worst effects of inflation.

Investment Strategy Revisions

The Pensions Committee made some amendments to fund strategy, which are presented in the table below over the year to end March 2022. The changes reflected factors including a small reduction in risk appetite due to the increased maturity of employer liabilities, a higher funding level since the previous actuarial valuation and an assessment of long term expected asset returns.

LOTHIAN PENSION FUND Total Fund Strategy	31 March 2021	31 March 2022	Change
Equities	62.1%	57.9%	-4.1%
Real Assets	17.7%	19.3%	1.6%
Non-Gilt Debt	10.5%	9.7%	-0.8%
LDI (Gilts)	9.6%	13.1%	3.5%
Cash	0.0%	0.0%	0.0%
Total	**100%**	**100%**	

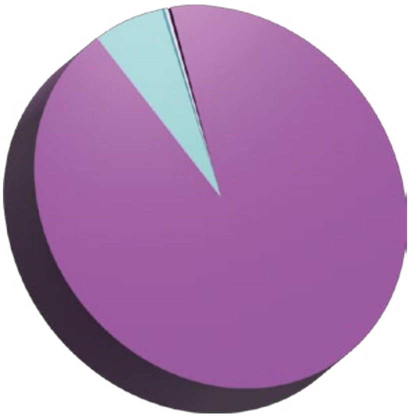
Note: Numbers may not sum due to rounding

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Employer Strategies

Lothian Pension Fund is a multi-employer pension scheme and not all employers are alike. To address their differing funding requirements the fund operates four distinct investment strategies. The assets in each strategy are shown in the table below. Employers fund their liabilities with the strategy that reflects their ability to tolerate risk.

EMPLOYMENT GROUP STRATEGIES 2022



- Main Strategy **92.9%** (£8,845m)
- Buses Strategy **6.4%** (£606m)
- 50/50 Strategy **0.5%** (£47m)
- Mature Employer Strategy **0.3%** (£27m)

TOTAL WEIGHT 100%
TOTAL ASSETS 9,525 (£m)

Most employer liabilities are funded under the Main Strategy, which adopts a long-term investment strategy, aiming to generate an investment return that will minimise the cost to the employer within reasonable and considered risk parameters. The Main Strategy maintains significant exposure to real investments, such as Equities and Infrastructure, which have a history of protecting and growing purchasing power.

A small number of employers are funded in the Mature Employer Strategy, which invests in a portfolio of UK index-linked gilts to reduce funding level and contribution rate risk as they approach exit from the fund. The liabilities funded by the Mature Employer Strategy represent approximately 0.3% of total liabilities.

The 50/50 Strategy enables another small group of less mature employers to fund liabilities with a 50/50 mix of the Main Strategy and the Mature Employer Strategy. The liabilities funded by the 50/50 strategy represent a further 0.5% of total liabilities.

The Buses Strategy, which was created when the assets and liabilities of Lothian Buses Pension Fund were consolidated into the Lothian Pension Fund on 31 January 2019, is a 55/45 mix of the Main Strategy and the Mature Employer Strategy. The liabilities funded by the Buses strategy represent approximately 6.4% of total liabilities.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Policy Groups

The 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, Non-Gilt Debt, LDI (Gilts) and Cash. Although individual investments within each group will have different risk and return characteristics, each policy group targets a long-term return in relation to the return from UK gilts. The return target provides perspective on the expected risk of each group in relation to Fund liabilities. These are detailed in the Statement of Investment Principles.

The table below presents the policy group target allocations of the four investment strategies at end March 2022 along with the total Fund strategy, which is the weighted average of the four employer strategies.

LOTHIAN PENSION FUND 31 March 2022	Main strategy	Mature Employer strategy	50/50 strategy	Buses strategy	Total fund strategy
Equities	60.0%	0.0%	30.0%	33.0%	58.0%
Real Assets	20.0%	0.0%	10.0%	11.0%	19.3%
Non-Gilt Debt	10.0%	0.0%	5.0%	5.5%	9.7%
LDI (Gilts)	10.0%	100.0%	55.0%	50.5%	13.1%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Note: Numbers may not sum due to rounding

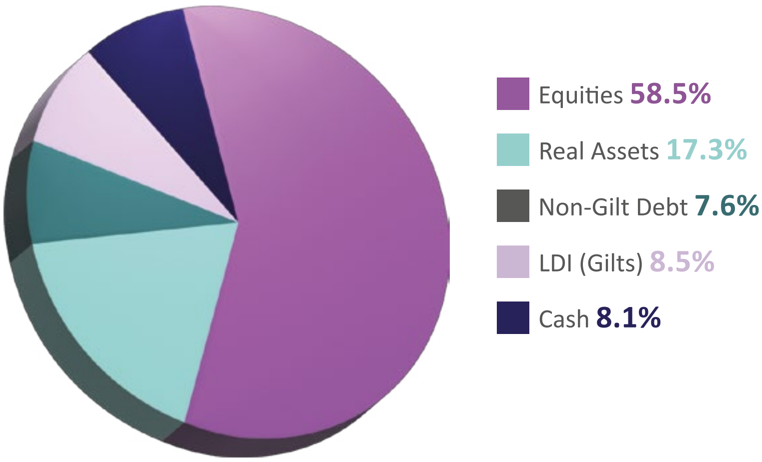
The LDI policy group comprises index-linked and nominal gilts. This is the lowest risk, lowest expected return policy group as it's possible to match the cash flows of gilts with the pension payments that the Fund expects to pay in the future. The purpose of the other policy groups is to generate a return in excess of the gilt return to make the Fund affordable to employers. The other policy groups, therefore, are expected to generate higher returns over the long term – the actuary models 20 years into the future. These higher returns come at the cost of higher risk, or volatility.

Strategy Implementation

The Pensions Committee delegates implementation of investment strategy to the Fund's officers, who are tasked with investing each policy group within specified ranges. These are laid out in the Statement of Investment Principles. The actual allocation at end March 2022 is presented in the pie chart below. The largest deviation from strategy is the overweight position in cash (+8.1%), which reflects increasing concern about the valuation of other assets. With interest rates extremely low, the fund has underweight positions in LDI (or Gilts) and Non-Gilt Debt, both of which are vulnerable to rising interest rates. The Real Assets policy group is also underweight, but this is due to liquidity constraints and market movements rather than an intentional position. The Fund has operated comfortably within the prescribed ranges over the year.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

ACTUAL ASSET ALLOCATION TOTAL FUND 31 MARCH 2022



Within policy groups, the Fund pays careful attention to risk taken to achieve returns and the cost of implementation. Within equities, for example, the strategy typically avoids higher risk securities, meaning that its portfolio is lower risk than the benchmark. This has been the case for the last several years. One of the benefits of this approach is that it helps to maintain a low cost of implementation as turnover is generally quite low. Also contributing to a low cost of implementation is the internal management of just under 90% of equity assets.

The Real Assets policy group has grown substantially over the last several years. The investments in this diverse category are comprised of (very largely UK) property, a wide range of infrastructure assets, including a variety of renewables, regulated utilities and other essential assets, and timberlands. Again, there’s a wide range of expected risk and expected returns associated with these types of private market assets. The Fund seeks long term, defensive investments with inflation protection or correlation, and expects returns and risk to be somewhat lower than those from the Equity policy group and for the assets to provide some diversification benefits.

The Non-Gilt Debt policy group comprises investments in various non-gilt debt securities. However, as its purpose in the portfolio is to diversify equity risk, it eschews most high yield debt instruments, which are strongly correlated with equities. Indeed, with interest rates very low over recent years and credit spreads very tight, there’s material risk of a double whammy of rising interest rates and widening credit spreads. The fund also invests in overseas sovereign bonds, which are included in this policy group.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Investment Portfolio Changes

The table below shows the changes to asset allocation over the year. They were relatively small and reflect both market movements and investment activity.

POLICY GROUP	Actual Allocation 31 March 2021	Actual Allocation 31 March 2022	Actual 2022 less Actual 2021
Equities	60.0%	58.5%	-1.5%
Real Assets	18.2%	17.3%	-0.9%
Non-Gilt Debt	9.2%	7.6%	-1.6%
Gilts	5.6%	8.5%	2.9%
Cash	7.1%	8.1%	1.0%
Total	**100%**	**100%**	

Note: Numbers may not sum due to rounding

The Equity allocation was reduced by selling equities following the change in strategic allocation.

The Real Assets allocation also reduced modestly over the year, but this was because of strong distributions of income and capital from existing private market investments, which exceeded new commitments in the first half of the year. In private markets, it's not possible to match purchases with sales at the same point in time. The Fund continued to source new investments to achieve the target allocation and was a net investor in the policy group in the second half of the year in both infrastructure assets and property, including the well-publicised acquisition of the Titan logistics / industrial unit in central Scotland.

Non-Gilt Debt weights also fell slightly over the year, broadly consistent with the revised strategy allocation. A combination of private debt distributions, maturing fixed income securities and market movements caused the change – the asset class performed relatively weakly over the year.

The largest change in allocation over the twelve-month period was the increase in the LDI policy group. This was triggered by a higher revised investment strategy allocation. Given the extremely low interest rates engineered post-COVID by central banks and the expectation that inflation would rise, gilts purchases were undertaken slowly over the year as interest rates rose.

The net result of the changes was an increase in cash, which is a temporary, defensive position supported by the fund's advisers. This proved to be a better option than nominal gilts, which fell over the year to end March 2022.

In general, the investment strategy changes were relatively small as one would expect from a long-term pension scheme. The changes to actual asset mix were also relatively minor. The largest actual change was the increase in LDI, which rose by 2.9 percentage points over the year.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Investment performance

The investment objective of the Fund is to achieve a return on assets sufficient to meet the funding objectives over the long term as outlined in the Funding Strategy Statement. In effect, the Fund aims to generate adequate returns to pay promised pensions and to make the scheme affordable to employers now and in the future, while minimising the risk of having to increase contribution rates in the future.

This aim is translated into a strategic benchmark comprising a mix of assets, whose future returns are expected to approximate the required returns over the long term. The Fund is not expected to track the benchmark from year to year, but it does target a return broadly in line with its strategic benchmark allocation over the long term, with a lower-than-benchmark level of risk.

There are two main reasons why returns will deviate from the benchmark, particularly over shorter timeframes: portfolios aren't constructed to track listed market benchmarks, and private market benchmarks aren't readily available nor assets well suited to short term measurement.

The Fund's performance over the last year and over longer-term timeframes is presented in the table below, both relative to the asset benchmark and with other relevant economic metrics. UK CPI and Average Weekly Earnings are both measures of inflation and Fund liabilities are, of course, linked to long term inflation. Both had grown at low and relatively stable rates for many years until the recent surge, almost certainly precipitated by the unprecedented monetary and fiscal response to COVID-19.

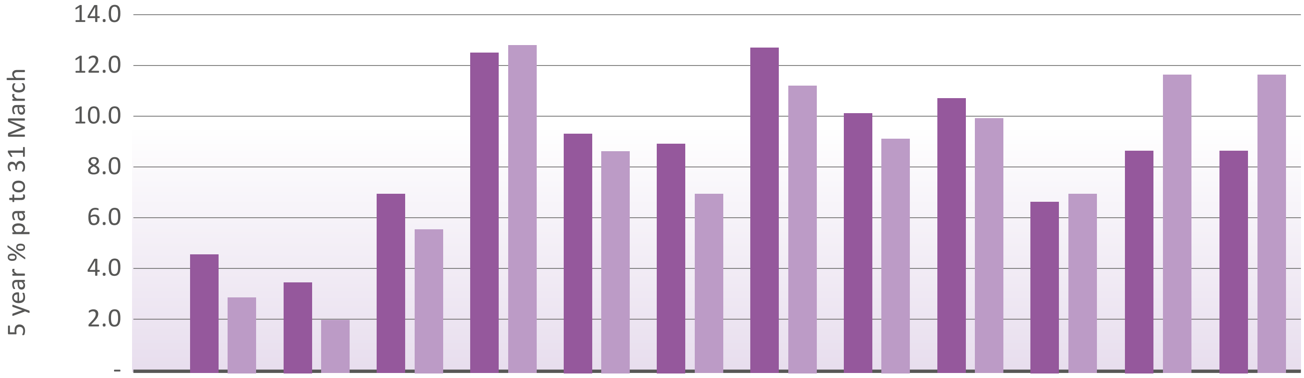
Annualised returns to 31 March 2022 (% per year)	1 year	5 years	10 years
Lothian Pension Fund	10.8	6.5	9.7
Benchmark*	8.8	8.6	10.0
Average Weekly Earnings (AWE)	9.9	4.1	3.0
Consumer Price Index (CPIH All Items)	6.5	2.6	2.0

**Comprises equity, 'gilts plus' and gilts indices*

LOTHIAN PENSION FUND INVESTMENT STRATEGY

The following bar chart presents the underlying performance data in a long-term context. It shows rolling five-year returns for the Fund, its asset-based benchmark, and the relative return. The historical record highlights that these numbers fluctuate meaningfully over time, and so caution is required when interpreting individual data points. Despite strong absolute returns, the Fund's relative return for the years to March 2020 and 2021 were notably negative and this will continue to impact the five-year figures for some time. It's important to remember that the objective of the Fund is to balance both risk and return.

ANNUALISED 5 YEARLY RETURNS ENDING 31 MARCH (% PER YEAR)



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Fund	4.7	3.6	7.1	12.7	9.5	9.1	12.9	10.3	10.9	6.8	8.5	6.5
Benchmark	3.0	2.1	5.7	13.0	8.8	7.1	11.4	9.3	10.1	7.1	11.8	8.6
Relative	1.7	1.5	1.4	-0.3	0.7	1.9	1.5	1.0	0.8	-0.3	-3.2	-2.1

While the chart above looks solely at the return component, the policy group table below adds the perspective of the risk taken to achieve those returns. It presents the Fund's risk and return over 1 and 5 years as calculated by its independent performance measurement provider. It breaks down the performance by policy group where available. Due to changes to the structure of the Fund, there are no meaningful 10-year numbers for the individual policy groups.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

POLICY GROUP	1 year (%)		5 year (% pa)		10 year (% pa)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equities	13.4	12.4	7.4	10.5		
Real Assets	13.8	6.4	7.7	6.8		
Non-Gilt Debt	4.2	-5.0	3.2	2.5		
LDI (Gilts)	2.7	3.9	3.1	3.3		
Total Fund Return	**10.8**	**8.8**	**6.5**	**8.6**	**9.7**	**10.0**
Total Fund Risk*	**8.4**	**9.4**	**6.7**	**8.8**	**6.8**	**8.0**

**1 year predicted; 5 years ex-post (source: Portfolio Evaluation)*

The Fund produced an absolute return of +10.8% over the twelve months to end March 2022, which was ahead of the benchmark return of +8.8%. With risk below benchmark, it achieved its long-term objective over the short 1-year timeframe.

Returns were predominantly driven by equities and real assets, which both produced double digit gains over the period. The Fund's equities gained 13.4% over the year, modestly ahead of the global index (MSCI ACWI in GBP) return of +12.4%. Within the real assets category, the return of +13.8% was led by strength in both the direct (+22.5%) and indirect (+16.3%) property investments.

Five-year returns were lower than benchmark at +6.5% vs +8.6% and over ten years the comparison was +9.7%pa vs +10.0%pa. As noted above, these figures will be impacted for some time by the difficult experience of 2020 and the boom in financial asset prices over recent years.

On the risk side of the equation, the Fund has achieved its returns with notably lower levels of volatility than its benchmark (approximately 76% of benchmark risk over five years and 85% over ten years), so from a risk / return perspective the outcomes were in line with or better than expected over 1, 5 and 10-year timeframes.

COLLEAGUE PROFILE

"I love the diversity of my role; I've had the opportunity to get involved in a variety of projects and to meet and work with amazing people."

Rafael Peres, ICT Operations Analyst

LOTHIAN PENSION FUND

LPF RETIREMENT GOALS

'We plan on taking everyone on a rare holiday together as a family'

LOTHIAN PENSION FUND ACCOUNT FOR YEAR ENDED 31 MARCH 2022

Financial statements

This statement shows a summary of the income and expenditure that the Pension Fund has generated and consumed in delivering the Local Government Pension Scheme. Included are employers' and employees' contributions and investment income, as well as the cost of providing benefits and administration of the Fund.

Lothian Pension Fund				Lothian Pension Fund	
Parent	Group			Parent	Group
2020/21	2020/21			2021/22	2021/22
£000	£000		Note	£000	£000
		Income			
191,463	191,463	Contributions from employers	4	198,944	198,944
51,193	51,193	Contributions from members	5	53,201	53,201
62,308	62,308	Transfers from other schemes	6	5,130	5,130
304,964	**304,964**			**257,275**	**257,275**
		Less: expenditure			
187,565	187,565	Pension payments including increases	7	195,116	195,116
42,816	42,816	Lump sum retirement payments	8	51,043	51,043
7,389	7,389	Lump sum death benefits	9	7,662	7,662
584	584	Refunds to members leaving service		531	531
(33)	(33)	Premiums to State Scheme		-	-
5,734	5,734	Transfers to other schemes	10	5,874	5,874
2,879	4,132	Administrative expenses	11a	2,820	2,439
246,934	**248,187**			**263,046**	**262,665**
58,030	**56,777**	**Net (withdrawals)/additions from dealing with members**		**(5,771)**	**(5,390)**
		Returns on investments			
228,657	228,657	Investment income	12	281,974	281,974
969,236	969,236	Change in market value of investments	14, 19b	676,468	676,468
(38,479)	(39,725)	Investment management expenses	11b	(43,147)	(41,498)
1,159,414	**1,158,168**	**Net returns on investments**		**915,295**	**916,944**
1,217,444	**1,214,945**	**Net increase in the fund during the year**		**909,524**	**911,554**
7,480,318	**7,478,744**	**Net assets of the fund at 1 April 2021**		**8,697,762**	**8,693,689**
8,697,762	**8,693,689**	**Net assets of the fund at 31 March 2022**		**9,607,286**	**9,605,243**

LOTHIAN PENSION FUND
NET ASSETS AS AT 31 MARCH 2022

This statement provides a breakdown of type and value of all net assets at the year end.

Lothian Pension Fund				Lothian Pension Fund	
Parent	Group			Parent	Group
31 March 2021	31 March 2021			31 March 2022	31 March 2022
£000	£000		Note	£000	£000
		Investments			
8,686,123	8,686,123	Assets		9,528,867	9,528,867
(89,409)	(89,409)	Liabilities		(4,466)	(4,466)
8,596,714	**8,596,714**	**Net investment assets**	**13**	**9,524,401**	**9,524,401**
		Non current assets			
5,587	5,587	Debtors	23	13,061	13,061
625	625	Computer systems		719	719
590	-	Share Capital		690	-
-	1,047	Deferred tax	28a	-	875
6,802	**7,259**			**14,470**	**14,655**
		Current assets			
4,152	4,152	The City of Edinburgh Council	27	3,870	3,870
80,021	80,922	Cash balances	20, 27	68,241	69,098
32,533	32,976	Debtors	24	20,042	20,473
116,706	**118,050**			**92,153**	**93,441**
		Non current liabilities			
-	(5,513)	Retirement benefit obligation	29	-	(3,498)
-	(13)	Creditors		-	(14)
-	**(5,526)**			**-**	**(3,512)**
		Current liabilities			
(22,460)	(22,808)	Creditors	25	(23,738)	(23,742)
(22,460)	**(22,808)**			**(23,738)**	**(23,742)**
8,697,762	**8,693,689**	**Net assets for the fund**		**9,607,286**	**9,605,243**

LOTHIAN PENSION FUND ACCOUNTS

The unaudited accounts were issued on 29 June 2022.

John Burns FCMA CGMA, PgC
Chief Finance Officer,
Lothian Pension Fund

Notes to the net asset statement

The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which does take account of such obligations, is discussed in the Actuarial Valuation section of this report and these financial statements should be read in conjunction with that information. In addition, as required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the notes to these financial statements.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

1 Statement of Accounting Policies

The statement of accounting policies for all Funds can be found on page 143.

2 Lothian Pension Fund Group

Basis of consolidation, presentation of financial statements and notes
Commencing with the year ended 31 March 2016, Consolidated Financial Statements have been prepared for Lothian Pension Fund. The Financial Statements of Scottish Homes Pension Fund continue to be prepared on a single entity basis.

The Consolidated Financial Statements for Lothian Pension Fund are prepared by combining the Financial Statements of the Fund (the parent entity) and its controlled entities (LPFE Limited and LPFI Limited) as defined in accounting standard IAS27 - Consolidated and Separate Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the Consolidated Financial Statements. All inter-entity balances and transactions between entities, including any unrealised profits or losses, have been eliminated on consolidation.

Because the controlled entities activities are primarily focused on the provision of services to the Fund, its consolidation has a limited impact on the figures included in the Fund Account and Net Assets Statement of Lothian Pension Fund. An additional column has been added in both the Fund Account and Net Assets Statement, with the figures prior to consolidation being identified as “Parent” and after consolidation as “Group”. In the notes to the accounts, where there is a difference between the parent and group figures they are identified as either “Parent “ or “Group”.

Notes	Description
27	Related party transactions and balances Describes transactions during the year and balances at year end which relate to the parent and the companies.
28a	Consolidated Lothian Pension Fund group - LPFE Limited - deferred tax Describes the deferred tax non-current asset of the Company. See 2 f) ii) in the Statement of Accounting Policies and General notes for more information.
28b	Consolidated Lothian Pension Fund group - LPFE Limited and LPFI Limited - share capital Describes the share capital of the Company.
29	Retirement benefits obligation - group Provides the information on the retirement benefits obligation of the Company as required under IAS19 - Employee Benefits. See 2 q) ii) in the Statement of Accounting Policies and General notes for more information.

The consolidation of the group accounts was prepared prior to the approval by the Boards of LPFE Limited and LPFI Limited of their respective audited financial statements for 2021/22. The figures used in the consolidation are therefore from the unaudited financial statements of both companies.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

3 Events after the Reporting Date

There have been no events since 31 March 2022, and up to the date when these Financial Statements were authorised, that require any adjustments to these Financial Statements.

4 Contributions from employers

The total contributions receivable for the administering authority, other scheduled bodies and admitted bodies were as follows:

	2020/21	2021/22
By category	**£000**	**£000**
Primary Contribution (future service)	179,426	180,554
Secondary Contribution (past service deficit)	7,991	5,433
Strain costs	2,497	3,209
Cessation contributions	1,549	9,748
	191,463	**198,944**

	2020/21	2021/22
By employer type	**£000**	**£000**
Administering Authority	68,087	71,515
Other Scheduled Bodies	100,485	95,937
Community Admission Bodies	21,207	30,123
Transferee Admission Bodies	1,684	1,369
	191,463	**198,944**

Employer contributions, as calculated by the Fund Actuary, comprise two elements:

- An estimate of the cost of benefits accruing in the future, referred to as the primary contribution rate previously referred to as the “future service rate”, which is expressed as a percentage of payroll
- An adjustment for the solvency of the Fund based on the benefits already accrued, known as the "secondary contribution rate". If there is a surplus, there may be a contribution reduction; if there is a deficit there may be a contribution increase. For all employers, contributions to cover any Past Service Deficit are expressed as a fixed monetary sum, rather than as a percentage of payroll and are payable on a monthly basis that is one twelfth of the annual total.

Where an employer makes certain decisions, which result in benefits being paid early, this results in a "strain" on the Fund. The resulting pension strain costs are calculated and recharged in full to that employer.

Any employer that ceases to have at least one actively contributing member is required to pay cessation contributions.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

5 Contributions from members

By employer type	2020/21 £000	2021/22 £000
Administering Authority	18,359	18,969
Other Scheduled Bodies	26,296	27,596
Community Admission Bodies	6,150	6,212
Transferee Admission Bodies	388	424
	51,193	**53,201**

6 Transfers in from other pension schemes

	2020/21 £000	2021/22 £000
Group transfers	58,318	1,649
Individual transfers	3,990	3,481
	62,308	**5,130**

7 Pensions payable

By employer type	2020/21 £000	2021/22 £000
Administering Authority	82,489	84,339
Other Scheduled Bodies	87,431	91,909
Community Admission Bodies	17,371	18,537
Transferee Admission Bodies	274	331
	187,565	**195,116**

Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 [Section 31] allows employers to pay additional pensions on a voluntary basis.

As is typical within the Local Government Pension Schemes (LGPS), arrangements exist whereby additional teachers' pensions and employee pensions are paid with the payment of funded pensions. The use of a Fund bank account for these "unfunded transfer payments" is prohibited. Accordingly, for reasons of efficiency and simplicity, the pension payroll is combined and both funded and unfunded pension payments are made through a general fund bank account of the administering authority, City of Edinburgh Council. For the funded LGPS payments, the Fund transfers money from its own bank account to that of the City of Edinburgh Council's to cover the value of these benefits. For the unfunded payments, these are recharged to the employer body (or successor) which originally granted the discretionary benefits.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

As "unfunded payments" are discretionary benefits, they are not relevant to the sums disclosed in the Fund Accounts. As such, Lothian Pension Fund provides payment and billing services to certain employers on a no charge agency agreement basis.

In respect of these mandatory and discretionary compensation payments made by LGPS administering authorities to retired teachers, along with other Scottish LGPS administering authorities, the Fund has requested that the responsibility should transfer to the Scottish Public Pensions Agency (SPPA). SPPA has sought information on the relevant scope and scale of the payments being made across those administering authorities wishing to transfer. On receipt of such, SPPA has committed to consider the matter.

8 Lump sum retirement benefits payable

	2020/21	2021/22
By employer type	**£000**	**£000**
Administering Authority	15,476	17,553
Other Scheduled Bodies	22,285	28,214
Community Admission Bodies	4,919	4,905
Transferee Admission Bodies	136	371
	42,816	**51,043**

9 Lump sum death benefits payable

	2020/21	2021/22
By employer type	**£000**	**£000**
Administering Authority	3,670	2,985
Other Scheduled Bodies	3,304	4,294
Community Admission Bodies	379	382
Transferee Admission Bodies	36	1
	7,389	**7,662**

10 Transfers out to other pension schemes

	2020/21	2021/22
	£000	**£000**
Group transfers	-	-
Individual transfers	5,734	5,874
	5,734	**5,874**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

11a Administrative expenses

	LPF Parent 2020/21	LPF Group 2020/21	LPF Parent 2021/22	LPF Group 2021/22
	£000	£000	£000	£000
Employee costs	1,766	1,996	1,775	2,042
System costs	367	368	462	467
Actuarial fees	220	220	96	96
External/Internal audit fees	63	66	74	79
Legal fees	19	19	24	24
Printing and postage	192	192	158	158
Depreciation	73	73	81	81
Office costs	117	117	85	85
Sundry costs less sundry income	62	98	65	93
IAS19 retirement benefit adjustments - see note 29	-	1,214	-	(762)
Deferred tax on retirement benefit obligation - see note 28	-	(231)	-	65
Corporation tax	-	-	-	11
	2,879	4,132	2,820	2,439

LPFE, which is a wholly owned subsidiary of the Council, is responsible for providing the staffing resource to administer the pension funds. The Fund has a service level agreement in place with the Council for certain support services. Costs directly attributable to a specific Fund are charged to the relevant Fund, costs that are common to the two Funds are allocated on a defined basis.

COLLEAGUE PROFILE

"There's a genuine spirit of cooperation and shared goals throughout the entire company making it a very motivating place to work. The best part of my job is being able to process member requests first-hand, and knowing that my contributions are helping people on a day-to-day basis."

Asef Uddin, Trainee Pensions Administrator

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

11b Investment management expenses

	LPF Parent 2020/21	LPF Group 2020/21	LPF Parent 2021/22	LPF Group 2021/22
	£000	£000	£000	£000
External management fees:				
invoiced	3,474	3,474	3,213	3,213
deducted from capital (direct investment)	22,222	22,222	23,772	23,772
deducted from capital (indirect investment)	1,011	1,011	827	827
Securities lending fees	107	107	81	81
Transaction costs - Equities	2,049	2,049	1,624	1,624
Property operational costs	3,865	3,865	7,734	7,734
Third party - Invest property service charge expense	3,337	3,337	5,964	5,964
Third party - Invest property service charge income	(3,337)	(3,337)	(5,964)	(5,964)
Employee costs	3,040	3,581	2,938	3,477
Custody fees	377	377	426	426
Engagement and voting fees	121	121	112	112
Performance measurement fees	84	84	98	98
Consultancy fees	100	100	110	110
Research fees	568	568	442	442
System costs	715	717	909	918
Legal fees	176	224	275	358
Depreciation	166	166	170	170
Office costs	140	140	127	127
Sundry costs less sundry income	264	(760)	289	(866)
IAS19 retirement benefit adjustments - see note 30	-	2,067	-	(1,253)
Deferred tax on retirement benefit obligation - see note 29	-	(393)	-	108
Corporation tax	-	-	-	-
Corporation tax gains utilised by CEC group	-	5	-	20
	38,479	39,725	43,147	41,498

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

11b Investment management expenses (cont.)

	Total	Management /Expense fees	Performance related fee	Transaction costs
2021/2022	**£000**	**£000**	**£000**	**£000**
Bonds	109	109	-	-
Equities	5,249	3,506	119	1,624
Pooled investment vehicles	24,114	15,234	8,848	32
Property	7,734	7,734	-	-
Cash and FX contacts	45	45	-	-

	Total	Management /Expense fees	Performance related fee	Transaction costs
2020/2021	**£000**	**£000**	**£000**	**£000**
Bonds	96	96	-	-
Equities	5,745	3,629	67	2,049
Pooled investment vehicles	22,988	13,059	9,667	262
Property	3,865	3,865	-	-
Cash and FX contacts	34	34	-	-

Investment costs directly attributable to a specific fund are charged to the relevant Fund. Costs that are common to all three funds are allocated based on the value of the Funds as at the year end.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions or in the proceeds of investment sales (see note 14 - Reconciliation of movements in investments and derivatives).

The external investment management fees (deducted from capital) above include £9m (£8.9m direct, £0.1m indirect) in respect of performance-related fees compared to £9.7m in 2020/21 (£9.6m direct, £0.1m indirect).

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

It should be noted that Lothian Pension Fund's disclosure on investment management fees exceed CIPFA's "Accounting for Local Government Pension Scheme Management Costs" revised guidance on cost transparency which came into effect from 1st April 2016. Consistent with previous years, the Fund recognises fees deducted from investments not within its direct control (such as fund of fund fees) to give a full picture of its investment management costs. Further details can be found in the "Investment management cost transparency" section of the Management Commentary. This further disclosure highlights an extra £0.8m in costs (2021 £1m).

11c Total management expenses

In accordance with CIPFA guidance, the analysis below considers the combined administration and investment management expenses in notes 11b and c and splits out the costs to include a third category covering oversight and governance expenditure.

	LPF Parent 2020/21	LPF Group 2020/21	LPF Parent 2021/22	LPF Group 2021/22
	£000	£000	£000	£000
Administrative costs	2,479	3,698	2,534	2,032
Investment management expenses	36,049	36,061	40,479	40,149
Oversight and governance costs	2,830	4,098	2,953	1,756
	41,358	**43,857**	**45,966**	**43,937**

SHARON DALLI

I have been delighted to Chair the Pension Board supporting the Pension Committee and Fund in the governance and administration of the scheme during this year. As well as being active in progressing its work plan focussing on areas of regulatory compliance, the Board is pleased to have had the opportunity to assist with several key projects providing assurance in its role, for the benefit of members and employers of the fund.

Employer Representative and Pensions Manager of Police Scotland was Chair of the Pension Board in 2021/22

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

12 Investment income

	2020/21	2021/22
	£000	£000
Income from bonds	1,486	4,586
Dividends from equities	157,622	168,743
Unquoted private equity and infrastructure	48,952	85,598
Income from pooled investment vehicles	2,710	2,805
Gross rents from properties	21,207	28,464
Interest on cash deposits	282	57
Stock lending and sundries	537	407
	232,796	**290,660**
Irrecoverable withholding tax	(4,139)	(8,686)
	228,657	**281,974**

Included within the dividend from equities income for the year is cross border withholding tax yet to be received. The Fund's custodian Northern Trust manages this process and due to the high certainty of success it is assumed that the Fund will make full recovery of these reclaims. For the period of 2021/22 £7,042k of the stated income relates to tax yet to be received. At 31 March 2022 £21,163k (including prior periods) of investment income receivable related to cross border withholding tax. The Fund monitors these claims to ensure its optimum tax efficiency and provides an annual progress report to the Pensions Audit Sub-Committee.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

13 Net investment assets

	31 March 2021	31 March 2022
Investment assets	**£000**	**£000**
Bonds		
Public sector fixed interest	80,041	157,498
Public sector index linked gilts quoted	609,751	957,545
	689,792	**1,115,043**
Equities		
Quoted	5,044,875	5,434,373
	5,044,875	**5,434,373**
Pooled investment vehicles		
Private equity, infrastructure, private debt & timber	1,330,128	1,344,172
Property	81,836	116,925
Other	203,557	203,941
	1,615,521	**1,665,038**
Properties		
Direct property	366,125	431,303
	366,125	**431,303**
Derivatives		
Derivatives - forward foreign exchange	625	-
	625	**-**
Cash deposits		
Deposits	933,452	837,138
	933,452	**837,138**
Other investment assets		
Due from broker	2,131	1,417
Dividends and other income due	33,602	44,555
	35,733	**45,972**
Total investment assets	**8,686,123**	**9,528,867**
Investment liabilities		
Derivatives		
Derivatives - forward foreign exchange	-	(2,375)
	-	**(2,375)**
Other financial liabilities		
Due to broker	(89,409)	(2,091)
	(89,409)	(2,091)
Total investment liabilities	**(89,409)**	**(4,466)**
Net investment assets	**8,596,714**	**9,524,401**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

14a Reconciliation of movement in investments and derivatives

	Market value at 31 March 2021*	Purchase at cost & derivative payments	Sale & derivative receipts	Change in market value	Market value at 31 March 2022*
	£000	£000	£000	£000	£000
Bonds	689,792	638,774	(228,844)	15,320	1,115,043
Equities	5,044,875	1,014,338	(1,127,432)	502,592	5,434,373
Pooled investment vehicles	1,615,521	240,695	(274,517)	83,339	1,665,038
Property	366,125	380	(7,982)	72,780	431,303
Derivatives - futures	-	-	-	-	-
Derivatives - forward foreign exchange	625	24	(1,790)	1,234	(2,375)
	7,716,938	**1,894,211**	**(1,636,985)**	**672,797**	**8,643,382**
Other financial assets / liabilities					
Cash deposits*	933,452			3,717	837,138
Broker balances*	(87,278)			(46)	(674)
Investment income due*	33,602			-	44,555
	879,776			**3,671**	**881,019**
Net financial assets	**8,596,714**			**676,468**	**9,524,401**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions and in the proceeds from sales and are therefore included in the tables above.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

14a Reconciliation of movement in investments and derivatives (cont.)

	Market value at 31 March 2020*	Purchase at cost & derivative payments	Sale & derivative receipts	Change in market value	Market value at 31 March 2021*
	£000	£000	£000	£000	£000
Bonds	457,535	231,988	(9,904)	10,173	689,792
Equities	4,197,090	1,680,866	(1,848,176)	1,015,095	5,044,875
Pooled investment vehicles	1,656,512	285,797	(306,304)	(20,484)	1,615,521
Property	367,494	15,036	-	(16,405)	366,125
Derivatives - futures	-	-	-	-	-
Derivatives - forward foreign exchange	15,206	7,838	(14,740)	(7,679)	625
	6,693,837	**2,221,525**	**(2,179,124)**	**980,700**	**7,716,938**
Other financial assets / liabilities					
Cash deposits*	681,474			(11,511)	933,452
Broker balances*	42,200			47	(87,278)
Investment income due*	25,176			-	33,602
	748,850			**(11,464)**	**879,776**
Net financial assets	**7,442,687**			**969,236**	**8,596,714**

** As per CIPFA disclosures the change in market value intentionally does not balance opening/closing market values*

14b Reconciliation of fair value measurements within level 3

	Market value at 31 March 2021	Level 3 transfers		Purchases at cost & derivative payments	Sale & derivative receipts	Unrealised gains / (losses)	Realised gains / (losses)	Market value at 31 March 2022
Pooled investments	£000	in	out	£000	£000	£000	£000	£000
Infrastructure	865,207	-	-	187,259	(143,764)	(14,364)	37,704	932,043
Property	41,326	-	-	22,992	(226)	2,489	85	66,666
Private equity	52,650	-	-	1,231	(18,477)	986	7,445	43,835
Timber	118,993	-	-	(1,601)	(28,512)	1,450	17,284	107,614
Private debt	293,279	-	-	13,720	(49,470)	3,419	(268)	260,680
Freehold property	366,125	-	-	380	(7,982)	72,780	-	431,303
	1,737,580	**-**	**-**	**223,981**	**(248,431)**	**66,760**	**62,250**	**1,842,141**

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the Fund Account.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

15 Derivatives - forward foreign exchange

Summary of contracts held at 31 March 2022.

Contract settlement within	Currency bought	Currency sold	Local currency bought	Local currency sold	Asset value	Liability value
			000	000	£000	£000
Up to one month	GBP	AUD	46,124	85,017	-	(2,373)
One to six months	CHF	USD	68	74	-	-
One to six months	USD	CHF	2,119	1,946	-	(2)
Open forward currency contracts at 31 March 2022					-	**(2,375)**
Net forward currency contracts at 31 March 2022						**(2,375)**

Prior year comparative

Open forward currency contracts at 31 March 2021	**625**	**-**
Net forward currency contracts at 31 March 2021		**625**

The above table summarises the contracts held by maturity date; all contracts are traded on an over-the-counter basis.

In order to maintain appropriate diversification of investments in the portfolio and take advantage of wider opportunities, the Lothian Pension Fund invests over half of the fund in overseas markets. A currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the extent to which the Fund is exposed to certain currency movements.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

16 Investment managers and mandates

Manager	Mandate	Market value at 31 March 2021 £000	% of total 31 March 2021 %	Market value at 31 March 2022 £000	% of total 31 March 2022 %
In-house	UK all cap equities	270,091	3.1	265,832	2.8
In-house	UK mid cap equities	139,441	1.6	110,344	1.2
Total UK equities		**409,532**	**4.7**	**376,176**	**4.0**
In-house	European ex UK equities	233,489	2.7	250,266	2.6
In-house	US equities	294,331	3.4	359,548	3.8
Total regional overseas equities		**527,820**	**6.1**	**609,814**	**6.4**
In-house	Global high dividend	1,151,317	13.4	1,289,083	13.5
In-house	Global low volatility	1,123,487	13.1	1,285,006	13.5
In-house	Global multi factor value	1,180,663	13.7	1,177,932	12.4
Harris	Global equities	123,565	1.4	132,500	1.4
Nordea	Global equities	304,529	3.5	351,784	3.7
Baillie Gifford	Global equities	190,966	2.2	178,332	1.9
Total global equities		**4,074,527**	**47.3**	**4,414,637**	**46.4**
In-house	Currency hedge	454	-	(2,374)	-
Total currency overlay		**454**	**-**	**(2,374)**	**-**
Total listed equities		**5,012,333**	**58.1**	**5,398,253**	**56.8**
In-house	Private equity unquoted	52,650	0.6	43,946	0.5
In-house	Private equity quoted	95,255	1.1	123,673	1.3
Total private equity		**147,905**	**1.7**	**167,619**	**1.8**
Total equity		**5,160,238**	**59.8**	**5,565,872**	**58.6**
In-house	Index linked gilts	362,864	4.2	497,000	5.2
In-house	Mature employer gilts	115,400	1.3	316,605	3.3
Total inflation linked assets		**478,264**	**5.5**	**813,605**	**8.5**
In-house	Indirect property	81,836	1.0	116,925	1.2
In-house	Property	468,996	5.5	459,147	4.8
In-house	Infrastructure unquoted	865,207	10.1	932,043	9.8
In-house	Infrastructure quoted	26,564	0.3	28,666	0.3
In-house	Timber	118,993	1.4	107,614	1.1
Total real assets		**1,561,596**	**18.3**	**1,644,395**	**17.2**
Baillie Gifford	Corporate bonds	35,061	0.4	33,412	0.4
In-house	Private debt	293,279	3.4	260,680	2.7
In-house	Sovereign bonds	318,284	3.7	298,857	3.1
In-house	Investment Grade Credit	142,087	1.7	134,640	1.4
Total debt assets		**788,711**	**9.2**	**727,589**	**7.6**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

16 Investment managers and mandates (cont)

		Market value at 31 March 2021	% of total 31 March 2021	Market value at 31 March 2022	% of total 31 March 2022
Manager	**Mandate**	**£000**	**%**	**£000**	**%**
In-house	Cash	607,008	7.1	772,033	8.1
In-house	Transitions	897	0.0	907	0.0
Total cash and sundries		**607,905**	**7.1**	**772,939**	**8.1**
Net financial assets		**8,596,714**	**100.0**	**9,524,401**	**100.0**

Over the last two years no single investment represented more than 5% of the net assets of the Fund.

17 Securities lending

During the year Lothian Pension Fund participated in a securities lending arrangement with the Northern Trust Company. As at 31 March 2022, £167.6m (2021 £118.8m) of securities were released to third parties. Collateral valued at 107.3% (2021 104.7%) of the market value of the securities on loan was held at that date.

18 Property holdings

	2020/21	2021/22
	£000	**£000**
Opening balance	367,494	366,125
Additions	15,036	380
Disposals	-	(7,982)
Net change in market value	(16,405)	72,780
Closing balance	**366,125**	**431,303**

As at 31 March 2022, there were no restrictions on the realisability of the property or the remittance of income or sale proceeds. As at 31 March 2022, the Fund had no contractual obligation for any further construction costs.

The future minimum lease payments receivable by the Fund are as follows:

	2020/21	2021/22
	£000	**£000**
Within one year	19,579	19,702
Between one and five years	62,000	65,976
Later than five years	116,218	102,119
	197,797	**187,797**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

19 Financial Instruments

19a Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

All financial instruments are marked to market (at fair value) in the Fund accounting records, hence there is no difference between the carrying value and fair value.

Classification of financial instruments - parent	31 March 2021			31 March 2022		
	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost
Investment assets	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Bonds	689,792	-	-	1,115,043	-	-
Equities	5,044,875	-	-	5,434,373	-	-
Pooled investments	1,615,521	-	-	1,665,038	-	-
Property leases	-	-	-	-	-	-
Derivative contracts	625	-	-	-	-	-
Margin balances	-	-	-	-	-	-
Cash	-	933,452	-	-	837,138	-
Other balances	-	33,602	-	-	44,555	-
	7,350,813	**967,054**	**-**	**8,214,454**	**881,693**	**-**
Other assets						
City of Edinburgh Council	-	4,152	-	-	3,870	-
Cash	-	80,021	-	-	68,241	-
Share Capital	-	590	-	-	690	-
Debtors - current	-	32,533	-	-	20,042	-
Debtors - non-current	-	5,587	-	-	13,061	-
	-	**122,883**	**-**	**-**	**105,904**	**-**
Assets total	**7,350,813**	**1,089,937**	**-**	**8,214,454**	**987,597**	**-**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

Classification of financial instruments - parent (cont)	31 March 2021			31 March 2022		
	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost
Financial liabilities Investment liabilities	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Derivative contracts	-	-	-	2,375	-	-
Other investment balances	-	-	87,278	-	(674)	-
	-	**-**	**87,278**	**-**	**(674)**	**-**
Other liabilities						
Creditors	-	-	(22,460)	-	-	(23,738)
Liabilities total	**-**	**-**	**(109,738)**	**(2,375)**	**(674)**	**(23,738)**
Total net assets	**7,350,813**	**1,089,937**	**(109,738)**	**8,212,079**	**986,923**	**(23,738)**

	31 March 2021		31 March 2022
Total net financial instruments	**8331,012**		**9,175,264**
Amounts not classified as financial instruments	366,750		432,022
Total net assets - parent	**8,697,762**		**9,607,286**

ANDY MCKINNEL

The Pensions Committee and Pension Board are responsible for setting the strategy and overseeing the operation of the LPF. Drawing on my experience from a career in pensions and investment, I support both groups to help them to deliver the required oversight and governance. Running a pension scheme is a complex undertaking, so the provision of independent expertise to aid governance should improve outcomes for both members and employers.

Lothian Pension Fund's Independent Professional Observer

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

19a Classification of financial instruments (cont)

Classification of financial instruments - adjustments to parent to arrive at group	31 March 2021			31 March 2022		
	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost
Other assets	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cash	-	901	-	-	857	-
Share capital	-	(590)	-	-	(690)	-
Debtors - current	-	443	-	-	430	-
Debtors - non-current	-	1,047	-	-	875	-
	-	**1,801**	**-**	**-**	**1,472**	**-**
Assets total	**-**	**1,801**	**-**	**-**	**1,472**	**-**
-Other liabilities-						
Retire. benefit obligation	-	-	(5,513)	-	-	(3,498)
Creditors	-	-	(348)	-	-	(3)
Creditors - non current	-	-	(13)	-	-	(14)
Liabilities total	**-**	**-**	**(5,874)**	**-**	**-**	**(3,515)**
Total net assets	**-**	**1,801**	**(5,874)**	**-**	**1,472**	**(3,515)**
Total adjustments to net financial instruments			**(4,073)**			**(2,043)**
Total net assets - group			**8,693,689**			**9,605,243**

19b Net gains and losses on financial instruments

	2020/21	2021/22
	£000	**£000**
Designated as fair value through Fund Account	997,105	600,017
Loans and receivables	(11,464)	3,671
Financial liabilities at amortised cost	-	-
Total	**985,641**	**603,687**
Gains and losses on directly held freehold property	(16,405)	72,780
Change in market value of investments per fund account	**969,236**	**676,468**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

19c Fair Value Hierarchy

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities and unit trusts.

Quoted investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investments in unquoted private equity, infrastructure, timber and European real estate are based on valuations provided by the general partners to the funds in which the Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital (IPEV) Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of International Financial Reporting Standards (IFRS). The valuations are typically undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

19c Fair Value Hierarchy (cont)

	31 March 2022			
	Level 1	Level 2	Level 3	Total
Investment assets at fair value through Fund Account	**£000**	**£000**	**£000**	**£000**
Bonds	-	1,115,043	-	1,115,043
Equities	5,434,373	-	-	5,434,373
Pooled investment vehicles	36,078	218,122	1,410,838	1,665,038
Derivatives	-	-	-	-
Cash deposits	837,138	-	-	837,138
Investment income due	44,555	-	-	44,555
Non-financial assets at fair value through profit and loss				
Property	-	-	431,303	431,303
Total investment assets	**6,352,144**	**1,333,165**	**1,842,141**	**9,527,450**
Investment liabilities at fair value through Fund Account	**(3,049)**	**-**	**-**	**(3,049)**
Total investment liabilities	**(3,049)**	**-**	**-**	**(3,049)**
Net investment assets	**6,349,095**	**1,333,165**	**1,842,141**	**9,524,401**

	31 March 2021			
	Level 1	Level 2	Level 3	Total
Investment assets at fair value through Fund Account	**£000**	**£000**	**£000**	**£000**
Bonds	-	689,782	-	689,782
Equities	5,044,875	-	-	5,044,875
Pooled investment vehicles	26,597	217,469	1,371,455	1,615,521
Derivatives	625	-	-	625
Cash deposits	933,452	-	-	933,452
Investment income due	33,602	-	-	33,602
Non-financial assets at fair value through profit and loss				
Property	-	-	366,125	366,125
Total investment assets	**6,039,151**	**907,261**	**1,737,580**	**8,683,992**
Investment liabilities at fair value through Fund Account	**(87,278)**	**-**	**-**	**(87,278)**
Total investment liabilities	**(87,278)**	**-**	**-**	**(87,278)**
Net investment assets	**5,951,873**	**907,261**	**1,737,580**	**8,596,714**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20 Nature and extent of risk arising from financial instruments

Risk and risk management

The Fund's primary aim is to ensure that all members and their dependants receive their benefits when they become payable. The Main investment strategy aims to maximise the returns from investments within reasonable risk parameters and hence minimise the long-term cost to employers. It achieves this by investing in a diverse range of assets to reduce risk to an acceptable level. In addition, the Fund ensures that sufficient cash is available to meet all liabilities when they are due to be paid.

Responsibility for the Fund's overall investment strategies rests with the Pensions Committee. The Joint Investment Strategy Panel and the internal investment team monitor investment risks on a regular basis. Investment risk management tools are used to identify and analyse risks faced by the Fund's investments.

Consideration of the Fund's investment risk is part of the overall risk management of the pensions operations. Risks are reviewed regularly to reflect changes in activity and market conditions.

Types of investment risk

There are various ways of considering investment risks for pension funds. For the purposes of this note, market risk is the potential for an investor to experience losses from falls in the prices of investments. All financial instruments, including cash deposits, present a risk of loss of capital and risks vary depending on different asset classes.

Market risk also changes over time as economic conditions and investor sentiment change. The Fund considers overall fluctuations in prices arising from a variety of sources: market risk, foreign exchange risk, interest rate risk, credit risk, etc. The different risks may, to some extent, offset each other.

The overall market risk of the fund depends on the actual mix of assets and encompasses all the different elements of risk.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20 Nature and extent of risk arising from financial instruments (cont)

The Fund manages these risks in a number of ways:

- Assessing and establishing acceptable levels of market risk when setting overall investment strategy. Importantly, risk is considered relative to the liabilities of the Fund
- Diversification of investments in terms of type of asset, investment styles, investment managers, geographical and industry sectors as well as individual securities
- Taking stewardship responsibilities seriously and pursuing constructive engagement with the companies in which we invest
- Monitoring market risk and market conditions to ensure risk remains within tolerable levels
- Using equity futures contracts from time to time to manage market risk. Options are not used by the Fund.

Sensitivity analysis

Asset prices have a tendency to fluctuate. The degree of such fluctuation is known as "volatility" and it differs by asset class. The table on the right sets out the long-term volatility assumptions used in the Fund's asset-liability modelling undertaken by Isio investment advisers.

Asset type	Potential price movement (+ or -)
Equities - Developed Markets	20.5%
Equities - Emerging Markets	28.0%
Private Equity	26.0%
Timber and Gold	18.0%
Secured Loans	10.5%
Fixed Interest Gilts	8.8%
Index-Linked Gilts	11.5%
Infrastructure	12.0%
Property	13.0%
Cash	1.0%

Volatility is the standard deviation of annual returns. Broadly speaking, in two years out of three, the asset's change in value (which could be a gain or a loss) is expected to be lower than the volatility figure, but in one year out of three, the change in value is expected to be higher than the volatility figure.

Asset classes do not always move in line with each other. The extent to which assets move together is known as their "correlation". A lower correlation means that there is less risk of assets losing value at the same time.

The overall Fund benefits from "diversification" because it invests in different asset classes, which don't all move in line with each other. Consequently, the aggregate risk at the Fund level is less than the total risk from all the individual assets in which the Fund invests. The following table shows the risks at the asset class level and the overall Fund level, with and without allowance for correlation.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20 Nature and extent of risk arising from financial instruments (cont)

	Value at 31 March 2022	% of fund	Potential Change +/-	Value on increase	Value on decrease
	£m	%	%	£m	£m
Equities - Developed Markets	4,818	50.7	20.5%	5,805.7	3,830.3
Equities - Emerging Markets	583	6.1	28.0%	746.2	419.8
Private Equity	168	1.8	26.0%	211.7	124.3
Timber and Gold	108	1.1	18.0%	127.4	88.6
Secured Loan	429	4.5	10.5%	474.0	384.0
Fixed Interest Gilts	79	0.8	8.8%	86.0	72.0
Index-Linked Gilts	1,031	10.8	11.5%	1,149.6	912.4
Infrastructure	961	10.1	12.0%	1,076.3	845.7
Property	576	6.0	13.0%	650.9	501.1
Cash and forward foreign exchange	772	8.1	1.0%	779.7	764.3
Total [1]	**9,525**	**100.0**	**16.6%**	**11,107.5**	**7,942.5**
Total [2]			**13.1%**	**10,772.8**	**8,277.2**
Total [3]			**13.6%**	**10,820.4**	**n/a**

[1] No allowance for correlations between assets

[2] Including allowance for correlations between assets

[3] Including allowance for correlation between assets and liabilities.

The value on increase/decrease columns illustrate the monetary effect of the percentage change in the volatility column. The actual annual change in value is expected to be lower than this in two years out of three, but higher in one year out of three.

It can be seen that the risk to the overall Fund assets [2] is lower than the total of the risks to the individual assets.

However, because the purpose of a pension scheme is to make payments to scheme beneficiaries, the true risk of a pension scheme is not measured in absolute terms, but relative to its liabilities [3].

This risk analysis incorporates volatility from market, interest rate, foreign exchange, credit, and all other sources of risk, and, importantly, makes allowance for how these risks may offset each other.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20 Nature and extent of risk arising from financial instruments (cont)

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the value of the Fund's assets and liabilities (as outlined in Market Risk above).

In essence, the Fund's entire investment portfolio is exposed to some sort of credit risk. However, through the selection of counterparties, brokers and financial institutions, the Fund reduces the credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash deposits, derivatives and securities lending are the major areas of credit exposure where credit risk is not reflected in market prices.

Cash deposits

At 31 March 2022, cash deposits represented £897m, 9.3% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2022	Balances at 31 March 2021	Balances at 31 March 2022
Held for investment purposes		**£000**	**£000**
Northern Trust Global Investment Limited - liquidity funds	Aaa-mf	180,045	9,439
Northern Trust Company - cash deposits	Aa3	612,447	494,418
UK Short-Term Bills and Notes	Aa3	-	160,901
The City of Edinburgh Council - treasury management	See below	135,111	162,690
Total investment cash		**927,603**	**827,448**
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	80,021	68,241
JLL in-house property cash (Barclays)	A1	5,847	9,688
Total cash - parent		**1,007,624**	**895,689**
Cash held by LPFE/LPFI Limited			
Royal Bank of Scotland	A1	901	857
Total cash - group		**1,008,525**	**896,546**

A portion of the Sterling cash deposits of the Fund are managed along with those of the administering authority (the City of Edinburgh Council) and other related organisations, which are pooled for investment purposes as a treasury cash fund. Management of this cash fund and the other cash assets held by Northern Trust, the Fund's custodian bank, is on a low risk basis, with security of the investments being the key consideration.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20 Nature and extent of risk arising from financial instruments (cont)

	Moody's Credit Rating at 31 March 2022	Balances at 31 March 2021	Balances at 31 March 2022
Money market funds		**£000**	**£000**
Deutsche Bank AG, London	Aaa-mf	27,910	8,625
Goldman Sachs	Aaa-mf	2	6,034
Aberdeen Standard Sterling Liquidity Fund	Aaa-mf	32,601	18,614
Bank call accounts			
Bank of Scotland	A1	21,592	23,016
Royal Bank of Scotland	A1	16,576	1,045
Santander UK	A1	21,596	23
Barclays Bank	A1	11	12
Svenska Handelsbanken		-	13
HSBC Bank PLC	Aa3	3	2,590
Notice accounts			
HSBC Bank PLC	Aa3	19,464	20,422
UK Government			
Gilts & T-Bills and UK Government Debt	Aa3	-	103,035
Supranational Commerical Paper			
European Investment Bank	AAA	-	17,758
UK Pseudo-Sovereign risk instruments			
Other Local Authorities [1]	Aa3	75,377	29,744
		215,132	**230,931**

[1] Very few Local Authorities have their own credit rating, but they are generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2022 was 'Aa3').

The Council has in place institutional restrictions on investments and counterparty criteria. These include:
(a) UK Government and other UK local Authorities with no limit, other public bodies up to £20 million per organisation.
(b) Money market funds (MMFs) no more than £30 million or 15% with any one Fund.
(c) Financial Institutions: Banks and Building Societies with multiple criteria based on a range of short and long term credit ratings, as well as any security, provided from maximum of £60 million / 20% of assets under management (AUM) for institutions with the highest criteria to £10 million / 5% of AUM for institutions with the lowest acceptable criteria.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20 Nature and extent of risk arising from financial instruments (cont)

Securities lending

The Fund participates in a securities lending programme as described above. The Fund is potentially exposed to credit risk in the event of the borrower of securities defaulting. This risk is mitigated by the contractual commitment that borrowers provide collateral in excess of 100% of the value of the securities borrowed. In addition, Northern Trust has signed an agreement requiring it to make good any losses arising from the lending programme.

Derivatives

The Fund transacts foreign currency derivatives over-the-counter and hence is exposed to credit risk in the event of a counterparty defaulting on the net payment or receipt that remains outstanding. This risk is minimised by the use of counterparties that are recognised financial intermediaries with acceptable credit ratings and by netting agreements. At 31 March 2022, the Fund owed £2.375m on over-the-counter foreign currency derivatives.

Refinancing risk

Refinancing risk is the risk that the Fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Fund is not bound by any obligation to replenish its investments and hence is not exposed to refinancing risk.

Liquidity risk

Liquidity risk reflects the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore ensures that there is adequate cash and liquid resources to meet its commitments. Cash flow projections are prepared on a regular basis to understand and manage the timing of the Fund’s cash flows.

The majority (estimated to be approximately 81% (2021 80%)) of the Fund’s investments could be converted to cash within three months in a normal trading environment.

21 Actuarial statement

The Scheme Actuary has provided a statement describing the funding arrangements of the Fund. This can be found at the end of this section.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

22 Actuarial present value of promised retirement benefits

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £10,049m (2021 £10,374m). This figure is used for statutory accounting purposes by Lothian Pension Fund and complies with the requirements of IAS26. The assumptions underlying the figure match those adopted for the Administering Authority's FRS102/IAS19 reports at each year end.

The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

	31 March 2021	31 March 2022
	% p.a.	% p.a.
Inflation / pensions increase rate	2.9	3.2
Salary increase rate	3.4	3.7
Discount rate	2.0	2.7

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% per annum. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	31 March 2021		31 March 2022	
	Male	Female	Male	Female
Current pensioners	20.5 years	23.3 years	20.3 years	23.1 years
Future pensioners (assumed to be currently 45)	21.9 years	25.2 years	21.6 years	25.0 years

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

23 Non-current Debtors	LPF Parent 31 March 2021	LPF Group 31 March 2021	LPF Parent 31 March 2022	LPF Group 31 March 2022
	£000	£000	£000	£000
Contributions due - employers' cessation	5,587	5,587	13,061	13,061
	5,587	5,587	13,061	13,061

In accordance with the Funding Strategy Statement and in recognition of severe affordability constraints facing the charitable sector, "Funding Agreements" have been put in place to allow certain former employers to repay cessation valuation debt over longer terms (up to twenty years), to avoid potential default or insolvency.

The above debtors all relate to community admission bodies.

24 Debtors	LPF Parent 31 March 2021	LPF Group 31 March 2021	LPF Parent 31 March 2022	LPF Group 31 March 2022
	£000	£000	£000	£000
Contributions due - employers	15,402	15,402	15,222	15,222
Contributions due - members	3,945	3,945	4,091	4,091
Benefits paid in advance or recoverable	53	53	166	166
Sundry debtors	12,778	13,214	158	628
Prepayments	355	362	363	366
LPFE & LPFI Limited Loan facility - see note 28	-	-	42	-
	32,533	32,976	20,042	20,473

25 Creditors	LPF Parent 31 March 2021	LPF Group 31 March 2021	LPF Parent 31 March 2022	LPF Group 31 March 2022
	£000	£000	£000	£000
Benefits payable	7,639	7,828	9,386	9,539
VAT, PAYE and State Scheme premiums	724	1,266	934	1,064
Contributions in advance	12,250	12,250	11,193	11,193
Miscellaneous creditors and accrued expenses	1,211	1,286	1,679	1,763
Office - operating lease	174	174	152	152
Corporation tax	-	-	-	-
Corporation tax losses utilised from CEC group	-	5	-	31
Intra group creditor - see note 28	462	-	394	-
	22,460	22,809	23,738	23,742

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

26 Additional Voluntary Contributions

Active members of the Lothian Pension Fund have the option to pay additional voluntary contributions (AVCs). These AVCs are invested separately from the main funds, securing additional benefits on a money purchase basis for those members that have elected to contribute. The investment of the AVCs is managed by Standard Life and Prudential.

In accordance with regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, AVCs are not included in the pension fund financial statements.

	2020/21	2021/22
Total contributions during year for Lothian Pension fund	**£000**	**£000**
Standard Life	365	294
Prudential*	1,223	1,346
	1,588	**1,640**

Prudential have been unable to supply data to the Fund for 2021/22 therefore total Prudential contributions shown above reflect the monthly contribution information provided by the Fund employers.

	31 March 2021	31 March 2022
Total value at year end for Lothian Pension Fund	**£000**	**£000**
Standard Life	4,890	4,572
Prudential*	8,700	-
	13,590	**4,572**

**Figures provided are unaudited*

As a result of the missing data, the Fund is unable to report on the total value at year end for AVCs managed by Prudential.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

27 Related parties
The City of Edinburgh Council

The Lothian Pension Fund and the Scottish Homes Pension Fund are administered by the City of Edinburgh Council. Consequently, there is a strong relationship between the Council and the Pension Funds.

LPFE, which is a wholly owned subsidiary of the Council, is responsible for providing the staffing resource to administer the pension funds. The Fund has a service level agreement in place with the Council for certain support services. Costs directly attributable to a specific Fund are charged to the relevant Fund; costs that are common to the two Funds are allocated on a defined basis.

Transactions between the Council and the Fund are managed via a holding account. Each month the Fund is paid a cash sum leaving a working balance in the account to cover the month's pension payroll costs and other expected costs.

	31 March 2021	31 March 2022
	£000	£000
Year-end balance of holding account	4,152	3,870
	4,152	**3,870**

Part of the Fund's cash holdings are invested on the money markets by the treasury management operations of the Council, through a service level agreement. During the year to 31 March 2022, the Fund had an average investment balance of £222.9m (2020/21 £166.6m). Interest earned was £253k (2020/21 £428k).

Year end balance on treasury management account

	31 March 2021	31 March 2022
	£000	£000
Held for investment purposes	140,958	162,690
Held for other purposes	80,021	68,241
	220,979	**230,931**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

27 Related parties (cont)
Scheme employers

All scheme employers to the fund are (by definition) related parties. A full list of employers can be found on page 115. The employer contributions for the ten largest scheme employers are as follows:

	31 March 2021	31 March 2022
	£000	£000
City of Edinburgh Council	68,087	71,515
West Lothian Council	28,462	29,898
East Lothian Council	16,612	18,253
Midlothian Council	15,472	16,441
Scottish Water	16,775	10,543
Scottish Police Authority	3,395	6,781
Edinburgh Napier University	5,844	6,080
Weslo Housing Management	513	5,405
Heriot-Watt University	3,446	3,402
Hanover Housing Association	462	2,868

Governance

As at 31 March 2022, all members of the Pensions Committee and the Pension Board were members of the Lothian Pension Fund, with the exception of Richard Lamont and Tony Beecher. One member of both the Pensions Committee and the Pension Board is in receipt of pension benefits from Lothian Pension Fund.

Each member of the Pensions Committee and Pension Board is required to declare any financial and non-financial interests they have in the items of business for consideration at each meeting, identifying the relevant agenda item and the nature of their interest.

During the period from 1 April 2021 to the date of issuing of these accounts, a number of employees of the City of Edinburgh Council and its wholly owned subsidiary, LPFE Limited, held key positions in the financial management of the Lothian Pension Fund. Total compensation paid in relation to key management personnel employed by LPFE Limited during the period was as follows:

	31 March 2021	31 March 2022
	£000	£000
Short-term employee benefits	864	909
Post-employment benefits - employer pension contributions	189	111

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

27 Related parties (cont)

Key management personnel employed by LPFE had accrued pensions totalling £134,724 (1 April 2021: £119,873) and lump sums totalling £131,304 (1 April 2021: £126,989) at the end of the period. Further details on senior management remuneration can be found within the remuneration report on page 173.

Remuneration of key management personnel employed by City of Edinburgh Council is disclosed separately in the Financial Statements of City of Edinburgh Council.

The Councillors, who are members of the Pensions Committee, are also remunerated by City of Edinburgh Council.

LPFE Limited & LPFI Limited – loan facility

LPFE & LPFI Limited are wholly owned by the City of Edinburgh Council as administering authority of Lothian Pension Fund and have entered into a shareholder agreement with the Council to address governance matters. The companies have a loan facility agreement with the City of Edinburgh Council for the purpose of the provision of short-term working capital. The current agreement covers the period to 1 May 2023 and provides that interest is payable at 2% above the Royal Bank of Scotland base lending rate on the daily balance. In order to minimise the amount of interest payable, the companies return any cash not immediately required and this can result in short periods when the companies have returned more cash than has been drawn. On such days the loan interest is negative, reducing the amount of interest payable.

Interest payable by LPFE Limited during the period was £1,064 of which £472 was due at the year end and for LPFI Limited there was minimal interest payable for the year. At 31 March 2022, there was zero balance on the loan facilities for LPFI Limited, and a £42,495 balance on the loan facilities for LPFE Limited.

LPFE Limited - staffing services

Staffing services are provided to Lothian Pension Fund for the purposes of administering the Funds under a intra-group resourcing agreement. The agreement also provides for the running costs of the company to be covered as part of a service charge and allows for the provision of staffing services to LPFI Limited. During the year to 31 March 2022, the Fund was invoiced £5.003m (2021 £5.031m) for the services of LPFE Limited staff.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

28a Consolidated Lothian Pension Fund Group - LPFE Limited & LPFI Limited - deferred tax

Movement in deferred tax asset (Non-current asset)

	LPF Group 2020/21	LPF Group 2021/22
	£000	£000
Opening balance	424	1,047
Credit for year to Fund Account	623	(172)
Closing balance	**1,047**	**875**

Elements of closing deferred tax asset

	LPF Group 31 March 2021	LPF Group 31 March 2022
	£000	£000
Pension liability	1,047	875
	1,047	**875**

28b Shares in group companies - LPFE Limited & LPFI Limited

	31 March 2021	31 March 2022
	£	£
Allotted, called up and fully paid Ordinary shares of £1 each - LPFE Limited*	1	1
Allotted, called up and fully paid Ordinary shares of £1 each - LPFI Limited	590,378	690,378
	590,379	**690,379**

**One ordinary share of £1 was issued to Lothian Pension Fund at par value on incorporation. Due to the low value this does not show on the Net Assets Statement.*

As part of the LPFI's FCA permissions extension, the Fund is required to meet new ICAAP capital requirements based on the value of assets under management. The Fund financed an additional £100k of share capital for LPFI in June 2021 to meet this requirement.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

29 Retirement benefits obligation - Group

The retirement benefit obligation described in this note relates only to the employees of LPFE. This is because the obligation in respect of the staff employed by the City of Edinburgh Council is accounted for in the Financial Statements of the Council.

On 1 May 2015, LPFE commenced trading and its staff transferred their employment from the City of Edinburgh Council to the Company on that date. At that time, the Company also entered into appropriate admission arrangements with the City of Edinburgh Council with respect to the transferring individuals continuing to be members of the Lothian Pension Fund and in relation to its obligations as an employer in that Fund.

The present value of the defined benefit obligation and related current and past service cost were measured using the Projected Unit Credit Method.

Fund assets

LPFE's share of the fair value of the Fund's assets which are not intended to be realised in the short term and may be subject to significant change before they are realised, was comprised as follows:

		Fair value at 31 March 2021	% of total 31 March 2021	Fair value at 31 March 2022	% of total 31 March 2022
Asset		**£000**	**%**	**£000**	**%**
Equity securities:	Consumer	1,730	13.0	2,016	12.0
	Manufacturing	2,022	15.0	2,168	13.0
	Energy and utilities	746	5.0	905	6.0
	Financial institutions	944	7.0	944	6.0
	Health and care	944	7.0	1,135	7.0
	Information technology	662	5.0	744	5.0
	Other	1,112	8.0	1,221	7.0
Debt securities:	Corporate Bonds	470	3.0	308	2.0
	UK Government	835	6.0	1,433	9.0
	Other	-	0.0	-	0.0
Private equity:	All	84	1.0	77	0.0
Real property:	UK property	728	5.0	866	5.0
	Overseas property	2	0.0	5	0.0
Investment funds and unit trusts:	Equities	199	1.0	294	2.0
	Bonds	307	2.0	767	5.0
	Infrastructure	1,640	12.0	1,661	10.0
Derivatives:	Foreign Exchange	(2)	0.0	1	0.0
Cash and cash equivalents	All	1,425	10.0	1,841	11.0
		13,848	**100.0**	**16,385**	**100.0**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

29 Retirement benefits obligation - group (cont)

Amounts recognised in the Net Assets Statement

	LPF Group 31 March 2021	LPF Group 31 March 2022
	£000	£000
Fair value of Fund assets	100	16,385
Present value of Fund liabilities	(19,552)	(19,883)
	(19,452)	**(3,498)**

Movement in the defined benefit obligation during the period

	LPF Group 31 March 2020/21	LPF Group 31 March 2021/22
	£000	£000
Brought forward	13,103	19,361
Current service cost	1,165	1,813
Past service cost	42	59
Interest cost on obligation	317	418
Fund participants contributions	257	279
Benefits paid	(56)	(67)
Actuarial losses arising from changes in financial assumptions	4,213	(1,894)
Actuarial losses arising from changes in demographic assumptions	(953)	(119)
Other actuarial losses	1,273	33
Balance at year end	**19,361**	**19,883**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

29 Retirement benefits obligation - group (cont)

Movement in the fair value of Fund assets during the period

	LPF Group 31 March 2020/21	LPF Group 31 March 2021/22
	£000	£000
Brought forward	10,871	13,848
Benefits paid	(56)	(67)
Interest income on Fund assets	265	293
Contributions by employer	1,086	716
Contributions by member	257	279
Contributions in respect of unfunded benefits	-	-
Unfunded benefits paid	-	-
Other gains / (losses)	(172)	-
Return on assets excluding amounts included in net interest	1,597	1,316
Balance at year end	**13,848**	**16,385**

Amounts recognised in the Fund Account

	LPF Group 31 March 2020/21	LPF Group 31 March 2021/22
	£000	£000
Interest received on Fund assets	(265)	(293)
Interest cost on Fund liabilities	317	418
Current service costs	1,165	1,813
Past service costs	42	59
Employer contributions	(1,086)	(716)
Actuarial gain/(loss) due to re-measurement of defined benefit obligation	4,533	(1,980)
Return on Fund assets (excluding interest above)	(1,425)	(1,316)
Net cost recognised in Fund Account	**3,281**	**(2,015)**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

29 Retirement benefits obligation - group (cont)

Principal actuarial assumptions used in this valuation	31 March 2021	31 March 2022
	% p.a.	% p.a.
Inflation / pensions increase rate	2.7	3.2
Salary increase rate	3.3	3.7
Discount rate	**2.1**	**2.8**

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. Best estimate has been interpreted to mean that the proposed assumptions are 'neutral' – there is an equal chance of actual experience being better or worse than the assumptions proposed.

The financial assumptions used for reporting in the financial statements are the responsibility of the employer. These assumptions are largely prescribed at any point and reflect market conditions at the reporting date. Changes in market conditions that result in changes in the net discount rate can have a significant effect on the value of the liabilities reported.

A reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have an opposite effect of a similar magnitude. There is also uncertainty around life expectancy of the UK population – the value of current and future pension benefits will depend on how long they are assumed to be in payment.

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long-term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	31 March 2021		31 March 2022	
	Male	Female	Male	Female
Current pensioners	20.5 years	23.3 years	20.3 years	23.1 years
Future pensioners	21.9 years	25.2 years	21.6 years	25.0 years

Expected employer contributions to the defined benefit plan for the year ended 31 March 2023 are £671k, based on a pensionable payroll cost of £3.708m.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

30 Contractual commitments

Investment commitments

The Fund has commitments relating to outstanding call payments due on unquoted funds held in the private equity, private secured loans, timber, property and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing, taking place over a number of years from the date of each original commitment. The outstanding commitments at the year end are as follows:

	31 March 2021	31 March 2022
	£000	£000
Outstanding investment commitment	264,448	262,578
	264,448	**262,578**

Office accommodation - 144 Morrison Street, Edinburgh

The Fund is committed to making the following future payments.

	31 March 2021	31 March 2022
	£000	£000
Within one year	118	118
Between one and five years	355	355
After five years	429	311
	902	**784**
Recognised as an expense during the year	**88**	**95**

This expense has been allocated across the two Funds, with Lothian Pension Fund's share being £94k.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

31 Contingent assets and liabilities

Contribution refunds

At 31 March 2022, Lothian Pension Fund had £1.659m (2021: £1.484m) in unclaimed refunds due to members.

Co-investment deal abort costs

At 31 March 2022 the Fund had entered into negotiations for a timber co-investment in which it is exposed to the potential risk of investment abort costs. Lothian Pension Fund's exposure to this is approximately £244.8k.

Employer Cessations

As stated in note 24, "In accordance with the Funding Strategy Statement and in recognition of severe affordability constraints facing the charitable sector, "Funding Agreements" have been put in place with certain former employers to repay cessation valuation debt". In exceptional circumstances, this includes "repayment of less than the cessation debt in order to avoid employer insolvency, with an appropriate agreement which allows the Fund to revisit the repayment of the remaining debt at a future date (i.e. the debt would be a contingent liability and hence not recognised on an employer's balance sheet); and seeking, where appropriate, suitable "anti-embarrassment" provisions in legal agreement covering future increase in employer asset values". At 31 March 2021, such contingent assets of the Fund totalled £3.622m and the fund has secured second ranking security over two employer property assets.

EU Tax claims & income recovery

The Fund participates in various claims to recover withheld investment income. EU tax claims relate to the recovery of tax deducted from dividend payments prior to receipt or payable tax credits thereon. Claims with a value of £2.6m related to "Manninen" / Foreign Income Dividends (Fids) have been removed from the outstanding claims. The remaining claims can be divided into two main types – "Fokus Bank" and Manufactured Dividends. Given the high level of uncertainty as to the eventual success of such claims from EU tax authorities, no accrual of income is made in the financial statements. The value of these outstanding claims is approximately £9.9m. To date, the amount of tax recovered exceeds the cost of pursuing claims. Legal costs are shared across a pool of claimants and the Fund has the right to cease participation without incurring further costs. An annual progress report is provided to Pensions Audit Sub-Committee.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

31 Contingent assets and liabilities (cont)

Variable pay arrangements

In 2018/19 the company introduced three variable pay schemes, two of which have vesting periods. The Portfolio Manager and Senior Management schemes entitle staff to receive an assessed percentage of their salary as an additional variable pay award if they meet certain objectives during the year. The assessment year runs from 1 January to 31 December with the award then vesting over three years. The first part is payable at the end of the first year if the objectives are met and the remaining two parts are payable in the following two years if the requirement that the employee is still employed by the company at such time is met. Payment one for the 2021/22 year, payment two for the 2020/21 year and payment three for the 2019/20 year were made in January 2022. A liability has been raised at 31 March 2022 for the 2 months of service for the second and third instalment of 2021/22 and third instalment of 2020/21 which the employees have delivered with regards to the second and third payments in the scheme.

In the event that all the staff involved in the arrangements at 31 December 2021 remain in the company's employment there is a contingent liability of £417,635 in excess of the current and non-current liabilities, as recognised in these financial statements in accordance with IAS19. This amount would be payable over two years.

Rectification of age discrimination - McCloud and Sargeant judgements

When public service pension schemes were reformed following the Public Service Pensions Act 2013, protections for older scheme members were introduced. In December 2018, the Court of Appeal ruled that the transitional protections included in the Judges' ("McCloud") and Firefighters' ("Sargeant") pension schemes constituted unlawful age discrimination. Following this, in July 2019 a Written Ministerial Statement confirmed that the UK Government believed that the ruling applied to all the main public service pension schemes and that the discrimination would be addressed in all the relevant schemes, including Local Government Pension Scheme (LGPS) in Scotland.

On 4 August 2020, the Scottish Public Pensions Agency (SPPA) issued a statutory consultation on the proposed remedy, with this closing in October 2020. As anticipated, it is proposed that a comparison will be made between the benefits payable under the current rules with the entitlements which would have been paid if the Scheme had not changed in 2015, and with any higher sum being paid to the member. This protection will apply automatically and members who meet the qualifying criteria won't need to take any action. Many members benefits won't change or will only see a small increase because of low salary growth since the new scheme was introduced. As the changes will be backdated to April 2015 and apply to qualifying members who left the LGPS after that date, implementation of the remedy is expected to be extremely challenging from both administration and communications perspectives.

Final regulations to allow for implementation of the remedy are still to be laid, but the Fund has already begun preparatory work to review member data and gather supplementary information from employers.

The Fund's IAS26 reporting from its actuary, as disclosed in Note 14, takes into account the appeal decision and the proposed remedy.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

Guaranteed Minimum Pension (GMP) Equalisation - Lloyds ruling on historic transfers

On 20 November the High Court ruled on the equalisation for GMPs of historic transfers out of the three largest Lloyds Banking Group pension schemes. The judgement requires all transfers with 17 May 1990 - 5 April 1997 GMPs to be equalised, even if they were taken as long ago as 1990. Schemes will be expected to pay a top-up to the receiving scheme with interest at Bank base rate +1%. There are limited exceptions that don't require a top-up, but it is not obvious within the judgement that there is to be any blanket exception on the application of this ruling to public sector schemes.

It is not yet clear what impact this will have for the LGPS and the Fund is awaiting further guidance before taking any further action.

32 Impairment losses

	2020/21	2021/22
	£000	£000
Bad Debt provision	54	370

During the year the Fund recognised an increase in impairment losses in respect of cessation contributions for a specific employer (Freespace). This increased the impairment to £370k at the year end.

Freespace voluntarily exited the Fund on 31 March 2020. An exit debt of £390,000 was identified by the actuary. Discussions took place with the company on repayment of exit debt and it was agreed that an initial payment of £75,000 would be made by Freespace. This was paid in September 2020, but a balance of £315,000 remains unpaid as the company entered liquidation on 22 October 2020.

The Fund has submitted a claim to the liquidators (SKSi Limited) and is awaiting an adjudication on claims submitted by creditors.

LOTHIAN PENSION FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2021/22

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2018. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated September 2021. In summary, the key funding principles are as follows:

- To ensure the long-term solvency of the overall Fund
- To ensure the solvency of each individual employers' share of the Fund based on their expected term of participation in the Fund
- To minimise the degree of short-term change in employer contribution rates
- To maximise the returns from investments within reasonable and considered risk parameters, and hence minimise the cost to the employer
- To ensure that sufficient cash is available to meet all liabilities as they fall due for payment
- To help employers manage their pension liabilities
- Where practical and cost effective, to make allowance for the different characteristics of different employers and groups of employers.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 67% chance that the Fund will be fully funded over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018 was as at 31 March 2020. This valuation revealed that the Fund's assets, which at 31 March 2020 were valued at £7,479 million, were sufficient to meet 106% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2020 valuation was £408 million. For the avoidance of doubt, these results are based on the assumptions that apply to the Fund's Primary investment strategy.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2021 to 31 March 2024 were set in accordance with the Fund's funding policy as outlined in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2020 valuation report.

LOTHIAN PENSION FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2021/22

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth and inflation to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted under the Primary investment strategy for the 2020 valuation were as follows:

	31 March 2020
Financial assumptions	**% p.a.**
Discount rate	3.00%
Salary increase assumption	2.45%
Benefit increase assumption (CPI)	1.95%

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2019 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Male	Female
Current Pensioners	20.5 years	23.3 years
Future Pensioners *	22.0 years	25.2 years

**Currently aged 45*

Copies of the 2020 valuation report and Funding Strategy Statement are available on the Fund's website.

Experience over the period since 31 March 2020

Markets were severely disrupted by COVID-19 at the 31 March 2020 funding valuation date, resulting in depressed asset values but have recovered strongly in 2020 and 2021. Due to the war in Ukraine, early 2022 resulted in volatile markets, which affects values at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be significantly better than that reported at the previous formal valuation as at 31 March 2020.

The next actuarial valuation will be carried out as at 31 March 2023. The Funding Strategy Statement will also be reviewed at that time.

Richard Warden FFA
For and on behalf of Hymans Robertson LLP
29 June 2022

LOTHIAN PENSION FUND
LIST OF ACTIVE EMPLOYERS AT 31 MARCH 2022

Scheduled Bodies	
City of Edinburgh Council (The)	Scottish Fire and Rescue Service
East Lothian Council	Scottish Police Authority
Edinburgh College	Scottish Water
Heriot-Watt University	SESTRAN
Lothian Valuation Joint Board	VisitScotland
Midlothian Council	West Lothian College
Scotland's Rural College (SRUC)	West Lothian Council

Admitted Bodies	
Audit Scotland	Convention of Scottish Local Authorities
Baxter Storey	Improvement Service (The)
BEAR Scotland	LPFE Ltd
Bellrock Property and Facilities Management	Melville Housing Association
Canongate Youth Project	Mitie PFI
Capital City Partnership	Morrison Facilities Services Ltd
CGI UK Ltd	Museums Galleries Scotland
Children's Hearing Scotland	Newbattle Abbey College
Children's Hospice Association Scotland	North Edinburgh Dementia Care
Citadel Youth Centre	NSL Services Ltd
Compass Chartwell	Cyrenians

LOTHIAN PENSION FUND
LIST OF ACTIVE EMPLOYERS AT 31 MARCH 2022

Admitted Bodies	
Dacoll Limited	Queen Margaret University
Edinburgh Development Group	Royal Edinburgh Military Tattoo
Edinburgh International Festival Society	Royal Society of Edinburgh
Edinburgh Leisure	Scotland's Learning Partnership
Edinburgh Napier University	Scottish Adoption Agency
ELCAP	Scottish Futures Trust
Enjoy East Lothian	Scottish Schools Education Research Centre (SSERC)
Family Advice and Information Resource	Skanska UK
First Step	Sodexo Ltd
Forth and Oban Ltd	St Andrew's Children's Society Limited
Handicabs (Lothian) Ltd	Stepping Out Project
Health in Mind	University of Edinburgh (Edinburgh College of Art)
Heriot Watt University Students Association	West Granton Community Trust
Homes for Life Housing Partnership	West Lothian Leisure
Pilton Equalities Project	Young Scot

SCOTTISH HOMES PENSION FUND INVESTMENT STRATEGY

Investment strategy

The Fund's last triennial valuation was dated 31 March 2020, at which point the actuary estimated Scottish Homes Pension Fund's funding level to be 117.7%. The fund had, therefore, achieved its full funding objective ahead of the target originally agreed by the Scottish Government and the City of Edinburgh Council.

As the fund is closed to new entrants and relatively mature, it's in a position to minimise the investment shortfall risk of assets relative to liabilities in line with Scottish Government guidance. As a result, the Pensions Committee approved the following objective in June 2018: "To match the cash flow from gilt income and redemption payments as closely as possible with the expected liability payments of the fund."

There was no change to the fund's strategic allocation of 100% to bonds in the year to 31 March 2022, and the fund invests solely in cash and bonds, specifically UK gilts, which move proportionately with liability values. The strategic and actual asset allocations for the fund at the end of the 2021 and 2022 financial years are shown in the table below.

Asset Class	Strategic Allocation	Actual Allocation	Strategic Allocation	Actual Allocation
	31 March 2021	31 March 2021	31 March 2022	31 March 2022
	%	%	%	%
Equities	-	-	-	-
Bonds	100	90	100	92
Property	-	-	-	-
Cash	-	10	-	8
Total	**100**	**100**	**100**	**100**

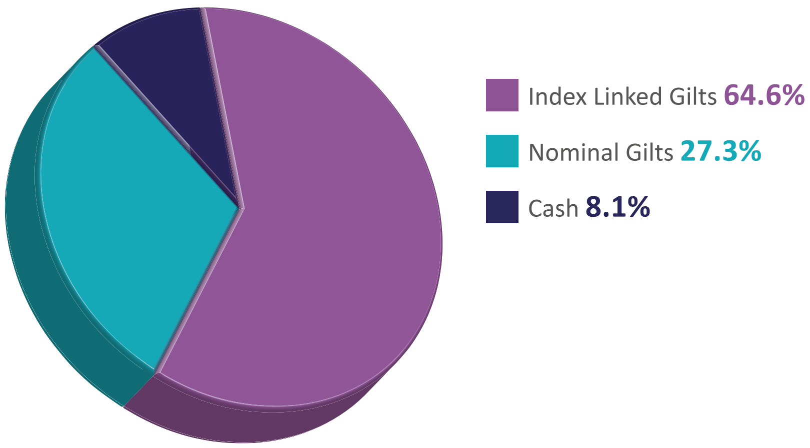
To ensure that invested assets are as closely matched with the liability profile as possible, the investment manager takes into consideration the expected duration of liabilities and whether they are fixed or inflation-linked in nature. The fund's strategy is to match the cash flows of liabilities one year beyond the date of the next valuation and to match the duration of liabilities beyond that. This is because of the greater visibility of pension payments in the near term.

SCOTTISH HOMES PENSION FUND INVESTMENT STRATEGY

Over the longer term, funding levels are subject to the actuary's financial and demographic assumptions of future experience, which are re-examined every three years.

The actual asset allocation of the fund is shown in the pie chart below:

ACTUAL ASSET ALLOCATION 31 MARCH 2022



Investment movements

As the Scottish Homes Pension Fund is relatively mature, it uses the proceeds of gilt coupons and redemptions to pay pensions. Cash or cash equivalents are held to enable pensions to be paid between the dates when gilts redeem. Being fully funded, the fund typically invests excess cash in short-dated bills and gilts. The cash balance as at 31 March 2022 was equivalent to slightly less than two years' pension payments.

The Fund's assets have declined in value over the year from £157.5m to £152.2m. This reflects negative cash flow as £6.9m was paid out in pensions. Adjusted for these cash flow movements, the underlying assets increased in value by 1.9% over the year. Index linked gilt prices rose while nominal gilt prices fell, as central banks were slow to raise rates in response to rising inflationary pressures.

SCOTTISH HOMES PENSION FUND ACCOUNT FOR YEAR ENDED 31 MARCH 2022

Financial Statements

This statement shows a summary of the income and expenditure that the Pension Fund has generated and consumed in delivering the Local Government Pension Scheme. Included is the income from investment dealings and as well as the cost of providing benefits and administration of the Fund.

2020/21			2021/22
£000		**Note**	**£000**
	Income		-
-	Contributions from the Scottish Government	3	-
-	Transfers from other schemes		-
-			
	Less: expenditure		
6,619	Pension payments including increases		6,360
727	Lump sum retirement payments		506
7	Lump sum death benefits		8
-	Transfers to other schemes		-
(6)	Administrative expenses	4b	(38)
7,347			**6,836**
(7,347)	**Net withdrawals from dealing with members**		**(6,836)**
	Returns on investments		
2,028	Investment income	5	1,923
(3,097)	Change in market value of investments	7, 9b	1,683
(112)	Investment management expenses	4c	(98)
(1,181)	**Net returns on investments**		**3,508**
(8,528)	**Net increase/(decrease) in the Fund during the year**		**(3,328)**
166,070	Net assets of the Fund at 1 April 2021		157,542
157,542	**Net assets of the Fund at 31 March 2022**	**9**	**154,214**

SCOTTISH HOMES PENSION FUND
NET ASSETS STATEMENT AS AT 31 MARCH 2022

This statement provides a breakdown of type and value of all net assets at the year-end.

31 March 2021			31 March 2022
£000		Note	£000
	Investment Assets		
140,723	Bonds - UK		139,732
14,906	Cash Deposits		12,291
461	Other investment assets		471
156,090			**152,494**
	Investment Liabilities		
-	Other investment liabilities		-
-			-
156,090	**Net investment assets**	7	**152,494**
	Current assets		
141	The City of Edinburgh Council	15	183
1,357	Cash balances	10,15	1,551
-	Debtors	13	1
1,498			**1,735**
	Current liabilities		
(46)	Creditors	14	(15)
(46)			**(15)**
1,452	**Net current assets**		**1,720**
157,542	**Net assets of the Fund**	9	**154,214**

The unaudited accounts were issued on 29 June 2022.

John Burns FCMA CGMA, PgC

Chief Finance Officer, Lothian Pension Fund

29 June 2022

Note to the net asset statement
The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which does take account of such obligations, is discussed in the Actuarial Valuation section of this report and these financial statements should be read in conjunction with that information. In addition, as required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the notes to these financial statements.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

1 Statement of Accounting Policies

The statement of accounting policies for both Funds can be found on page 143.

2 Events after the Reporting Date

There have been no events since 31 March 2022, and up to the date when these Financial Statements were authorised, that require any adjustments to these Financial Statements.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

3 Contributions from the Scottish Government

The Scottish Homes Pension Fund (SHPF) is an employer pension fund for former employees of Scottish Homes (subsequently Communities Scotland), Scottish Special Housing Association and Homeless Action Scotland (HAS) (formerly The Scottish Council for Single Homeless).

The City of Edinburgh Council was selected by the Scottish Executive to be the administering authority of a fund created prior to the wind up of the Scottish Homes Residuary Body and therefore became the administering authority of SHPF on 1 July 2005, pursuant to section 2(a)(1A) of The Local Government Pension Scheme (Scotland) Amendment (No. 2) Regulations 2005 (SSI 315/2005) (the 2005 Regulations). Former employees of HAS were transferred to SHPF on 12 July 2018 following receipt of Scottish Ministers approval on 31 March 2020.

SHPF is a mature, non-active fund. The Fund has no contributions paid into it by active members but consists only of deferred and pensioner members and therefore only pays money out to the pensioners.

Section 2 (1C) of the 2005 Regulations stipulates that: where the actuary determines, after having regard to the existing and prospective liabilities of the fund, that additional funding is necessary to maintain the solvency of the fund (SHPF), then Scottish Ministers will make payments to the administering authority to maintain that solvency.

In this way, the Scottish Government acts as the ‘Guarantor’ for SHPF’s liabilities, as confirmed in the Funding Agreement, signed on behalf of the Scottish Executive and dated 6 July 2005.

As at the latest triennial actuarial valuation date of 31 March 2020, SHPF showed a funding surplus of £24.9million with a funding level of 117.7%, derived from a market valuation of assets of £166.1million and liabilities of £141.1million.

In accordance with the provisions of the Funding Agreement, the assets of SHPF are now invested entirely on a low risk basis. With a funding surplus, the Scottish Government is not required to provide any contribution, but as Guarantor has the responsibility to pay towards the administration expenses of the Fund. This amounted to £90,000 per annum from 1 April 2021 to 31 March 2024. Investment expenses are being met directly from the Fund’s surplus.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

4a Total Management expenses

	2020/21	2021/22
	£000	£000
Administrative costs	(17)	(45)
Investment management expenses	60	48
Oversight and governance costs	63	58
	106	**61**

This analysis of costs for the Scottish Homes Pension Fund has been prepared in accordance with CIPFA guidance. The analysis looks at the combined administration and investment management expenses in note 4b and 4c and splits out the costs to include a third heading covering oversight and governance expenditure.

4b Administrative expenses

	2020/21	2021/22
	£000	£000
Employee costs	31	29
System costs	19	11
Actuarial fees	3	1
External audit fees	1	1
Printing and postage	4	3
Depreciation	1	1
Office costs	2	1
Sundry costs less sundry income	3	5
	64	**52**
Administration fee received	(70)	(90)
	(6)	**(38)**

LPFE, which is a wholly owned subsidiary of the Council, is responsible for providing the staffing resource to administer the pension funds. Lothian Pension Fund (inclusive of Scottish Homes Pension Fund) has a service level agreement in place with the Council for certain support services. Costs directly attributable to a specific Fund are charged to the relevant Fund, costs that are common to the two Funds are allocated on a defined basis.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

4c Investment management expenses

	2020/21	2021/22
	£000	£000
Transaction costs	-	-
Employee costs	57	47
Custody fees	5	4
Engagement and voting fees	2	2
Performance measurement fees	-	-
Consultancy fees	13	10
System costs	13	13
Legal fees	1	2
Office costs	3	2
Sundry costs less sundry income	18	18
	112	**98**

The Fund has not incurred any performance-related investment management fees in 2021/22 or 2020/21.

5 Investment income

	2020/21	2021/22
	£000	£000
Income from fixed interest securities	2,024	1,921
Interest on cash deposits and sundries	4	2
	2,028	**1,923**
Irrecoverable withholding tax	-	-
	2,028	**1,923**

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

6 Reconciliation of movement in investments

	Market value at 31 March 2021	Purchases at cost	Sales & proceeds	Change in market value	Market value at 31 March 2022
	£000	£000	£000	£000	£000
Bonds	140,723	-	(2,670)	1,679	139,732
	140,723	**-**	**(2,670)**	**1,679**	**139,732**
Other financial assets / (liabilities)					
Cash deposits*	14,906			4	12,291
Investment income due/ amounts payable*	461			-	471
	15,367			**4**	**12,762**
Net financial assets	**156,090**			**1,683**	**152,494**

** Per CIPFA disclosure guidance the change in market value intentionally does not balance opening/closing market values*

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions and in the proceeds from sales and are therefore included in the tables above.

	Market value at 31 March 2020	Purchases at cost	Sales & proceeds	Change in market value	Market value at 31 March 2021
	£000	£000	£000	£000	£000
Bonds	159,933	-	(16,111)	(3,099)	140,723
	159,933	**-**	**(16,111)**	**(3,099)**	**140,723**
Other financial assets / (liabilities)					
Cash deposits*	3,824			2	14,906
Investment income due/ amounts payable*	615			-	461
	4,439			**2**	**15,367**
Net financial assets	**164,372**			**(3,097)**	**156,090**

** Per CIPFA disclosure guidance the change in market value intentionally does not balance opening/closing market values*

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

7 Investment managers and mandates

		Market value at 31 March 2021	% of total 31 March 2021	Market value at 31 March 2022	% of total 31 March 2022
Manager	**Mandate**	**£000**	**%**	**£000**	**%**
In-house	Ex-Equity	12	0.0	12	0.0
Total ex-equities		**12**	**0.0**	**12**	**0.0**
In-house	UK Index linked gilts	156,078	100.0	152,482	100.0
Total fixed interest and inflation linked bonds		**156,078**	**100.0**	**152,482**	**100.0**
In-house	Cash	-	-		-
Total cash		**-**	**-**		**-**
Net financial assets		**156,090**	**100.0**	**152,494**	**100.0**

8 Investments representing more than 5% of the net assets of the Fund

	Market value at 31 March 2021	% of total 31 March 2021	Market value at 31 March 2022	% of total 31 March 2022
	£000	**%**	**£000**	**%**
UK Gov 1.25% Index Linked 22/11/27	8,974	5.7	9,501	6.2
UK Gov 4.125% Index Linked 22/07/30	9,013	5.7	9,338	6.1
UK Gov 2.5% Index Linked 17/07/24	8,831	5.6	9,253	6.0
UK Gov 4.25% 07/06/32	9,234	5.9	8,535	5.5
UK Gov 1.875% Index Linked 22/11/21	7,973	5.1	8,470	5.5
UK Gov 0.625% Index Linked 22/11/42	-	-	8,336	5.4

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

9 Financial Instruments

9a Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

All financial instruments are marked to market (at fair value) in the Fund's accounting records hence there is no difference between the carrying value and fair value.

	31 March 2021			31 March 2022		
Financial assets	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost
Investment assets	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Bonds	140,723	-	-	139,732	-	-
Cash	-	14,906	-	-	12,291	-
Other balances	-	461	-	-	471	-
	140,723	**15,367**	**-**	**139,732**	**12,762**	**-**
Other assets						
City of Edinburgh Council	-	141	-	-	183	-
Cash	-	1,357	-	-	1,551	-
Debtors	-	-	-	-	1	-
	-	**1,498**	**-**	**-**	**1,735**	**-**
Assets total	**140,723**	**16,865**	**-**	**139,732**	**14,497**	**-**
Financial liabilities						
Other liabilities						
Creditors	-	-	(46)	-		(15)
Liabilities total	**-**	**-**	**(46)**	**-**	**-**	**(15)**
Total net assets	**140,723**	**16,865**	**(46)**	**139,732**	**14,497**	**(15)**
Total net financial instruments			**157,542**			**154,214**

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

9b Net gains and losses on financial instruments

	2020/21	2021/22
	£000	£000
Designated as fair value through Fund Account	(3,099)	1,679
Loans and receivables	2	4
Financial liabilities at amortised cost	-	-
Total	**(3,097)**	**1,683**

9c Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities and unit trusts.

Quoted investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument’s valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

The values of the investments in unquoted private equity, infrastructure, timber and real estate are based on valuations provided by the general partners to the funds in which the Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation (IPEV) Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of International Financial Reporting Standards (IFRS). The valuations are typically undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

				31 March 2022
	Level 1	Level 2	Level 3	Total
Investment assets	**£000**	**£000**	**£000**	**£000**
Bonds	-	139,732	-	139,732
Cash deposits	12,291	-	-	12,291
Investment income due/amounts payable	471	-	-	471
Total financial assets	**12,762**	**139,732**	**-**	**152,494**
Investment liabilities				
Payable for investment purchases	-	-	-	-
Total investment liabilities	**-**	**-**	**-**	**-**
Net investment assets	**12,762**	**139,732**	**-**	**152,494**

				31 March 2021
	Level 1	Level 2	Level 3	Total
Investment assets	**£000**	**£000**	**£000**	**£000**
Bonds	-	140,723	-	140,723
Cash deposits	14,906	-	-	14,906
Investment income due/amounts payable	461	-	-	461
Total financial assets	**15,367**	**140,723**	**-**	**156,090**
Investment liabilities				
Payable for investment purchases	-	-	-	-
Total investment liabilities	**-**	**-**	**-**	**-**
Net investment assets	**15,367**	**140,723**	**-**	**156,090**

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Nature and extent of risk arising from financial instruments

Risk and risk management

The Fund's primary aim is to ensure that all members and their dependants receive their benefits when they become payable. As directed by Scottish Government, with the 31 March 2020 actuarial valuation showing a funding level of 117.7%, the Fund is invested entirely in low risk assets. In addition, the Fund ensures that sufficient cash is available to meet all liabilities when they fall due.

Responsibility for the Fund's overall investment strategy rests with the Pensions Committee. The Joint Investment Strategy Panel and the internal investment team monitor investment risks on a regular basis. Investment risk management tools are used to identify and analyse risks faced by the Fund's investments.

Types of investment risk

There are various ways of considering investment risks for pension funds. For the purposes of this note, market risk is the potential for an investor to experience losses from falls in the prices of investments. All financial instruments, including cash deposits, present a risk of loss of capital and risks vary depending on different asset classes.

Market risk also changes over time as economic conditions and investor sentiment change. The market risk of the Scottish Homes Pension Fund has to some extent been mitigated, as the Fund holds only gilts. Most of the reduction in market risk is relative to the liabilities, and not outright. A review of the asset matching of the Fund takes place following the publication of each triennial valuation, which is typically a year after the valuation point. The Fund's assets have been matched to its liabilities as at the 31 March 2020 triennial valuation so that interest rate risk has been minimised and as all assets held are valued in pound Sterling no exchange risk occurs.

Sensitivity analysis

Asset prices have a tendency to fluctuate. The degree of such fluctuation is known as "volatility" and it differs by asset class. The table sets out the long-term volatility assumptions used by the Fund's investment adviser Isio:

Asset type	Potential price movement (+ or -)
Index-Linked Gilts	11.5%
Fixed Interest Gilts	8.8%
Cash	1.0%

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Nature and extent of risk arising from financial instruments (cont)

Volatility is the standard deviation of annual returns. Broadly speaking, in two years out of three, the asset's change in value (which could be a gain or a loss) is expected to be lower than the volatility figure, but in one year out of three, the change in value is expected to be higher than the volatility figure.

Asset classes don't always move in line with each other. The extent to which assets move together is known as their "correlation". A lower correlation means that there is less risk of assets losing value at the same time. The overall Fund benefits from "diversification" because it invests in different asset classes, which don't all move in line with each other. Consequently, the aggregate risk at the Fund level is less than the total risk from all the individual assets in which the Fund invests.

The following table shows the risks at the asset class level and the overall Fund level.

	Value at 31 March 2022	% of fund	Potential Change +/-	Value on increase	Value on decrease
	£m	%	%	£m	£m
Index-Linked Gilts	98	64.5	11.5	110	87
Fixed Interest Gilts	41	27.2	8.8	45	38
Cash	13	8.3	1.0	13	13
Total [1]	**153**	**100.0**	**9.9**	**168**	**138**
Total [2]			**9.2**	**167**	**139**
Total [3]			**1.5**	**155**	**n/a**

[1] No allowance for correlations between assets
[2] Including allowance for correlations between assets
[3] Including allowance for correlation between assets and liabilities.

The value on increase/decrease columns illustrate the monetary effect of the percentage change in the volatility column. The actual annual change in value is expected to be lower than this in two years out of three, but higher in one year out of three.

It can be seen that the risk to the overall Fund assets [2] is lower than the total of the risks to the individual assets [1].

However, because the purpose of a pension scheme is to make payments to scheme beneficiaries, the true risk of a pension scheme is not measured in absolute terms, but relative to its liabilities [3]. The risk is lower than the absolute asset risk, due to the impact of correlation with the discount rate used to value the liabilities.

This risk analysis incorporates volatility from market, interest rate, foreign exchange, credit, and all other sources of risk, and, importantly, makes allowance for how these risks may offset each other.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Nature and extent of risk arising from financial instruments (cont)

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the value of the Fund's assets and liabilities (as outlined in Market Risk above).

In essence, the Fund's entire investment portfolio is exposed to some sort of credit risk. However, through the selection of counterparties, brokers and financial institutions the Fund reduces the credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash deposits are the major areas of credit exposure where credit risk is not reflected in market prices.

Cash deposits

At 31 March 2022, cash deposits represented £14m, 9.3% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2022	Balances at 31 March 2021	Balances at 31 March 2022
Held for investment purposes		**£000**	**£000**
Northern Trust Company - cash deposits	A2	14,906	8,935
UK Short-Term Bills and Notes	Aa3		3,356
The City of Edinburgh Council - treasury management	See below	-	-
		14,906	**12,291**
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	1,357	1,551
Total cash		**16,263**	**13,842**

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Nature and extent of risk arising from financial instruments (cont)

A proportion of Sterling cash deposits of the Fund are managed along with those of the administering authority (the City of Edinburgh Council) and other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk basis, with security of the investments the key consideration. The Council has in place counterparty criteria.

The Council has in place institutional restrictions on investments and counterparty criteria. These include -

(a) UK Government and other UK local Authorities with no limit, other public bodies up to £20 million per organisation.
(b) Money market funds (MMFs) no more than £30 million or 15% with any one Fund.
(c) Financial Institutions: Banks and Building Societies with multiple criteria based on a range of short and long term credit ratings, as well as any security provided, from maximum of £60 million / 20% of assets under management (AUM) for institutions with the highest criteria to £10 million / 5% of AUM for institutions with the lowest acceptable criteria.

	Moody's Credit Rating at 31 March 2022	Balances at 31 March 2021	Balances at 31 March 2022
Money market funds	**£000**	**£000**	**£000**
Deutsche Bank AG, London	Aaa-mf	176	58
Aberdeen Standard Sterling Liquidity Fund	Aaa-mf	206	125
Goldman Sachs	Aaa-mf	-	41
Bank call accounts			
Bank of Scotland	A1	136	155
Royal Bank of Scotland	A1	105	7
Royal Bank of Scotland	A1	136	-
Notice accounts			
HSBC Bank PLC	Aa3	123	155
UK Government			
Gilts & T-Bills and UK Government Debt	Aa3	-	691
Supranational Commercial Paper			
European Investment Bank	AAA	-	119
UK Pseudo-Sovereign risk instruments			
Other Local Authorities [1]	Aa3	475	200
		1,357	**1,551**

[1] Very few Local Authorities have their own credit rating but they are generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2022 was 'Aa3').

No breaches of the Council's counterparty criteria occurred during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Nature and extent of risk arising from financial instruments (cont)

No breaches of the Council's counterparty criteria occurred during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

Refinancing risk

Refinancing risk is the risk that the Fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Fund is not bound by any obligation to replenish its investments and hence is not exposed to refinancing risk.

Liquidity risk

Liquidity risk reflects the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore ensures that there is adequate cash and liquid resources to meet its commitments. Cash flow projections are prepared on a regular basis to understand and manage the timing of the Fund’s cash flows.

All of the Fund’s investments could be converted to cash within three months in a normal trading environment.

11 Actuarial statement

The Actuary has provided a statement describing the funding arrangements of the Fund. This can be found at the end of this section.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

12 Actuarial present value of promised retirement benefits

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £116m (2021 £125m). This figure is used for statutory accounting purposes by Scottish Homes Pension Fund and complies with the requirements of IAS26. The assumptions underlying the figure match those adopted for the Administering Authority's IAS19 reports at each year end.

The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

	31 March 2021	31 March 2022
	% p.a.	% p.a.
Inflation/pensions increase rate	2.85%	3.20%
Discount rate	2.00%	2.70%

Longevity assumptions

The life expectancy assumption is based on Fund specific statistical analysis with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.5% and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	31 March 2021		31 March 2022	
	Male	Female	Male	Female
Current pensioners	20.8 years	23.2 years	20.7 years	23.4 years
Future pensioners (assumed to be currently 45)	21.0 years	26.0 years	20.9 years	26.1 years

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

13 Debtors

	31 March 2021	31 March 2022
	£000	£000
Sundry debtors	0	1
	0	**1**

14 Creditors

	31 March 2021	31 March 2022
	£000	£000
Benefits payable	45	13
Miscellaneous creditors and accrued expenses	1	2
	46	**15**

15 Related party transactions

The City of Edinburgh Council

The Lothian Pension Fund and the Scottish Homes Pension Fund are administered by the City of Edinburgh Council. Consequently there is a strong relationship between the Council and the Pension Funds.

LPFE, which is a wholly owned subsidiary of the Council, is responsible for providing the staffing resource to administer the pension funds. Lothian Pension The Fund (inclusive of Scottish Homes Pension Fund) has a service level agreement in place with the Council for certain support services. Costs directly attributable to a specific Fund are charged to the relevant Fund; costs that are common to the two Funds are allocated on a defined basis.

Transactions between the Council and the Fund are managed via a holding account. Each month the Fund is paid a cash sum leaving a working balance in the account to cover the month's pension payroll costs and other expected costs.

	31 March 2021	31 March 2022
	£000	£000
Year end balance of holding account	141	183
	141	**183**

Part of the Fund's cash holdings are invested on the money markets by the treasury management operations of the Council, through a service level agreement. During the year to 31 March 2022, the Fund had an average investment balance of £1.7m (2021 £2.5m). Interest earned was £2k (2021 £4k).

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

	31 March 2021	31 March 2022
Year end balance on treasury management account	**£000**	**£000**
Held for investment purposes	-	-
Held for other purposes	1,357	1,551
	1,357	**1,551**

Fund Guarantor

The Fund guarantor (by definition) is a related party to the scheme. The Scottish Government's contributions to the Fund can be found in note 3 (page 122) of the notes to the Financial Statements.

LPFE Limited - staffing services

Staffing services are provided to Lothian Pension Fund and Scottish Homes Pension Fund for the purposes of administering the Funds under an intra-group resourcing agreement. The agreement also provides for the running costs of the company to be covered as part of a service charge and allows for the provision of staffing services to LPFI Limited. Lothian Pension Fund is invoiced for these services and Scottish Homes Pension Fund is then allocated a percentage recharge on a defined basis. During the year to 31 March 2022, the Fund was recharged £76k (2021 £88k) for the services of LPFE Limited staff.

Governance

As at 31 March 2022, all members of the Pensions Committee and the Pension Board were members of the Lothian Pension Fund, with the exception of Richard Lamont and Tony Beecher. One member of both the Pensions Committee and the Pension Board is in receipt of pension benefits from Lothian Pension Fund.

Each member of the Pensions Committee and Pensions Board is required to declare any financial and non-financial interests they have in the items of business for consideration at each meeting, identifying the relevant agenda item and the nature of their interest.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

During the period from 1 April 2021 to the date of issuing of these accounts, Lothian Pension Fund was charged by City of Edinburgh Councils via its service level agreement for time spent by its Executive Management team on pension fund issues. Scottish Homes Pension Fund is then recharged for these services on a defined basis. All other staff that held key positions in the financial management of Lothian Pension Fund and Scottish Homes Pension Fund were employed by LPFE Limited. Total compensation paid in relation to key management personnel employed by LPFE Limited during the period was as follows:

	31 March 2021	31 March 2022
	£000	£000
Short-term employee benefits	864	909
Post-employment benefits - employer pension contributions	189	111

Key management personnel employed by LPFE had accrued pensions totalling £134,724 (1 April 2021: £119,873) and lump sums totalling £131,304 (1 April 2020: £126,989) at the end of the period.

Staff are either employed by City of Edinburgh Council or LPFE Limited, and their costs reimbursed by the Pension Funds. The Councillors, who are members of the Pensions Committee, are also remunerated by City of Edinburgh Council.

16 Contingent assets/liabilities

Rectification of age discrimination - McCloud and Sargeant judgements

When public service pension schemes were reformed following the Public Service Pensions Act 2013, protections for older scheme members were introduced. In December 2018, the Court of Appeal ruled that the transitional protections included in the Judges' ("McCloud") and Firefighters' ("Sargeant") pension schemes constituted unlawful age discrimination. Following this, in July 2019 a Written Ministerial Statement confirmed that the UK Government believed that the ruling applied to all the main public service pension schemes and that the discrimination would be addressed in all the relevant schemes, including Local Government Pension Scheme (LGPS) in Scotland.

On 4 August 2020, the Scottish Public Pensions Agency (SPPA) issued a statutory consultation on the proposed remedy, with this closing in October 2020. As anticipated, it is proposed that a comparison will be made between the benefits payable under the current rules with the entitlements which would have been paid if the Scheme had not changed in 2015, and with any higher sum being paid to the member. This protection will apply automatically and members who meet the qualifying criteria won't need to take any action. Many members benefits won't change or will only see a small increase because of low salary growth since the new scheme was introduced. As the changes will be backdated to April 2015 and apply to qualifying members who left the LGPS after that date, implementation of the remedy is expected to be extremely challenging from both administration and communications perspectives.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

Final regulations to allow for implementation of the remedy are still to be laid, but the Fund has already begun preparatory work to review member data and gather supplementary information from employers.
The Fund's IAS26 reporting from its actuary, as disclosed in Note 12, takes into account the appeal decision and the proposed remedy.

Guaranteed Minimum Pension (GMP) Equalisation - Lloyds ruling on historic transfers

On 20 November the High Court ruled on the equalisation for GMPs of historic transfers out of the three largest Lloyds Banking Group pension schemes. The judgement requires all transfers with 17 May 1990 - 5 April 1997 GMPs to be equalised, even if they were taken as long ago as 1990. Schemes will be expected to pay a top-up to receiving scheme with interest at Bank base rate +1%. There are limited exceptions that do not require a top-up, but it is not obvious within the judgement that there is to be any blanket exception on the application of this ruling to public sector schemes.

It is not yet clear what impact this will have for the LGPS and the Fund is awaiting further guidance before taking any further action.

17 Contractual commitments

The Fund had no contractual commitments at the year end.

18 Impairment losses

No impairment losses have been identified during the year.

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2018. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

SCOTTISH HOMES PENSION FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2021/22

Description of Funding Policy

The Administering Authority's Funding Strategy Statement (FSS), dated September 2021, states that a bespoke funding strategy has been adopted for the Fund.

The strategy aims for the Fund to be 100% solvent by 2044 using a discount rate based on government bonds. It includes target funding levels at each actuarial valuation. Contributions from the Scottish Government are determined by reference to the target funding levels.

The Fund's assets are invested wholly in index-linked gilts and cash.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018 was as at 31 March 2020. This valuation revealed that the Fund's assets, which at 31 March 2020 were valued at £166.1 million, were sufficient to meet 117.7% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2020 valuation was £24.9 million.

The Guarantor's contributions for the period 1 April 2021 to 31 March 2024 were set in accordance with the Fund's funding policy as set out in its FSS.

SCOTTISH HOMES PENSION FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2021/22

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2020 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2020 valuation were as follows:

Financial assumptions	31 March 2020
Discount Rate	Bank of England nominal yield curve
Benefit increase assumption (CPI)	Bank of England implied inflation (RPI) curve less 0.9% p.a.

SCOTTISH HOMES PENSION FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2021/22

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2019 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 2.0% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Male	Female
Current Pensioners	20.8 years	23.3 years
Future Pensioners *	21.1 years	26.0 years

**Currently aged 45*

Copies of the 2020 valuation report and Funding Strategy Statement are available on the LPF website.

Experience over the period since 31 March 2020

Since the last formal valuation, real bond yields have fallen slightly, placing a higher value on the liabilities and on the assets held by the Fund. As a result, the funding level of the Fund as at 31 March 2022 is likely to be fairly similar to that reported at the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2023. The Funding Strategy Statement will also be reviewed at that time.

Richard Warden FFA
For and on behalf of Hymans Robertson LLP
11 May 2022

ACCOUNTING POLICIES AND GENERAL NOTES

1. Basis of preparation

The Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The Financial Statements summarises the transactions of the Funds for the 2021/22 financial year and report on the net assets available to pay pension benefits as at 31 March 2022. The Financial Statements don't take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present values of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, are disclosed in the Notes to the Financial Statements.

The Financial Statements are prepared on the going concern basis, which provides that the funds will continue in operational existence for the foreseeable future. The basis is on the grounds that there's sufficient funding available to the funds to support the anticipated continuation of the provision of services.

2. Summary of significant accounting policies

General

a) Basis of consolidation – Group accounts

Commencing with the year ended 31 March 2016, Consolidated Financial Statements have been prepared for Lothian Pension Fund. The Financial Statements of Scottish Homes Pension Fund continue to be prepared on a single entity basis.

The Consolidated Financial Statements for Lothian Pension Fund are prepared by combining the Financial Statements of the Fund (the parent entity) and its controlled entities (LPFE Limited and LPFI Limited) as defined in accounting standard IAS27 – Consolidated and Separate Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the Consolidated Financial Statements. All inter-entity balances and transactions between entities, including any unrealised profits or losses, have been eliminated on consolidation.

Further details of the consolidation are provided in the Notes to the Financial Statements of Lothian Pension Fund.

LPFE Limited (LPFE) and LPFI Limited (LPFI) are wholly owned by the City of Edinburgh Council in its capacity as administering authority for the Local Government Pension Scheme in the Lothian area.

The purpose of LPFE is to provide staff services in respect of management of the Fund. LPFI's purpose is to provide FCA regulated services to LPF and other Local Government Pension Scheme funds. It's considered appropriate to consolidate the Financial Statements of the two companies with those of Lothian Pension Fund.

ACCOUNTING POLICIES AND GENERAL NOTES

Fund Account – revenue recognition

b) Contribution income

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the rate certified by the Scheme Actuary in the payroll period to which they relate.

Similarly, employer deficit funding contributions are accounted for on the due date on which they're payable as certified by the Scheme Actuary.

Employers' pensions strain contributions are accounted for in the period in which the liability arises. Any amount due but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

c) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

d) Investment income

i) Interest income
Interest income is recognised in the Fund Accounts as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income
Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

ACCOUNTING POLICIES AND GENERAL NOTES

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iv) Income from unquoted private equity and infrastructure investments

Income from the above sources is recognised when it's notified by the manager. Distributions are split into capital and income elements with the latter being included under investment income in the Fund Account.

v) Property related income

Property-related income consists primarily of rental income. Rental income from operating leases on properties owned by Lothian Pension Fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Rental income is reported gross with the operational costs of the properties included in investment management expenses.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

vi) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account – expense items

e) Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

ACCOUNTING POLICIES AND GENERAL NOTES

f) Taxation

i) Pension Funds

The Local Government Pension Scheme is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

ii) Controlled entities – LPFE and LPFI

The Companies are mutual traders and are therefore not liable to corporation tax on any surpluses generated from services provided in respect of the Fund. The tax charges for the period are based on any profit for the period from non-mutual trade, adjusted for any non-assessable or disallowed items. They're calculated using tax rates that have been enacted or are substantively enacted by the period end date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. No deferred tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets are recognised to the extent that it's probable that future profits will be available against which deductible temporary differences can be utilised.

The amount of benefit brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

ACCOUNTING POLICIES AND GENERAL NOTES

g) Administrative expenses

All administrative expenses are accounted for on an accruals basis. Lothian Pension Fund is responsible for administering the two Funds. The costs include charges from LPFE and LPFI for services rendered. LPF receives an allocation of the overheads of the Council based on the amount of central services consumed. In turn, these costs are allocated to the two Funds.

Costs directly attributable to a specific fund are charged to the relevant fund. Investment management costs that are common to all funds are allocated in proportion to the value of each fund as at the end of the year. Other administration costs are allocated in proportion to the number of members in each of the funds at the end of the year.

h) Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

For some investment managers, an element of their fee is performance related. The amount of any performance related fees paid is disclosed in the note to the accounts on investment management expenses provided for each Fund.

The cost of administering the Local Government Pension Scheme in the UK has come under increasing scrutiny in recent years. As a result, it has been decided to recognise investment management costs that are deducted from the value of an investment and recognised this as a cost in the Fund Account rather than as a reduction in the change in market value of investments. Investment transaction costs that are added to an investment purchase price or deducted from the proceeds of a sale are also recognised as a cost in the Fund Account rather than as a reduction in the change in market value of investments.

In June 2016, CIPFA revised and updated its guidance “Accounting for Local Government Pension Scheme Management Costs”. Whilst the underlying principle of transparency of investment costs remains unchanged, there’s been a degree of relaxation to full cost disclosure. Specifically, for complex ‘fund of funds’ structures, the new guidance states that “Investment costs incurred by a separate legal entity, or in respect of investment decisions over which the pension fund has no control, should not be included in the (Pension) Fund Account . . . If pension funds wish to provide information about the total cost of ‘fund of fund’ investments, this should be included as part of the Investments section in the Annual Report.”

The impact of this is that investment management costs deducted from any underlying fund in a ‘fund of funds’ investment would not be included in the costs disclosed in the Fund Account. As this would significantly under-report investment management costs, it has been decided not to adopt this element of the CIPFA guidance. However, this type of cost is separately identified as "external management fees – deducted from capital (indirect)" in the notes on investment management expenses.

ACCOUNTING POLICIES AND GENERAL NOTES

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are not treated as an expense. Such costs are accounted for as part of the acquisition costs or sale proceeds.

The cost of obtaining investment advice from external consultants is included in investment management charges.

The costs of the in-house investment management team are charged to the fund. The basis of allocation is as described in section g.

Securities lending revenue is reported gross and their fees are disclosed in investment management expenses.

i) Operating lease

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the term of the lease. In accordance with IFRS 16, lease incentives are recognised as a reduction in the lease expense over the term of the lease on a straight-line basis.

Net Assets Statement

j) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS13. For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

The basis of the valuation of each class of investment assets is set out on the next page. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

LOTHIAN
PENSION FUND

LPF RETIREMENT GOALS

'I'd like to give something back to the community by volunteering more'

ACCOUNTING POLICIES AND GENERAL NOTES

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuations provided
Market quoted investments - Equities	Level 1	Closing bid value on published exchanges	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Future derivative contracts	Level 1	Determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.	Not required	Not required
Forward foreign exchange derivatives	Level 1	Based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.	Not required	Not required
Government bonds – fixed interest / index linked gilts	Level 2	Recorded at net market value based on their current yields.	Evaluated price feeds	Not required
Freehold and leasehold properties	Level 3	Valued at fair value at the year-end using the investment method of valuation by Oliver Hayes FRICS of independent valuers, CBRE Ltd in accordance with RICS Red Book Global Valuation Standards (introduced with effect from 31 January 2022).	Existing lease terms and rentals. Independent market research. Nature of tenancies. Covenant strength for existing tenants. Assumed vacancy levels. Estimated rental growth. Discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market price
Unquoted Pooled investments – Private Equity, Infrastructure, Timber, Private Secured Loans & Property	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Guidelines and the IPEV Board's Special Valuation Guidance (March 2020).	EBITDA multiple Revenue multiple. Discount for lack of marketability. Control premium.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

ACCOUNTING POLICIES AND GENERAL NOTES

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisers, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2022.

Lothian Pension Fund	Assessed Valuation range (+ or -)	Value at 31 March 2021	Value on increase	Value on decrease
Unquoted		**£m**	**£m**	**£m**
Private Equity	26.0%	44	55	33
Infrastructure	12.0%	932	1,044	820
Timber	18.0%	108	127	89
Private Secured Loans	10.5%	261	288	234
Property	13.0%	505	571	439
		1,850	**2,085**	**1,615**

Scottish Homes Pension Fund has no assets valued at Level 3.

k) Foreign currency transactions and balances
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

l) Cash and cash equivalents
Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

m) Financial liabilities
The Fund recognise financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised.

n) Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits of each of the Fund is assessed on an annual

ACCOUNTING POLICIES AND GENERAL NOTES

basis by the Scheme Actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statements.

o) Additional voluntary contributions

The Lothian Pension Fund provide an additional voluntary contributions (AVC) scheme for their members, the assets of which are invested separately from those of the Fund. The Fund has appointed Standard Life and Prudential as their AVC providers. AVCs are paid to the AVC providers by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

In accordance with regulation 5(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998, AVCs are not included in pension fund financial statements. Details of contributions paid and the total value of funds invested are disclosed by way of note.

p) Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the Net Assets Statement but are disclosed by way of narrative in the notes.

q) Employee benefits

The employees of LPFE are eligible to participate in Lothian Pension Fund.

In the Consolidated Financial Statements, the current service cost for the period is charged to the Fund Account. The assets of Lothian Pension Fund are held separately from those of the Company. The Company has fully adopted the accounting principles as required by IAS19 – Employee Benefits.

The liability recognised in the Net Asset Statement in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs.

ACCOUNTING POLICIES AND GENERAL NOTES

The defined benefit obligation is calculated annually, by the Scheme Actuary, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in a currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the Fund Account in the period in which they arise.

Past-service costs are recognised immediately in the Fund Account, unless the changes to the pension plan are conditional on the employees remaining in service for a specified time period (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

3. Accounting Standards that have been issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2022/23 Code:

- The Code requires implementation from 1 April 2022 and there is therefore no impact on the 2021/22 financial statements.
- IFRS 16 Leases (early adoption in 2022/23)
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IAS 37, IFRS 16, IAS 41)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS16)

The amendments are generally minor or principally providing clarification. Overall, these new or amended standards are not expected to have a significant impact on the financial statements.

ACCOUNTING POLICIES AND GENERAL NOTES

4 . Critical judgements in applying accounting policies

Unquoted private equity and infrastructure investments

It's important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments.

They're inherently based on forward-looking estimates and judgements involving many factors. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation (IPEV) Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of IFRS.

For the Lothian Pension Fund, the value of unquoted private equity, infrastructure, timber and secured loan investments at 31 March 2022 was £1,344m (2021 £1,330m).

Actuarial present value of promised retirement benefits

Each Fund is required to disclose the estimated actuarial present value of promised retirement benefits as at the end of the financial year. These estimates are prepared by the Fund Actuary. These values are calculated in line with International Accounting Standard 19 (IAS19) assumptions and comply with the requirements of IAS26. However, the results are subject to significant variances based on changes to the underlying assumptions.

The figures are only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it's not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

5 . Assumptions made about the future and other major sources of estimation uncertainty

The Financial Statements contain estimated figures that are based on assumptions made by the Council; private equity and infrastructure managers; other providers of valuation information; and the Scheme Actuary about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because amounts cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2022 for which there's a significant risk of material adjustment in the forthcoming financial year are as follows:

ACCOUNTING POLICIES AND GENERAL NOTES

a) Actuarial present value of promised retirement benefits

Uncertainties
Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on the fund's assets. The Fund actuary advises on the assumptions to be applied and prepares the estimates.

Effect if actual results differ from assumptions – Lothian Pension Fund
The effects on the net pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions – year ended 31 March 2022	Approx Increase in liabilities %	Approx monetary amount £m
0.1% decrease in the real discount rate	2	196
1 year increase in member life expectancy	4	402
0.5% increase in salary increase rate	1	100
0.1% increase in pensions increase rate	2	174

Effect if actual results differ from assumptions – Scottish Homes Pension Fund
The effects on the net pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions – year ended 31 March 2022	Approx Increase in liabilities %	Approx monetary amount £m
0.1% decrease in the real discount rate	1	1
1 year increase in member life expectancy	4	5
0.1% increase in pensions increase rate	1	1

ACCOUNTING POLICIES AND GENERAL NOTES

b) Valuation of unquoted private equity and infrastructure investments

Uncertainties

These investments aren't publicly listed and therefore there's a degree of estimation involved in their valuation, see 2j above for more details on the valuation methodology.

Effect if actual results differ from assumptions

There is a risk that these investments may be under or overstated in the accounts at any point in time. The actual financial return of this type of investment is only known with certainty when they reach the end of their lifecycles and the final distributions are made to investors. A sensitivity analysis can be found in note 2j above.

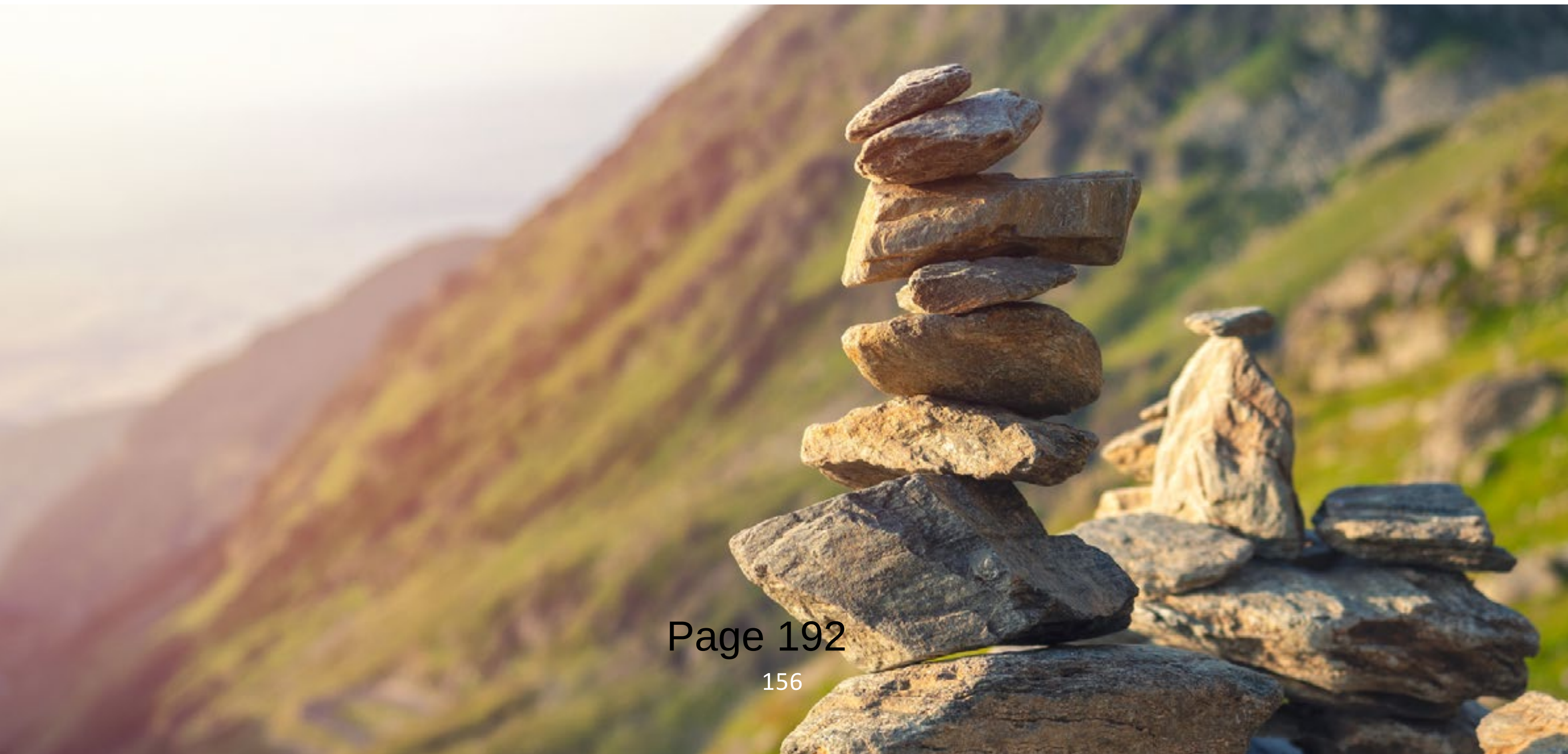
c) Quantifying the cost of investment fees deducted from capital

Uncertainties

Section 2 h) describes the accounting policy for investment management expenses in relation to expenses deducted from the capital value of investments. Quantification of these costs involves asking the relevant managers for information and only some of this information can be independently verified. In cases where the charges relate to an investment as a whole, an estimate needs to be made of the costs applicable to the holding owned by the relevant fund.

Effect if actual results differ from assumptions

There's a risk that the cost of investment fees deducted from capital may be under or overstated. However, as the costs are included in the Fund Account by adjusting the change in market value of investments, any inaccuracy in the cost estimate will not change the reported net change in the Fund for the year.



STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

The responsibilities of the Administering Authority

The Administering Authority's responsibilities are to:

- Make arrangements for the proper administration of the financial affairs of the Fund in its charge and to secure that one of its officers has the responsibility for the administration of those affairs. The Head of Finance serves as the Section 95 Officer for all the Council's accounting arrangements, including those of Lothian Pension Fund and Scottish Homes Pension Fund. For the Fund, this Section 95 responsibility has been delegated to the Chief Finance Officer, Lothian Pension Fund
- Manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and, so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003)
- Approve the Unaudited Annual Accounts for signature.

I confirm that these Unaudited Annual Accounts were approved for signature by the Lothian Pension Fund Committee at its meeting on 29 June 2022.

Hugh Dunn
Service Director: Finance and Procurement
The City of Edinburgh Council
29 June 2022

STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

The responsibilities of the Chief Finance Officer, Lothian Pension Fund

The Chief Finance Officer, Lothian Pension Fund, is responsible for the preparation of the Fund's Financial Statements which, in terms of the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code of Practice), is required to present a true and fair view of the financial position of the Fund at the accounting date and their income and expenditure for the year ended 31 March 2022.

In preparing this statement of accounts, the Chief Finance Officer, Lothian Pension Fund, has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with legislation and the Local Authority Accounting Code (in so far as it is compatible with legislation)

The Chief Finance Officer, Lothian Pension Fund, has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the financial statements give a true and fair view of the financial position of the Pension Fund as at 31 March 2022 and the transactions of the Pension Fund for year ended 31 March 2022.

John Burns, FCMA CGMA PgC
Chief Finance Officer
Lothian Pension Fund
29 June 2022

ANNUAL GOVERNANCE STATEMENT

Roles and responsibilities

The City of Edinburgh Council (the Council) has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in the Lothian area of Scotland (Administering Authority). This responsibility is for two separate Funds: the Lothian Pension Fund and Scottish Homes Pension Fund (the Fund). Responsibility for the oversight and management of those funds is delegated to a governance structure in order to satisfy the requirements of relevant pensions and investment legislation and to ensure best practice.

Oversight bodies: The main functions of the Administering Authority are administration of scheme benefits and the investment of the assets of the Fund. These functions are conducted in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972. The Fund's governance structure must also adhere to the Local Government Pension Scheme (Governance)(Scotland) Regulations 2015. The oversight of the Funds is therefore carried out via:

- The Pensions Committee and the Pensions Audit Sub-Committee
- The Pension Board
- The Joint Investment Strategy Panel
- The LPF Group.

Corporate group: The Lothian Pension Fund group comprises the investment and pensions team employed by LPFE Limited (LPFE) and LPFI Limited (LPFI), the Group's regulated investment vehicle (together the LPF Group). Both companies are wholly owned by the Administering Authority.

Further details on the above arrangements can be found in the Governance section of the Management Commentary towards the front of this document.

Scope of responsibility

As the Administering Authority of the Fund, the Council is responsible for ensuring that its business in administering the Fund, is conducted in accordance with the law and appropriate standards, and that monies are safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a statutory duty under the Local Government in Scotland Act 2003, to make arrangements to secure best value, which for the Fund is exercised in conjunction with its other separate statutory duties.

In discharging these overall responsibilities, elected members, senior officers and external representatives are responsible for implementing effective arrangements for governing the affairs of the LPF Group, and facilitating the effective exercise of its functions, including arrangements for the management of risk.

ANNUAL GOVERNANCE STATEMENT

The LPF Group has adopted a Local Code of Corporate Governance that's consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) framework 'Delivering Good Governance in Local Government'.

This statement explains how the LPF Group has complied with the Local Code of Corporate Governance and how it meets the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

The governance framework

The LPF Group operates within the wider governance framework of the Council but within specific ringfenced governance structures focused on the Fund themselves. The governance framework comprises the systems, controls, processes, cultures and values by which the LPF Group directs and controls the Fund. It also describes the way the LPF Group engages with and accounts to its stakeholders in relation to the management of the administration of the Fund. It enables the LPF Group to monitor the achievement of its objectives and consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The LPF Group is also directly regulated by The Pensions Regulator, the Financial Conduct Authority (regarding its regulated investment activity), the Scottish Information Commissioner and is subject to other corporate and public sector rules and regulations.

The LPF Group has a few remaining services on which it relies from the Administering Authority. These include the Council's Democracy, Governance and Resilience, Procurement, Information Governance and Internal Audit functions, all of which form part of the LPF Group's overall assurance stack. However, the Fund also seeks specialist external input in order to provide effective assurance around its financial services, investments and pensions specific business.

The LPF Group also currently places reliance upon certain of the internal financial controls within the Administering Authority's financial systems and the monitoring in place to ensure the effectiveness of these controls.

Following the establishment of the wholly-owned subsidiary companies, LPFE and LPFI, the Administering Authority continues to have appropriate assurance processes and procedures around the administration of those companies and the wider LPF Group administering the Fund.

ANNUAL GOVERNANCE STATEMENT

Review of Affectiveness

The Local Code of Governance details the Administering Authority's arrangements for monitoring each element of the framework and providing evidence of compliance.

The Chief Internal Auditor provides an annual assurance statement on the effectiveness of the system of internal control. The internal audit represents only one aspect of the LPF Group's wider assurance stack, which also includes significant external assurance around the group's systems and controls, data security, human resources, risk management frameworks and FCA regulated compliance. In addition, the Chief Finance Officer of the LPF Group provides a statement of the effectiveness of the internal financial control system for the year ended 31 March 2022 for the Fund.

These forms of external assurance continue to provide the Pensions Committee, Pension Board and boards of LPFE and LPFI with good levels of assurance and broad coverage of the group's activities (where specialist professional knowledge and expertise is required) and haven't raised any material issues in this financial year.

The group closely monitors its overall "assurance stack" to ensure that it has appropriate levels of coverage proportionate to its business model and structures, and in line with its risk appetite. Stakeholders are comfortable with the levels of assurance provided, but the group is currently reviewing the structuring and affectiveness of its third line Internal Audit assurance.

ANNUAL GOVERNANCE STATEMENT

Certification

It's our opinion, in light of the foregoing, that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance that operate within the LPF Group in its administration of the Fund. We consider the governance and internal control environment operating during the financial year from 1 April 2021 to 31 March 2022 to provide reasonable and objective assurance that any significant risks impacting on the LPF Group and its ability to achieve its objectives in properly administering the Fund have and will continue to be identified and suitably proportionate actions have and will be taken to avoid or mitigate the impact of any such risks.

The LPF Group has identified certain key areas for improvement, summarised as follows:

- **Merger:** to explore the possibility of a merger with the Falkirk Council Pension Fund and the attendant structural (governance and legal) enhancements that will flow from that initiative.
- **Human resources:** to continue to implement the human resources strategy and Governance specific to LPF Group's requirements, prioritising an intranet to reinforce communications on policies, procedures and group "culture"
- **Pension Board:** to ensure that vacancies in the Pension Board are filled timeously and by suitable candidates and that this body of external stakeholder representatives receives the training and support it requires on an ongoing basis
- **Business continuity:** to continue to assess and refresh the business continuity plan on an ongoing basis
- **Financial services regulatory compliance:** to continue to instruct external compliance audits on the operations and governance of LPFI in order to ensure best practice compliance and assurance around its existing operations (and in preparation for its extended collaborative business model) and take action to address the recommendations from those audits on an ongoing basis
- **Third line:** to review the structure and effectiveness of its internal audit assurance
- **Data security:** we're working towards achieving Cyber Essentials and Cyber Essentials+ accreditation and aim to have this by the end of 2022. Cyber Essentials is a UK Government backed scheme, overseen by the National Cyber Security Centre, designed to show that an organisation has a good level of protection in cyber security
- **Wider governance:** to continue to maintain and reinforce separate governance and controls specific to the needs of the LPF Group, the pensions funds it administers and its distinct duties to employer and member stakeholders, consistently throughout the LPF Group's governance structures. To ensure that oversight from the Administering Authority is supported in a manner consistent with those duties.

ANNUAL GOVERNANCE STATEMENT

The LPF Group will continue to ensure that these are treated as a priority and that progress towards implementation will be reviewed through the governance structures and processes established for the LPF Group and summarised herein.

David Vallery
Chief Executive Officer
Lothian Pension Fund
29 June 2022

GOVERNANCE COMPLIANCE STATEMENT

The Regulations that govern the management of Local Government Pension Scheme in Scotland require that a Governance Compliance Statement is published. This statement sets out the extent to which governance arrangements comply with best practice.

The statement below describes arrangements at 31 March 2022 and over the financial year.

Principle		Full Compliance	Comments
Structure	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.	✔	The City of Edinburgh Council acts as administering authority and delegates all pension scheme matters* to a committee of seven members (Pensions Committee) made up as follows: • Five City of Edinburgh Council elected members • Two external members, one drawn from the membership of the Fund and one drawn from the employers that participate in the Fund. **with the exception of consideration of a proposed merger with LPF and Falkirk Council Pension Fund.*
	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	✔	The Pensions Committee includes two external places for pension fund stakeholders i.e. one each from the employer and member representatives. Fund members and employers are also represented within the Fund's Pension Board. Membership includes five employer representatives and five member representatives, although this is currently under review. All members of the Pension Board are invited to attend the meeting of the Pensions Committee and receive the relevant papers prior to those meetings. Two members of the Pension Board are invited to attend the Pensions Audit Sub-Committee.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Structure	That where a secondary committee or board has been established, the structure ensures effective communication across both levels.	✔	The Pensions Audit Sub-Committee, consisting of three members of the Pensions Committee, report to the Pensions Committee on their findings and recommendations. Two members of the Pension Board attend the Pensions Audit Sub-Committee in a non-voting capacity. The Pension Board attends the Pensions Committee meetings and takes part in training events. Implementation of investment strategy is currently delegated from the Pensions Committee to the Service Director: Finance and Procurement, who takes advice from the Joint Investment Strategy Panel. The Panel meets quarterly and reports to the Pensions Committee annually. The advisers on the Joint Investment Strategy Panel consists of the Chief Investment Officer and one other portfolio manager of LPFI plus two experienced independent external industry advisers. The Pensions Committee receives annual updates from LPFE and LPFI.
Representation	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include employing authorities (including non-scheme employers, e.g. admitted bodies) and scheme members (including deferred and pensioner scheme members).	✔	The Pension Board consists of a mix of representatives: • Five employer representatives from non-administering authority employers • Five member representatives appointed by the Trade Unions in accordance with the approach required under Scottish statute.
	Where appropriate, independent professional observers, and expert advisers (on an ad-hoc basis).	✔	Our current Independent Professional Observer (IPO) was appointed in August 2018. The appointment was extended in August 2021 for a further two years. The IPO helps Committee scrutinise advice.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Representation	Where appropriate, independent professional observers, and expert advisers (on an ad-hoc basis).	✔	As mentioned previously, external investment advisers sit on the Joint Investment Strategy Panel. A separate specialist Pensions Audit Sub-Committee consisting of three members (including at least two elected members from the City of Edinburgh Council) undertake the audit scrutiny of the Funds. A non-executive director was appointed to the board of LPFI on 7 February 2017 and LPFE on 19 March 2018 with a further two year reappointment being approved in January 2021 to both LPFE and LPFI Boards. A further non-executive director was appointed to the board of LPFI on 22 January 2021 and LPFE on 11 February 2021. An external compliance consultant supports the LPF Group on its ongoing compliance with the Financial Conduct Authority rules, regulations and guidance.
	That where lay members sit on a main or secondary committee, they're treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	✔	The Pension Board attends the Pensions Committee meetings to help ensure that the operation of the pension funds is in accordance with the applicable law and regulation. The Pension Board takes part in all Committee training events. The Pensions Committee takes account of the views of the Pension Board when making decisions.
Selection and Role of Lay Members	That Committee or Board members are made fully aware of the status, role and function that they're required to perform on either a main or secondary Committee.	✔	A comprehensive training programme including induction is in place. Members of the Pensions Committee and Pension Board are expected to attend no less than three days of training (21 hours) per year. The elected members are required to read, sign and abide by the Councillors' Code of Conduct. The LPF Code of Conduct, approved in December 2019 (which has been specifically updated and tailored for the Pension Committee and Pension Board) is required to be read and signed by elected and non-elected members prior to their appointment.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Selection and Role of Lay Members	That at the start of any meeting, Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	✔	The declaration of members' interests is a standard item on the agenda for meetings of the Pensions Committee, Pensions Audit Sub-Committee and Pension Board. A Code of Conduct also applies to all members of the Pensions Committee and the Pension Board. The declaration of board members' interest is a standard item on the agenda for the meetings for the LPFE and LPFI board meetings.
Voting	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS Committees.	✔	Five of the seven places of the Pensions Committee are held by elected members of the City of Edinburgh Council, which is required to retain a 2/3 majority in line with the Local Government (Scotland) Act 1973. The LPF Group's Nomination and Appointments Policy clearly documents how employer and member representatives will be elected to the Pensions Committee and Pension Board. LPFI and LPFE board members conduct meetings and other matters in accordance with their respective articles of association and shareholders' agreements.
Training/Facility Time/Expenses	a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	✔	A Training and Attendance Policy is in place covering training requirements and reimbursement of expenses. The policy is available on the LPF Group's website www.lpf.org.uk. Board members and staff working for LPFI and LPFE also attend separate training for the purposes of their knowledge, understanding and (where appropriate) compliance with Financial Conduct Authority regulations.
	b) That where such a policy exists, it applies equally to all members of Committees, Sub-Committees, advisory panels or any other form of secondary forum.	✔	The Training and Attendance Policy applies to both the Pensions Committee and the Pension Board. Advisers have their own professional development obligations.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Training/Facility Time/Expenses	c) That the administering authority considers the adoption of annual training plans for Committee and Board members and maintains a log of all such training.	✔	Each Pensions Committee and Pension Board member is expected to attend no less than three days training per year (21 hours) per year. Attendance at meetings and training is monitored and reported.
Meetings frequency	a) That an administering authority's main Committee or Committees meet at least quarterly.	✔	The Pensions Committee meets at least four times a year. Due to urgent business, the Pension Committee met an additional time on 20 August 2021.
	b) That an administering authority's secondary Committee or panel meet at least twice a year and is synchronised with the dates when the main Committees sits.	✔	The Pensions Audit Sub-Committee is held before the Pensions Committee at least three times a year with further meetings held if necessary. The Joint Investment Strategy Panel meets quarterly or more frequently as required. The Pension Board attends all the Pensions Committee meetings and separately meets in advance of such meetings. Further meetings are held if necessary. The LPFE and LPFI boards meet six times a year (in February, May, June, August, October and December).
	c) That an administering authority who doesn't include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not applicable	
Access	That subject to any rules in the council's constitution, all members of main and secondary Committees or Boards have equal access to committee papers, documents and advice that falls to be considered at meetings of the main Committee.	✔	Pensions Committee papers and minutes are publicly available on the Council's website and all Pensions Committee and Pension Board members have equal access. Members of the Pensions Committee and Pension Board have equal access to the Independent Professional Observer who provides quarterly updates and attends all Pension Committee, Audit Sub Committee and Pension Board meetings.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Scope	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	✔	The Pensions Committee deals with all matters relating to both the administration and investment of the Fund and the LPF Group. A separate specialist Pensions Audit Sub-Committee consisting of three members (including at least two elected members from the City of Edinburgh Council) undertake the audit scrutiny of the Fund.
Publicity	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	✔	Governance documents, policies and details of Pension Board membership are on the LPF Group's website. The LPF Group also communicates regularly with employers and scheme members.

David Vallery
Chief Executive Officer
Lothian Pension Fund
29 June 2022

REMUNERATION REPORT

Remuneration policy for employees

Our officers and employees of Lothian Pension Fund are employed by LPFE, an arms-length organisation owned by the City of Edinburgh Council, the administering authority for Lothian Pension Fund. In recent years LPFE has been incorporated as a standalone entity to allow us to compete with private sector investment management firms for recruitment and retention of skilled and experienced investment managers and analysts.

Operating this model allows us to achieve significantly lower costs, and therefore improved net returns or lower investment risk than would be possible by appointing private sector asset managers to invest the Fund’s assets. The LPFE Board acts as a Remuneration Committee for officers and employees determining pay arrangements based on comparison to well-researched market benchmarks and performance against pre-agreed performance targets, and always linked to the principle of delivering value-for-money for the members of the Fund and their sponsoring employers.

Each year LPF participates in a range of benchmarking exercises to measure operating costs and net investment returns against peers and indices relevant to us. Pay arrangements in LPFE are underpinned by comprehensive market benchmarking with an external provider and reflect the market for investment expertise where this is a requirement for the role. By using benchmarks on costs and net investment returns, we're able to provide assurance to our oversight bodies that such pay arrangements represent value-for-money for employee members and their sponsoring employers who bear the costs of operating the pension fund and securing retirement benefits.

We have three variable pay schemes at LPF; two of which have vesting periods. The Portfolio Manager and Senior Management schemes entitle colleagues to receive an assessed percentage of their salary as an additional variable pay award if they meet certain objectives during the year. The assessment year runs from 1 January to 31 December each year. The award then vests over three years.

The first part is payable at the end of the first year if the objectives are met and the remaining two parts are payable in the following two years if the requirement that the employee is still employed by the company at such time is met.

The accounting treatment for variable pay as outlined in “International Accounting Standard (IAS) 19, Employee Benefits” states that employee service before the vesting date gives rise to an obligation to make payment, because, at the end of each successive reporting period, the amount of future service that an employee will have to deliver before becoming entitled to the benefit is reduced.

In accordance with IAS 19, therefore, a liability has been raised as at 31 March 2022 for the two months of service which the employees have delivered with regards to the remaining vested payments in the scheme.

REMUNERATION REPORT

This obligation of LPF to make payments as a result of colleague service delivered up to 31 March 2022 is reflected in the figures presented below.

NUMBER OF EMPLOYEES BY PAY BAND

The numbers of employees whose remuneration during the year exceeded £50,000 were as follows:

Remuneration Bands	2020/21	2021/22	Remuneration Bands	2020/21	2021/22
£50,000 - £54,999	-	1	£115,000 - £119,999	-	1
£55,000 - £59,999	-	-	£120,000 - £124,999	-	-
£60,000 - £64,999	4	1	£125,000 - £129,999	1	-
£65,000 - £69,999	-	2	£130,000 - £134,999	3	1
£70,000 - £74,999	2	-	£135,000 - £139,999	1	2
£75,000 - £79,999	-	2	£140,000 - £144,999	1	2
£80,000 - £84,999	1	1	£145,000 - £149,999	-	1
£85,000 - £89,999	-	-	£150,000 - £154,999	-	-
£90,000 - £94,999	-	-	£155,000 - £159,999	1	-
£95,000 - £99,999	-	-	£160,000 - £164,999	-	3
£100,000 - £104,999	2	1	£165,000 - £169,999	4	-
£105,000 - £109,999	-	-	£170,000 - £174,999	-	-
£110,000 - £114,999	-	2	£175,000 - £189,000	-	1
			Total No. of Employees	**20**	**21**

REMUNERATION REPORT

EMPLOYEES REMUNERATION

The remuneration paid to LPF's senior employees is as follows:

	Total Remuneration 2020/21	Salary, Fees and Allowances	Variable Remuneration	Total Remuneration 2021/22
Name and Post Title	**£000**	**£000**	**£000**	**£000**
Doug Heron, Chief Executive Officer (to July 2021)	157	47	-	47
David Vallery, Chief Executive Officer (from June 2021)	-	98	16	114
Bruce Miller, Chief Investment Officer	169	119	57	176
Struan Fairbairn, Chief Risk Officer (resigned March 2022)	132	94	44	138
John Burns, Chief Finance Officer	126	90	42	132
Helen Honeyman, Chief People Officer	98	82	30	112
Total	**682**	**530**	**189**	**719**

The senior colleagues detailed above have responsibility for management of the LPF group to the extent that they have power to direct or control the major activities of the group (including activities involving the expenditure of money), during the year to which the Remuneration Report relates, whether solely or collectively with other persons.

REMUNERATION REPORT

The variable remuneration shown above includes the Company variable remuneration for 2021/22 along with the Senior Management variable remuneration for 2020/21 and vested payment for the previous two assessment years. This is split as follows:

	Company Variable Remuneration 2021/22	Senior Management Variable Remuneration			Total Variable Remuneration 2021/22
		2020 Payment 3	2021 Payment 2	2022 Payment 1	
Name and Post Title	**£000**	**£000**	**£000**	**£000**	**£000**
Doug Heron, Chief Executive Officer (to July 2021)	-	-	-	-	-
David Vallery, Chief Executive Officer (from June 2021)	6	-	-	10	16
Bruce Miller, Chief Investment Officer	12	14	14	17	57
Struan Fairbairn, Chief Risk Officer (resigned March 2022)	9	11	11	13	44
John Burns, Chief Finance Officer	9	11	10	12	42
Helen Honeyman, Chief People Officer	8	-	9	13	30
Total	**44**	**36**	**44**	**65**	**189**

The remuneration paid to our employees whose remuneration during the year exceeded £150,000 is as follows:

	Total Remuneration 2020/21	Salary, Fees and Allowances	Variable Remuneration	Total Remuneration 2021/22
Name and Post Title	**£000**	**£000**	**£000**	**£000**
Andrew Imrie, Portfolio Manager	167	111	53	164
Stewart Piotrowicz, Portfolio Manager	166	109	53	162
Ian Wagstaff, Portfolio Manager	166	111	53	164
Total	**499**	**331**	**159**	**490**

REMUNERATION REPORT

The variable remuneration shown on the previous page includes the Company variable remuneration for 2021/22 along with the Portfolio Manager variable remuneration for 2021/22 and vested payment for the previous two assessment years. This is split as follows:

	Company Variable Remuneration 2021/22	Portfolio Manager Variable Remuneration			Total Variable Remuneration 2021/22
		2020 Payment 3	2021 Payment 2	2022 Payment 1	
Name and Post Title	**£000**	**£000**	**£000**	**£000**	**£000**
Andrew Imrie, Portfolio Manager	11	14	13	15	53
Stewart Piotrowicz, Portfolio Manager	11	14	13	15	53
Ian Wagstaff, Portfolio Manager	11	14	13	15	53
Total	**33**	**42**	**39**	**45**	**159**

Senior officers of the City of Edinburgh Council are also fully remunerated via the Council and no additional remuneration is paid by LPF. This remuneration is disclosed in the Financial Statements of the City of Edinburgh Council.

The total amount of variable remuneration payable over the next two years if all of the colleagues involved in the arrangements at 31 January 2022 remain in the company's employment is as follows:

	Payable January 2023		Payable January 2024
	2021 Payment 3	2022 Payment 2	2022 Payment 3
	£000	**£000**	**£000**
Senior Employee Variable Remuneration	43	46	46
Portfolio Manager Variable Remuneration	84	104	104
Employer National Insurance Contribution	18	23	23
Total	**136**	**173**	**173**

The amounts payable for senior employee variable remuneration over the next two years exclude amounts previously calculated for Doug Heron and Struan Fairbairn in respect of performance in 2020/21 and 2021/22 following their resignations from LPFE in March 2021 and March 2022 respectively, and their subsequent foregoing of vested variable pay.

REMUNERATION REPORT

Colleague Pension Entitlement

Pension benefits for colleagues are provided through the Local Government Pension Scheme.

The Local Government Pension Scheme became a career average pay scheme for colleagues on 1 April 2015. Benefits built up to 31 March 2015 are protected and based on final salary. Accrued benefits from 1 April 2015 will be based on career average salary.

The Scheme's normal retirement age for colleagues is linked to the State Pension Age (with a minimum of age 65).

From 1 April 2009, a five-tier contribution system was introduced with contributions from Scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009, contributions rates were set at 6% for all non-manual colleagues.

The tiers and members' contribution rates for 2021/22 were as follows:

Pensionable Pay (2021/22)	Rate (%)
On earnings up to and including £22,300 (2020/2021 £22,200)	5.5%
On earnings above £22,301 and up to £27,300 (2020/2021 £22,200 to £27,100)	7.25%
On earnings above £27,301 and up to £37,400 (2020/2021 £27,100 to £37,200)	8.5%
On earnings above £37,401 and up to £49,900 (2020/2021 £37,200 to £49,600)	9.5%
On earnings of £49,901 and above (2020/2021 £49,600)	12.0%

If a person works part-time, their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004.

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service, and not just their current appointment.

REMUNERATION REPORT

The pension entitlement of the LPF Group's senior employees is as follows:

	In-year Pension Contributions			Accrued Pension Benefits	
	2020/21	2021/22*		As at 31 March 2022	Increase from 31 March 2021
Name and Post Title	£000	£000		£000	£000
Doug Heron, Chief Executive Officer	40	8	Pension	6	1
			Lump Sum	-	-
David Vallery, Chief Executive Officer (from June 2021)	-	12	Pension	-	-
			Lump Sum	-	-
Bruce Miller, Chief Investment Officer	39	24	Pension	37	2
			Lump Sum	33	1
Struan Fairbairn, Chief Risk Officer (resigned March 2022)	30	19	Pension	16	2
			Lump Sum	-	-
John Burns, Chief Finance Officer	28	18	Pension	48	3
			Lump Sum	84	3
Helen Honeyman, Chief People Officer	26	16	Pension	4	4
			Lump Sum	-	-
Total	**163**	**97**		**228**	**16**

**The pension contribution rate for LPFE reduced from 30.4% in 2020/21 to 18.1% in 2021/22*

The pension entitlement of the LPF Group's colleagues whose remuneration during the year exceeded £150,000 is as follows:

	In-year Pension Contributions			Accrued Pension Benefits	
	2020/21	2021/22*		As at 31 March 2022	Increase from 31 March 2021
Name and Post Title	£000	£000		£000	£000
Andrew Imrie, Portfolio Manager	36	22	Pension	30	3
			Lump Sum	17	-
Stewart Piotrowicz, Portfolio Manager	36	22	Pension	25	3
			Lump Sum	-	-
Ian Wagstaff, Portfolio Manager	36	22	Pension	23	3
			Lump Sum	-	-
Total	**108**	**66**		**95**	**9**

**The pension contribution rate for LPFE reduced from 30.4% in 2020/21 to 18.1% in 2021/22*

REMUNERATION REPORT

Exit Packages

Exit packages include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs. There was no payment of any exit packages in 2021/22 or in the previous year.

Remuneration for Councillors on the Pensions Committee

Councillors on the Pensions Committee are remunerated by the City of Edinburgh Council;
no additional remuneration is paid by the Fund.

ADDITIONAL INFORMATION

Key documents online

You can find further information on what we do and how we do it, on our website at www.lpf.org.uk. To view individual policy documents, click on the links below if viewing online or visit www.lpf.org.uk/publications.

- Actuarial Valuation reports
- Pension Board constitution
- Annual Report and Accounts
- Statement of Investment Principles
- Pension Administration Strategy
- Communications Strategy
- Funding Strategy Statement
- Service Plan
- Training and Attendance policy

Fund advisers

Actuaries:	Hymans Robertson LLP, Exchange Place One, 1 Semple Street, Edinburgh, EH3 8BL
Bankers:	Royal Bank of Scotland, 36 St Andrew Square, Edinburgh, EH2 2YB
Strategic advisers:	Kirstie MacGillvray and Stan Pearson
Investment custodians:	The Northern Trust Company, 50 Bank Street, Canary Wharf, London, E14 5NT
Investment managers:	Details can be found in the notes to the accounts.
Additional Voluntary Contributions (AVC) managers:	Standard Life, Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH M&G Corporate Services Limited, 10 Fenchurch Avenue, London EC3M 5AG.
Property valuations:	CBRE Ltd Valuation & Advisory Services, Henrietta House, 8 Henrietta Place, London W1G 0NB
Property Management and Property Fund Accounting:	Jones Lang LaSalle Limited: 30 Warwick Street, London, W1B 5NH
Property Legal:	CMS Cameron McKenna Nabarro Olswang LLP, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EN Addleshaw Goddard LLP, One St Peter's Square, Manchester, M2 3DE
Solicitors:	Lothian Pension Fund In-house

ADDITIONAL INFORMATION

Comments and suggestions

We appreciate your comments and suggestions on this report. Please let us know which sections you found useful and if you have any suggestions for items to be included in the future. Please email your comments to pensions@lpf.org.uk.

Accessibility

You can get this document on tape, in Braille, large print and various computer formats on request. Please contact the Interpretation and Translation Service (ITS) on 0131 242 8181 and quote reference number 00819. The ITS can also give information on community language translations.

Contact details

If you would like further information about Lothian Pension Fund and Scottish Home Pension Fund, please contact us using the details on the back page of this report.

LOTHIAN
PENSION FUND

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Appendix 2

The City of Edinburgh Council

Statement on the system of internal financial control

1. This statement is provided in respect of the internal financial controls operated by The City of Edinburgh Council. As the Council's designated section 95 officer as defined under the provisions of the Local Government (Scotland) Act 1973, I acknowledge my responsibility for ensuring that an appropriate system of internal financial control is in place and its on-going effectiveness regularly reviewed.

2. The system of control can provide reasonable, but not absolute, assurance that material control weaknesses or irregularities do not exist, and that there is no unacceptable risk of material error, loss, fraud or breach of legislation. Consequently, the Council continually seeks to improve the effectiveness of its systems of internal financial control so that irregularities are either prevented or detected within an acceptable period of time. Tracking of agreed internal audit actions forms a standing item on Corporate Leadership and Senior Management Team agendas, with progress in implementation also regularly reported to the Governance, Risk and Best Value Committee.

3. In view of successive years' staffing reductions and various resulting changes in responsibilities, the self-attestation exercise undertaken early in 2018 was helpful in assessing the extent to which previous improvements had been embedded within service areas, highlighting a need for further action in some areas to implement and sustain the required controls. This exercise has subsequently been complemented, within the Corporate Services Directorate (where the majority of finance-related controls lie), by quarterly Service Performance and Assurance meetings at which progress in implementation of agreed actions is also considered.

Independent assessments of the effectiveness of the system of internal financial control

4. The effectiveness of the Council's internal financial control framework as a whole is subject to annual review by its external auditors, with the principal findings of the most recent annual assessment reported to the Governance, Risk and Best Value Committee in November 2021 (as part of the Council's Annual Audit). This assessment did not result in the identification of any significant weaknesses in these systems.

5. As with other systems across the Council, some aspects of the financial control framework have had to be adapted to a home-working environment following the COVID-19 pandemic but with the emphasis consistently being on obtaining assurance in a different way rather than compromising or relaxing existing controls. Specific contingency plans had been developed in areas where service continuity is most crucial, including Financial Systems, Procurement, Treasury Management, Council Tax collection, Benefits Processing, Payroll and Supplier Payments. These plans have worked effectively following enforced offsite working and performance against a range of key targets in these areas has largely been maintained.

6. A number of specific finance- and procurement-related risks and corresponding mitigating actions linked to the COVID-19 emergency were identified for inclusion in the Council Incident Management Team (CIMT) Risk Management Plan and have continued to be actively monitored during 2021/22. While the financial and economic risk category was assigned "critical" status in the period to December 2020, following confirmation that pressures had been appropriately reflected and managed and offsetting sources of funding identified, this was revised to "high" and then subsequently to "medium" later in 2021, albeit with continuing implications for the Council's medium- to longer-term sustainability. Further commentary on this aspect is included later in this statement.

7. The Finance Division has also taken forward, or embedded, a number of specific audit actions during the year, including:

   (i) working with Digital Services, creating a Shadow ICT Register and producing associated guidance on expected content of contracts for shadow IT/cloud-based systems;

   (ii) identifying critical suppliers and supply chain-associated risks in connection with the UK's exit from the European Union;

   (iii) improving contract management arrangements for high-risk contracts;

   (iv) reconciling the NSL Apply system and CEC ledger to confirm on-going accuracy of parking fee income received;

   (v) documenting end-to-end procedures for the Edinburgh and South East Scotland City Region Deal funding process;

   (vi) reviewing the Council's budget-setting process, including conducting an annual "lessons learned" exercise, producing process guidance for budget managers and better aligning project management and savings template documentation;

   (vii) enhancing financial systems training, with evidence of attendance/completion required prior to granting of systems access; and

   (viii) improving oversight and consistency of a range of financial models, including a half-yearly risk-based peer review.

8. A review of the Council's capital budget-setting and management processes undertaken in early 2022 concluded that current arrangements were effective. A report on the procedures and processes for administration of the Transfer of the Management of Development Funds (TMDF) Grants also found these to be effective.

9. Progress in implementing the resulting actions is regularly considered by the Finance Management Team. As of the time of writing, there are no Finance-led actions where relevant work is not underway, with improved arrangements to track progress also now in place. In the coming days,

however, I anticipate receiving a report setting out required improvements to compliance with payment card industry data security standards and, working with colleagues in Customer and Digital Services, implementation of these actions will be a priority going forward.

10. As part of the Accounts Commission's national studies, an assessment was also reported in May 2020 of the Council's arrangements for the **prevention and detection of fraud in procurement**. The report highlighted only one moderate-level risk (the need to ensure checking of invoice sums with contract rates prior to payment authorisation), a reminder for which was sent to all relevant managers. A number of other areas of good practice were also identified, consistent with the Council's high Procurement and Commercial Improvement Programme (PCIP) rating.

Role of Internal Audit

11. The Internal Audit section operates in accordance with the Chartered Institute of Public Finance and Accountancy's United Kingdom Public Sector Internal Audit Standards (PSIAS). The Section undertakes an annual programme based on an agreed audit strategy. The plan is based on formal assessments of risk and audit needs which are reviewed regularly to reflect evolving risks and changes within the Council. During 2021/22, the section reported to the Head of Legal and Assurance. It also has, however, unfettered access to the Chief Executive, Executive Directors, Service Directors (including the Service Director: Finance and Procurement) and elected members of the Council when required.

12. The Chief Internal Auditor will present her annual audit opinion on the adequacy and effectiveness of the system of internal control (including financial controls) to the Governance, Risk and Best Value Committee in August 2022. Whilst noting positive trends in the overall assessments for recently-issued audit reports and significant progress in addressing overdue findings, given the equivalent assessments in recent years, the opinion is expected to highlight a continuing need for enhancements to the control environment and associated governance and risk management frameworks. The required control improvements implicit in this opinion will be examined and any corresponding necessary actions as they relate to financial systems implemented as a matter of urgency.

Elements of system of internal financial control

13. The existing system of internal financial control is based on a framework of regular management information, financial rules and regulations, administrative procedures (including segregation of duties), management supervision and a scheme of delegation and accountability. This system of control has been modified, where appropriate, to take account of the impacts of the pandemic, although as noted above this has been with a view to obtaining equivalent assurance in a modified way. The system is maintained and developed by Council management and includes:

- **comprehensive budgeting systems**;
- **preparation and regular review of periodic reports that measure actual financial performance against budgeted net expenditure**. Given the unprecedented nature and scale of the financial challenges facing the Council in 2020/21, the frequency of reporting to the Corporate Leadership Team and elected members (through the Leadership and Advisory

Panel, Policy and Sustainability Committee and Finance and Resources Committee) was greatly increased, with a focus not only on the immediate in-year position but estimated implications for the budget framework in future years. This reporting frequency was relaxed somewhat in 2021/22, albeit still at an enhanced level relative to pre-COVID periods. A revenue budget-setting and management internal audit undertaken in 2020 identified a number of areas of good practice but with some opportunities for improvement highlighted through the adoption of standardised documentation and procedures and regularising formal "lessons learned" exercises after each year's process, with a corresponding action plan agreed and relevant actions now largely completed;

- **agreement of targets against which financial and operational performance can be assessed.** Key amongst these financial targets is the achievement of a balanced Council-wide revenue outturn. While 2021/22 has again been subject to significant expenditure and income-related impacts of the pandemic, thanks to savings in service and corporate budgets, a provisional in-year underspend of £3.8m was achieved, alongside not requiring to draw down planned sums from reserves to offset in-year COVID-related impacts. Despite the impacts of the pandemic, it was also encouraging to note that the provisional proportion of approved savings delivered, at 89%, continued the improving trend from 2020/21;
- **clearly-defined capital and other expenditure guidelines** communicated to services and set out in the Finance Rules which were refreshed in June 2019. The Financial Regulations were also reviewed and minor amendments to their content approved in August 2020;
- a **five-year revenue budget framework and ten-year capital strategy** approved by Council in February 2022. The Council's Best Value Assurance Review encouraged the Council, once the recurring impacts of the pandemic become clearer, to continue to look at opportunities to adopt medium- to longer-term financial planning. It is my intention to bring a report setting out the basis of a balanced five-year revenue plan, with a particular emphasis on the earlier years, to members later in the year prior to initiating a period of public consultation;
- **formal project management disciplines** as supported and promoted through the Strategy and Communications section, including senior Finance representation on all major project boards and assurance review panels; and
- **formal governance arrangements operated within both subsidiary and associated companies**, complemented by a strengthened Council observer role. Service Level Agreements are also in place for finance-related services provided to a range of external bodies. In recognising the scale of the pandemic's operational and financial impacts on their activities, I also met with representatives of the Council's main Arm's-Length External Organisations (ALEOs) on a monthly basis during 2020/21, as well as regularly reporting these impacts to the Finance and Resources Committee, including two dedicated sessions to explore the issues concerned in greater depth. These meetings continue, albeit on a revised frequency.

14. My review of the effectiveness of the internal financial control system is informed by:

- **assurance certificates** on internal control received from all Executive Directors of the Council, service areas and relevant service heads;

- **regular senior management-level consideration of progress in implementing internal audit recommendations**, including self-attestation of previous actions where relevant;
- **governance arrangements in place for subsidiary and associated companies** and an on-going assessment of the effectiveness of these arrangements;
- the **work of managers** within the Council;
- the work of **Internal Audit**; and
- **external audit reports**, in particular the independent annual report on the Council's financial statements and internal control framework.

15. The Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer (2014) as set out in the Application Note to Delivering Good Governance in Local Government Framework, an opinion confirmed as part of recent external audit scrutiny. Having reviewed the framework, it is therefore my opinion that **although a degree of assurance can be placed upon the adequacy and effectiveness of the Group's systems of internal financial control, further improvements, including some embedding of actions taken in response to previous recommendations, are still required**.

16. I have overseen the improvements put in place in response to Finance-specific recommendations made by internal and external audit work during the year, with a number of actions additionally currently, or soon to be, in progress. This said, the extent of change and reduction in overall resources in recent years has reinforced the importance of robust, documented and well-understood procedures for key system controls and, in light of the follow-up audits undertaken by both internal and external audit, a priority continues be to consolidate these improvements, identify any further required actions and gain necessary assurance by regularly assessing their effectiveness. These arrangements have been thoroughly tested during the COVID pandemic and, across the piece, have performed well although there is always room for improvement.

CIPFA Financial Management Code

17. 2021/22 marks the first full year of implementation of the requirements of the CIPFA Financial Management (FM) Code. The Code is designed to support good practice and assist councils in demonstrating their financial sustainability and resilience by setting out expected standards of financial management.

18. My initial assessment, carried out with reference to the 2021/22 budget process and involving interviews with a range of key stakeholders including service directors, elected members and colleagues within partner services, highlighted a number of recent improvements contributing positively to the Council's financial resilience and stability, including:

(i) realigning and reprioritising the Council's reserves to enable the creation of a £16m COVID-specific contingency whilst also increasing the level of the unallocated general reserve to £25m;

(ii) incorporating within the budget framework explicit provision for underlying service pressures and anticipated shortfalls in savings delivery, all based on detailed discussion with members of the Corporate Leadership Team;

(iii) reflecting within the budget framework, insofar as is practicable at this stage given the on-going nature of the pandemic, increased provision for its continuing impacts, particularly for losses of income; and

(iv) dedicated investment in prevention-related resource which, if used effectively, should make a contribution towards future years' savings requirements, as well as improving outcomes for service users.

19. Improvements then introduced for the 2022/23 process included the following:

(i) finalisation of financial management guidance and communication to the Wider Leadership Team;

(ii) development of a fully-funded 2022/32 capital investment programme (albeit with full funding strategies for large-scale initiatives such as the City Plan, City Centre Transformation Plan and City Mobility Plan still to be developed);

(iii) earlier publication of the schedule of proposed fees and charges for 2022/23; and

(iv) further recognition of underlying service pressures and estimated recurring COVID-related impacts within the budget framework, alongside review of other key assumptions.

20. These steps build on a number of aspects already in place that are conducive to enhancing the Council's longer-term financial sustainability including (i) regular reviews, reported to both CLT and elected members, of revenue and capital budget planning assumptions, (ii) close working between the CLT and the Coalition Budget Core Group and (iii) development of updated, detailed and consistently-applied guidance for Finance staff used to assess savings implementation plans and mitigation of service budget pressures. I also intend to undertake a customer and staff survey, based on the good practice guidelines included in the FM Code, during 2022.

21. While the above position reflects a number of positive aspects, I have continued to impress upon all elected members the need for additional savings proposals to be brought forward if the Council's financial sustainability is to be maintained.

22. The urgent need to initiate a structured medium to longer-term savings programme was also highlighted in both the Council's Best Value Assurance Report and the external auditor's report for 2020/21. In recognising this urgency, Directorates have been asked to develop potential options, captured by means of a standard template detailing service and performance impacts, risks and dependencies, with reference to the priorities set out in the Council's business plan. These proposals will be subject to a process of co-design between the incoming administration and officers and form the basis of public consultation in Autumn 2022. Given the extent of the

challenge noted above, members will likely need to make increasingly difficult choices about the Council's priorities, including considering service reductions, across all service areas to maintain expenditure in line with available income.

23. In addition to the Council's own activities, I have considered the immediate and potential on-going impacts of the pandemic on major projects within the city, including the St James Centre Growth Accelerator Model (GAM), Tram Extension and Edinburgh International and Conference Centre (EICC) Hotel project. There has, and continues to be, a need to revisit relevant business cases in light of these significant changes in the external environment and I will therefore keep all under active review in the coming months.

24. Consideration of the FM Code has also highlighted a number of areas where I assess further actions are potentially required going forward, including a need, in some cases, for more systematic options appraisal to be undertaken. In addition, improvements could be made to the effectiveness of current service arrangements in demonstrating value for money, including their contribution to broader Council objectives. Relevant actions will continue to be taken forward with CLT colleagues.

Hugh Dunn
Service Director: Finance and Procurement
31 May 2022

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Appendix 3

Annual Report 2022
of
Lothian Pension Fund
and
Scottish Homes Pension Fund

"Statement on the system of internal financial control

for the year ended 31 March 2022"

Section 95 of the Local Government (Scotland) Act 1973 states that "every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs". Service Director: Finance and Procurement serves as the Section 95 Officer for all of the City of Edinburgh Council's accounting arrangements, including those of the Lothian Pension Fund and Scottish Homes Pension Fund. For the pension funds, however, this Section 95 responsibility has been delegated to the Chief Finance Officer, Lothian Pension Fund.

In compliance with standard accounting practice, the Chief Finance Officer, Lothian Pension Fund, is required to provide the Chief Executive Officer with a statement of the effectiveness of the internal financial control system of the Funds for the year ended 31 March 2022.

The Funds place reliance upon the internal financial controls within the City of Edinburgh Council's financial systems and the monitoring in place to ensure the effectiveness of these controls. Accordingly, the "Statement on the system of internal financial control" by Hugh Dunn, Head of Finance, City of Edinburgh Council, dated 31 May 2022, refers.

Within this overall control framework, specific arrangements for the Lothian Pension Fund and Scottish Homes Pension Fund are detailed in the Annual Governance Statement. These include:

- identifying the objectives of the Funds in Funding Strategy Statement, Statement of Investment Principles and Service Plan;
- a systematic approach to monitoring service performance by the Pensions Committee, Pensions Audit Sub-Committee, senior officers and stakeholders, including the Pension Board and Independent Professional Observer;
- a structured programme to ensure that Pension Committee members have the required standard of knowledge and understanding of Local Government Pension Scheme matters;
- operating within clearly established investment guidelines defined by the Local Government Pension Scheme Investment Regulations and the Funds' Statements of Investment Principles;
- compliance with the CIPFA Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme;
- with the exception of managed funds, unlisted investments and property, all investments are held under custody by a global custodian. The Funds benefit from the custodian's extensive internal control framework;
- benchmarking of services in terms of standards and cost against other Local Government Pension Scheme funds, other public service pension schemes and private sector funds;
- LPFE and LPFI operating within their respective constitutional documentation and the relevant company regulations;

- LPFI operating within the relevant governance policies and procedures to ensure compliance with the Financial Conduct Authority regulations

The internal audit function for Lothian Pension Fund and Scottish Homes Pension Fund is provided by the City of Edinburgh's Chief Internal Auditor and forms part of our assurance framework. Based on audit reviews undertaken and liaison with the Chief Internal Auditor to-date, suitable reliance can continue to be placed upon the LPF control environment and governance and risk management frameworks.

It is my opinion, therefore, that reasonable assurance can be placed upon the adequacy and effectiveness of the system of internal financial control for the LPF Group in administering the Lothian Pension Fund and Scottish Homes Pension Fund.

John Burns, FCMA CGMA, PgC
Chief Finance Officer,
Lothian Pension Fund

06 June 2022

Pensions Committee

29 June 2022, 2pm

Lothian Pension Fund - Internal Audit Opinion and Annual Report for the Year Ended 31 March 2022

1. Recommendations

The Pensions Committee is requested to:

- note the Internal Audit opinion for Lothian Pension Fund (LPF) for the year ended 31 March 2022.

Lesley Newdall

Head of Audit and Risk / Chief Internal Auditor

Legal and Assurance Division, Corporate Services Directorate

E-mail: lesley.newdall@edinburgh.gov.uk | Tel: 0131 469 3216

Lothian Pension Fund - Internal Audit Opinion and Annual Report for the Year Ended 31 March 2022

2. Executive Summary

2.1 This report details Internal Audit's (IA) annual opinion for Lothian Pension Fund (LPF) for the year ended 31 March 2022. Our opinion is based on the outcomes of four audits included in the LPF 2021/2022 IA annual plan, and the status of LPF's open and overdue IA findings at 31 March 2022.

2.2 IA considers that the LPF control environment and governance and risk management frameworks require some improvement, and is therefore reporting a limited 'amber' (some improvement required) rated opinion (see Appendix 1), with our assessment towards the lower end of this category, moving towards the green (effective) category, which is aligned with the 2020/21 IA opinion.

2.3 This opinion is 'limited' as IA does not provide assurance across the full population of LPF risks.

2.4 Consequently, the Committee should consider the assurance outcomes provided by other sources when forming their view on the design and effectiveness of LPF's control environment and governance and risk management frameworks.

2.5 The key themes emerging from the outcomes of the four completed 2021/22 audits confirm that whilst LPF continues to effectively manage the risks associated with ongoing operational fund management activities, further improvement to both the established risk and project management frameworks would be beneficial. These areas for improvement are particularly important as LPF may now be moving into a period of significant strategic and operational change.

2.6 LPF management has advised that activities are in progress to further improve the established risk and project management frameworks, including enhanced technology and change governance arrangements; leveraging good practice from external project management consultants engaged to support LPF; and establishing a new supplier management framework. It is IA's opinion that if these frameworks are appropriately designed and effectively implemented, this will support more effective delivery of projects and identification; assessment; and ongoing management or both strategic and operational risks.

3. Background

3.1 The Public Sector Internal Audit Standards (PSIAS) provide a coherent and consistent internal audit framework for public sector organisations. Adoption of the PSIAS is mandatory for IA teams within UK public sector organisations, and PSIAS require annual reporting on conformance.

3.2 It is the responsibility of the Council's Chief Internal Auditor to provide an independent and objective annual opinion on the adequacy and effectiveness of LPF's control environment and governance and risk management frameworks in line with PSIAS requirements. The opinion is usually provided to the Pensions Audit Sub-Committee, and should be used to inform the LPF Annual Governance Statement.

3.3 Our opinion is based on the outcome of LPF audits completed in the 2021/22 financial year, and the status of open internal audit findings at 31 March 2022.

3.4 Whilst LPF's dependence on the City of Edinburgh Council for support services has significantly reduced following the transition of LPF technology services from the Council to external third parties, some elements remain (for example, dependence on Procurement; Information Governance; and Committee Services). Consequently, we have considered the outcomes of any relevant audits completed in these areas as part of the LPF annual opinion.

3.5 The Council's 2021/22 annual IA opinion will be presented to the Governance, Risk, and Best Value Committee in August 2022. A further update will be provided to the next Pensions Committee on the potential impact of the Council's annual opinion outcomes on LPF.

4. Main Report

4.1 2021/22 Internal Audit Opinion

4.1.1 IA considers that the LPF control environment and governance and risk management frameworks require some improvement, and is therefore reporting a limited 'amber' rated opinion (see Appendix 1), with our assessment towards the lower end of this category, moving towards the green (effective) category, which is aligned with the 2020/21 IA opinion.

4.1.2 The opinion reflects some moderate and minor areas of weakness in the LPF control environment and governance and risk management frameworks identified from the audits performed, and the risks associated with open IA findings as at 31st March 2022 that could potentially impact achievement of LPF's organisational objectives.

4.1.3 The opinion is 'limited' as IA does not provide assurance across the full population of LPF risks.

4.1.4 IA is not the only source of assurance provided to LPF as there are a number of additional assurance sources (for example, external audit who provide assurance on the LPF financial statements and key financial controls, and reviews performed by BDO; Mercer; and Bridewell) that the Committee should consider when forming their view on the design and effectiveness of the LPF control environment and governance and risk management frameworks.

4.1.5 This opinion is subject to the inherent limitations of IA (covering both the control environment and the assurance provided over controls) as set out in Appendix 2.

4.2 Audit outcomes

4.2.1 Four IA reviews were completed during the year, with three assessed as 'Effective' (green); and one as 'Some Improvement Required' (amber). Further detail is included below and also at Appendix 3.

Technology Model Development – some improvement required (amber)

4.2.2 Our review of the key project management controls established to support implementation of the new LPF technology and assurance arrangements confirmed that whilst the project was effectively delivered, some improvement was required. This outcome reflected a significant key person dependency for project delivery, and the need to improve project governance, risk management, and testing arrangements.

4.2.3 Three medium (amber) rated IA findings were raised highlighting the need to ensure that for future projects:

- a project risk appetite is established to support decision making;
- more granular plans are developed to support elements of the project (for example data cleansing and migration);
- assurance recommendations are recorded and their implementation progress monitored throughout the project;
- comprehensive 'go/no go' decision criteria are established;
- all project decisions are recorded; and
- a post implementation review is completed.

Risk Management – Some Improvement Required (green)

4.2.4 Our review of LPF's risk management arrangements confirmed that the established risk management processes and governance arrangements are appropriately designed given the size and scale of LPF, and operating effectively.

4.2.5 One medium and two low rated findings were raised reflecting the need for LPF to:

- confirm completeness of the current population of corporate risks and align them with strategic objectives;
- provide a clear definition for ratings currently used to assess risk;
- ensure that risks and controls are clearly articulated in operational risk registers;
- include risk management training in the new employee induction process.

4.2.6 Whilst the overall report rating and the rating of findings raised have been agreed, LPF and IA are currently agreeing LPF's management responses to IA's recommendations. It is expected that these will be finalised by September 2021, with the final report then presented to the Pensions Audit Sub-Committee for review and scrutiny.

Capital Calls – effective (green)

4.2.7 We confirmed that the LPF capital calls process (where investment firms drawdown of a portion of funds committed to them by an investor) was adequately designed and operating effectively, providing assurance that all capital calls are processed in line with established capital call agreements.

4.2.8 One low rated finding was raised reflecting the need to update one procedure document supporting the capital calls process.

Employer Contributions

4.2.9 We also confirmed that the LPF employers contribution process was adequately designed and operating effectively, providing assurance that employer contributions are paid to the Fund in line with Fund regulations and requirements.

4.2.10 Four low rated findings were raised highlighting the need to:

- regularly review policies and procedures to confirm alignment with current legislation and work practices;
- ensure that all differences between actual and expected employer contributions are investigated and resolved in a timely manner;
- recommend that the Pensions Committee delegates authority to LPF to deal with an exceptions that fall below an agreed materiality threshold;
- upgrade the technology portal currently used to enable automated comparison between actual and expected contributions.

4.3 Status of Internal Audit Findings as at 31 March 2022

4.3.1 LPF had one medium overdue IA finding as at 31 March 2022 that related to the Settlement and Custodian Services review completed in June 2020 highlighting the need to improve regulatory and risk management oversight of custodian processes performed by Northern Trust.

4.3.2 Evidence had been provided by LPF on 9th February 2021 to support closure of this finding, however this did not fully address the risks raised in the original finding.

4.3.3 Implementation progress was then reviewed as part of the Risk Management audit completed in June 2022, and this finding has now been closed. Management has also confirmed that supplier risks will be an area of focus in the new supplier management framework that is currently being implemented.

4.4 Comparison to prior year

4.4.1 An amber rated opinion was also reported in 2020/21 with IA's assessment towards the lower end of this category.

4.4.2 A direct comparison between annual Internal Audit opinions is not always possible as the scope of the audits included in the annual plans and the risks associated with open and overdue IA findings will vary in line with the changing LPF risk profile.

4.4.3 The 2020/21 low-category amber rated opinion was directly attributable to the outcomes of the two reviews completed, assessed as amber (some improvement required); and green (effective) with a total of 4 (1 high; 2 medium; and 1 low) IA findings raised.

4.4.4 Similarly, the outcomes of the four LPF audits completed in the 2021/22 financial year were assessed as one amber (some improvement required) and three green (effective) with a total of 12 (4 medium; and 8 low) IA findings raised, resulting in the assessment remaining at the lower end of this category.

4.4.5 This increased number of findings is mainly attributable to the nature of the areas reviewed (most notably the project management framework, which is an essential part of the LPF strategy) and their associated risks, and the increased number of audits (four) completed in the current year in comparison to 2020/21 (two).

4.4.6 Additionally, the status of open IA findings at 31 March 2022 remains aligned with the same medium rated finding remaining overdue. This finding has now been closed on the basis of work completed in the 2021/22 Risk Management review, and management's confirmation that ongoing focus on supplier risk will be included in the new supplier management framework that is currently being implemented.

4.4.7 Further detail is included at Appendices 3 and 4.

4.5 Internal Audit Independence and Conformance with Public Sector Internal Audit Standards

4.5.1 PSIAS require that IA must be independent and that internal auditors must be objective in performing their work. To ensure conformance with these requirements, IA has established processes to ensure that both team and personal independence is consistently maintained and that any potential conflicts of interest are effectively managed.

4.5.2 We do not consider that we have faced any significant threats to our independence during 2021/22, nor do we consider that we have faced any inappropriate scope or resource limitations when completing our work.

4.5.3 IA has fully conformed with PSIAS requirements during the period 1 April 2021 to 31 March 2022.

5. Financial impact

5.1 There are no direct financial impacts arising from this report, although failure to close IA findings raised and address the associated risks in a timely manner may have some inherent financial impact where associated financial risks have been identified.

6. Stakeholder/Regulatory Impact

6.1 IA findings are raised as a result of control gaps or deficiencies identified during audits. If agreed management actions are not implemented to support closure of Internal Audit findings, LPF will be exposed to the risks set out in the relevant IA reports.

7. Background reading/external references

7.1 Public Sector Internal Audit Standards

7.2 Agile Auditing and Consultancy Support – Paper 8.2

8. Appendices

Appendix 1	Internal Audit Annual Opinion Definitions
Appendix 2	Limitations and responsibilities of internal audit and management responsibilities
Appendix 3	Prior Year Comparisons
Appendix 4	Status of LPF Internal Audit Findings at 31 March 2022
Appendix 5	Final report – Risk Management

Appendix 1 – Internal Audit Annual Opinion Definitions

The PSIAS require the provision of an annual Internal Audit opinion, but do not provide any methodology or guidance detailing how the opinion should be defined. We have adopted the approach set out below to form an opinion for Lothian Pension Fund.

We consider that there are 4 possible opinion types that could apply to LPF. These are detailed below:

1. Effective	The control environment and governance and risk management frameworks have been adequately designed and are operating effectively, providing assurance that risks are being effectively managed, and the Council's objectives should be achieved.
2. Some improvement required	Whilst some control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks, they provide reasonable assurance that risks are being managed, and the Council's objectives should be achieved.
3. Significant improvement required	Significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks. Consequently, only limited assurance can be provided that risks are being managed and that the Council's objectives should be achieved.
4. Inadequate	The design and / or operating effectiveness of the control environment and / or governance and risk management frameworks is inadequate, with a number of significant and systemic control weaknesses identified, resulting in substantial risk of operational failure and the strong likelihood that the Council's objectives will not be achieved.

Professional judgement is exercised in determining the appropriate opinion, and it should be noted that in giving an opinion, assurance provided can never be absolute.

Appendix 2 - Limitations and responsibilities of internal audit and management responsibilities

Limitations and responsibilities of internal audit

The opinion is based solely on the internal audit work performed for the financial year 1 April 2021 to 31 March 2022. Work completed was based on the terms of reference agreed with management for each review. However, where other matters have come to our attention that are considered relevant, they have been considered when finalising our reports and the annual opinion.

There may be additional weaknesses in the LPF control environment and governance and risk management frameworks that were not identified as they were not included in the 2021/22 LPF annual internal audit plan; were excluded from the scope of individual reviews; or were not brought to Internal Audit's attention. Consequently, management and the Committee should be aware that the opinion may have differed if these areas had been included, or brought to Internal Audit's attention.

Control environments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and the impact of unplanned events.

Future periods

The assessment of controls relating to LPF is for the year ended 31 March 2022. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other areas; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Audit

It is Management's responsibility to develop; implement; and maintain effective control environments and governance and risk management frameworks that are designed to prevent and detect irregularities and fraud. Internal audit work should not be regarded as a substitute for Management's responsibilities for the design and operation of these controls.

Internal Audit endeavours to plan its work so that it has a reasonable expectation of detecting significant control weaknesses and, if detected, performs additional work directed towards identification of potential fraud or other irregularities. However, internal audit procedures alone, even when performed with due professional care, do not guarantee that fraud will be detected. Consequently, internal audit reviews should not be relied upon to detect and disclose all fraud, defalcations or other irregularities that may exist.

Appendix 3 – Prior Year Comparisons

	2021/22				2020/21				2019/20				2018/19				2017/18			
Annual Opinion	**Some Improvement Required**				**Some Improvement Required**				**Some Improvement Required**				**Some Improvement Required**				**Significant Improvement Required**			
Reviews Completed	1. Technology Model Development 2. Capital Calls 3. Employer Contributions 4. Risk Management				1. Bulk Transfers 2. Cessations				1. Charles River 2. Pension Entitlement 3. Settlement and Custodian				1. Stock Lending 2. Unitisation 3. Unlisted Investment Valuations and Admin Fees and Charges				1. Information Governance 2. IT Business Resilience / Disaster Recovery 3. Payroll Outsourcing 4. Pensions Tax			
Findings raised	High	Med	Low	Total	High	Med	Low	Total	High	Med	Low	Total	High	Med	Low	Total	High	Med	Low	Total
	-	4	8	12	1	2	1	4	1	3	3	7	-	1	1	2	4	3	4	11
Overdue Findings	-	1	-		-	1	-	1	1	1	-	2	1	3	3	7	1	1	-	2

Key:

Green narrative – effective (green) audit outcome

Amber narrative – some improvement required (amber) audit outcome

Red narrative – significant improvement required (red) audit outcome

Appendix 4 – LPF Overdue Internal Audit Findings as at 31 March 2022

Review	High	Medium	Low	IA Recommendation	Status - 31st March 2022
Settlement and Custodian Services – Regulatory and Risk Management Oversight (June 2020)	-	1	-	1. Lothian Pension Fund (LPF) should maintain details of all relevant regulatory requirements that are applicable to custodian activities and confirm (via the established supplier management process and review of agreed regulatory key performance measures) that these continue to be applied by Northern Trust (NT). 2. LPF should record the specific risks associated with delivery of custodian services by NT. Any new and emerging risks and actions to address them identified at regular supplier management meetings and site visits should also be recorded, with resolution progress monitored at ongoing supplier management meetings. Any significant custodian risks should also be escalated for inclusion in the LPF risk register.	Overdue (13 months) - original due date was 30th September 2020. Finding was proposed for closure by LPF on 9th February 2021, however this did not fully address the risks raised in the original finding. The finding was then agreed as part of the Risk Management review completed in June 2022. The finding has now been closed based on work completed during the 2021/22 Risk Management audit. Management has also confirmed that supplier risks will be an area of focus in the new supplier management framework that is currently being implemented.

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Pensions Committee

2.00pm, Wednesday, 29 June 2022

Statement of Investment Principles

1. Recommendations

The Pensions Committee (Committee) is requested to:

1.1 adopt the revised Statement of Investment Principles.

David Vallery
Chief Executive Officer, Lothian Pension Fund

Contact: Bruce Miller, Chief Investment Officer, Lothian Pension Fund

E-mail: Mil33B55@lpf.org.uk | Tel: 0333 996 1904

Statement of Investment Principles

2. Executive Summary

2.1 The report presents the Statement of Investment Principles (SIP) for Lothian Pension Fund and Scottish Homes Pension Fund (The Funds). It was last reviewed by Committee in June 2021.

2.2 The investment strategies approved by the Committee in June 2021 are detailed in Appendix A.

2.3 There are no material changes to the SIP, but it notes that the Funds have become a signatory to the Financial Reporting Council's Stewardship Code 2020, demonstrating achievement of the high stewardship standards that it sets. It also presents the changes to investment strategy implementation over the year to end March 2022 in Appendix B.

2.4 The Joint Investment Strategy Panel (JISP) reviewed and recommended approval of the revised SIP in June 2022.

3. Background

3.1 The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 require administering authorities to prepare, maintain and publish a written Statement of Investment Principles.

3.2 The SIP is an important part of the Fund's governance arrangements and provides the framework within which the Committee delegates the implementation of the investment strategy, as defined by the policy (asset class) groups, to officers with advice from the Joint Investment Strategy Panel. Committee retains responsibility for investment strategy.

4. Main Report

4.1 The Statement of Investment Principles (SIP) is formally reviewed by Committee annually whether there are changes or not. It takes advice from officers and advisers of the Joint Investment Strategy Panel (JISP). At its meeting in early June 2022, the JISP confirmed its belief that the SIP satisfies Committee's statutory duty and is an accurate reflection of current advice, which includes reconsideration of long-term investment strategy following the triennial actuarial valuation.

4.2 The SIP describes the Funds' investment strategies as allocations to various asset categories, or Policy Groups. These asset allocations and the investment performance of the Funds are reviewed annually and are the subject of a separate paper on the agenda. The investment strategies, presented in Appendix A, have not changed since June 2021.

4.3 There are no material amendments to the SIP.

4.4 Appendix B presents the changes to investment strategy implementation over the year ending 31 March 2022.

4.5 The FRC introduced a new Stewardship Code in 2020. This is a voluntary code for asset owners, asset managers and service providers, who support its principles. These are listed in Appendix C. The code aims to promote responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy. The Fund made a submission during 2021, and following the FRC's assessment, it has successfully become a signatory. The full submission, which is the Fund's Stewardship Report, can be found on the Fund's website.

4.6 Appendix D presents the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Funds' compliance with them.

5. Financial impact

5.1 There are no direct financial implications of this report. Investment strategy is covered elsewhere on the agenda.

6. Stakeholder/Regulatory Impact

6.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the fund and they are invited to comment on the relevant matters at Committee meetings.

6.2 There are no adverse governance, compliance or regulatory implications as a result of this report.

7. Background reading/external references

7.1 None.

8. Appendices

Appendix 1 – Statement of Investment Principles including:

- Appendix A – Investment Strategies (29 June 2022)
- Appendix B – Investment Strategy Implementation (29 June 2022)
- Appendix C – UK Stewardship Code 2020 - Principles
- Appendix D – Statement of Compliance with the CIPFA Principles for Investment Decision Making in the Local Governance Pension Scheme

Appendix 1

LOTHIAN
PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES 2021

INTRODUCTION

This Statement of Investment Principles (SIP) describes the objectives, policies and principles adopted by the Pensions Committee (Committee) of the City of Edinburgh Council (CEC) in undertaking the investment of fund monies. The SIP also discloses the extent to which the Funds comply with the six "Myners Principles" of investment practice.

The SIP was agreed by the Pensions Committee (Committee) of the City of Edinburgh Council (CEC) on 29~~3~~ June 2022~~1~~. CEC is the administering authority for the Lothian Pension Fund and Scottish Homes Pension Fund (the Funds).

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, require administering authorities to prepare, maintain and publish a SIP. The SIP must be reviewed from time to time and revised within six months of any material changes in the Policy.

In preparing this statement, the Committee has taken professional advice from the Joint Investment Strategy Panel (JISP), which includes external advisers and members of the internal investment team who are FCA authorised individuals.

GOVERNANCE

CEC has delegated responsibility for the supervision of the Funds to the Committee, which comprises five elected members from CEC and two co-opted members representing employer and beneficiary interests. The Committee is supported by a statutory Pensions Board consisting of five Trade Union and five employer representatives, which is responsible for ensuring that the Funds operate in accordance with the applicable laws and regulations. The Committee and Board are supported by an independent professional observer.

The Committee determines investment strategy based on proper advice from CEC's Executive Director of Resources. The Executive Director of Resources delegates this role to the Service Director - Finance and Procurement taking advice from the JISP.

Responsibility for implementing the strategy is also delegated to the Executive Director of Resources who delegates this role to the Service Director - Finance and Procurement, taking advice from the JISP. Day to day management of the Fund's assets is undertaken by internal investment managers, and external investment managers whose activities are governed by Investment Management Agreements and the limits set out in Scheme regulations.

The SIP forms part of a governance framework that includes Statutory Regulations, the Pensions Committee, the Pension Board, the Joint Investment Strategy Panel, the Funds' Advisers and the Funds' Funding Strategy Statement.

HIGH LEVEL INVESTMENT PRINCIPLES

The following principles agreed by the Committee are designed to guide the Funds' governance, strategies and alignment with their agents and to support consistency in decision-making over the long term.

Governance

Principle 1: Committee believes that their decisions, and those of officers, must give precedence to the fiduciary duty owed to members and employers.
Fiduciary duty is paramount. The Pensions Committee recognises the potential conflicts of interests inherent in a local authority administering a multi-employer pension fund. The objectives of the administering authority, its officials and officers and those of the pension fund are not necessarily the same. The primary objective is to ensure sufficient funding in the long term so that retirement benefits that employers promise to members under scheme rules can be paid when they fall due. (The legal view on fiduciary duty issued by the Scottish Local Government Pension Scheme Advisory Board is available at https://lgpsab.scot/fiduciary-duty-guidance/.)

Principle 2: Committee believes that the Funds should mitigate risk by ensuring alignment of interests wherever possible.
Agency costs are high in the financial services industry – agents are often motivated to act in their own best interests rather than those of the principal (the Funds). Alignment of interests and partnering with similarly aligned organisations will help to reduce risk and address the principal-agency problem to the benefit of the Funds and partners. External resources should, therefore, be used where internal resources cannot be justified or obtained, or where an external perspective provides additional skills or insight into investment matters, and where suitable alignment can be established.

Principle 3: Committee believes that it should work with like-minded partners to benefit from increased scale and greater resilience.
There are significant economies of scale in the business of managing investments, so working with like-minded partners with similar long-term objectives and liabilities can achieve lower costs and reduce operational risks with increased resilience.

Principle 4: Committee believes that cost transparency aids decision-making.
The asymmetric structure of incentives in financial markets (upside participation in success without downside participation in failure) encourages strategies that may benefit agents (external managers and other financial intermediaries) and be detrimental to investor (Fund) returns. Agents often present fees and other charges in a way that obscures rather than illuminates. Full cost transparency should aid decision-making and so benefit Fund returns.

Principle 5: Committee believes it should focus on policy setting, including high-level strategic asset allocation which defines risk and return objectives, with appropriate governance structure and oversight.
Implementation of more granular investment decisions (such as the selection/deselection of individual managers and investments) and regular monitoring should be delegated to suitably qualified and experienced individuals with sufficient time and other resources at their disposal. Appropriate delegation, constraints and reporting requirements should be in place. Reporting to Committee should focus on the long-term objectives of the Fund and how delegated decisions have contributed to these.

Funding

Principle 6: Given future uncertainties, the funding strategy should be prudent and should reduce risk to employers of another employer defaulting on its pension obligations.
The Funding Strategy Statement expresses the funding objective, which informs the investment strategy options. The ultimate objective is to ensure long-term solvency so that retirement benefits that employers promise to members under scheme rules can be paid when they fall due, so full funding should be achieved in a prudent manner to ensure that liquid assets are available at the required time. This is important for members, employers and taxpayers as the scheme is ultimately state-backed.

Principle 7: Committee believes that the Lothian Pension Fund should consider requests for different investment strategies from employers with different objectives.
Employers have conflicting desires: on the one hand, they'd like to minimise the fluctuations in contributions and on the other hand, they'd like to minimise the overall amount of contributions. Committee believes in allocating employers to different investment strategies reflecting their timescale for participation in the Fund and their covenant. Employers may have different objectives, so they should be given the opportunity to request a bespoke investment strategy. The Fund should consider such requests, taking account of issues such as employer covenant and implementation costs.

Investments

Principle 8: Committee believes that the ability of the Funds to pay pension benefits when they fall due is more important than mark-to-market funding levels.

Committee recognises that there are various ways to measure the value of promised benefits in a defined benefit scheme. Committee believes that where employer circumstances allow, investment strategy should focus on delivering strong (real) returns that grow to cover cashflows over the longer term rather than focusing on protecting the funding level in the short term.

Principle 9: Committee believes 'return-seeking' assets are likely to outperform 'risk-free' assets as the investment horizon lengthens, but this is not guaranteed.

Time horizons matter a great deal. The appropriate horizon for investment risk-taking depends on the duration of the liabilities, the profile of projected cash flows and the deficit recovery and contingency plans for the scheme (the sponsor covenant).

Principle 10: Committee believes in owning a diversified portfolio of assets so that it is not overly exposed to any particular contingency.

Asset diversification can reduce risk where assets are not perfectly correlated. Committee recognises that the future is unpredictable and that real returns from investments are uncertain. Fund returns will be determined primarily by the high-level investment strategy allocation to different asset classes and the timing of material changes. Asset allocation balances diversified risks with the expected additional returns for these risks.

Principle 11: Committee believes that responsible investment should reduce risk and may improve returns, but that mechanistic divestment is inconsistent with the Funds' fiduciary duty to members and employers.

The Local Government Pension Scheme (LGPS) was designed with an important social purpose in mind – the provision of retirement income for individuals. The Funds' fiduciary duty means that the pursuit of financial return is its paramount concern, although it may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment. Committee believes that the decisions to invest in, or divest from, a particular company should be made by an investment manager based on a holistic analysis of financially material issues, including environmental, climate change, social and governance issues.

Principle 12: Committee believes it should exercise its ownership rights in a responsible way, constructively engaging with companies to reduce risk.

The Funds' interests are better protected from adverse impacts by collaborating with like-minded investors to have greater influence in engaging with companies, government and regulators. Engagement aims to encourage responsible behaviour by companies in relation to environmental, climate change, social and governance issues.

Principle 13: Committee believes that monitoring and assessment of investment success should be viewed on a long-term basis.
No asset mix provides a stream of cash flows that perfectly matches the liability payments of the Funds as they fall due, so monitoring activity is complex. The Funds are long term in nature and the success of a given investment strategy is likely to ebb and flow with changing investment environments in an unpredictable way. Investment monitoring is challenging and should be viewed through a long-term lens.

Principle 14: Committee believes that peer group comparative analysis needs to be treated with care.
No two pension funds are identical, so peer group analysis should be undertaken with care as different funds can hold different investment beliefs, objectives and return and risk appetites.

RESPONSIBLE INVESTMENT

With liabilities extending decades into the future, it's in the Funds' interests to take their responsibilities as institutional asset owners seriously. To this end, the Funds' approach to responsible investment centres on effective stewardship of all their assets, with a particular focus on good corporate governance to deliver sustainable investor value.

To demonstrate and embrace an open and transparent approach, the Funds became a signatory of the Principles for Responsible Investment (PRI) in 2008. Signatories commit to six principles and, since 2014, to an annual assessment of their responsible investing practices, which is published on the Funds' website. The Funds demonstrate their open and transparent approach to Responsible Investing by publishing a Statement of Responsible Investment Principles (**SRIP**). This document explains how the Funds practise responsible investment asset class by asset class, and how it's committed to limiting the impact of climate change. The SRIP is published as a standalone document. It represents the Funds' position on Responsible Investment, and it forms part of the Pensions Committee's regular review of Stewardship and Engagement activities.

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting, and Appendix C lists the principles of the FRC's voluntary Stewardship Code 2020. ~~.~~ To become a signatory to the Code, organisations must submit a Stewardship Report to the FRC demonstrating how they have applied the Code's principles. The Funds submitted a report in October 2021, which met the high stewardship standards that the FRC sets. The Funds' Stewardship Report is published as a standalone document. ~~previously published details of their adherence to the FRC's Stewardship Code. The FRC launched a new Stewardship Code with a new and more onerous requirement – the filing of a comprehensive report on Stewardship activity and Responsible Investment policy covering the 12 Principles of the new Stewardship Code, which are listed in Appendix C. The Funds plan to produce a report compliant with the new Stewardship Code during 2021, which it will submit to the FRC for assessment.~~

FUNDS' OBJECTIVES

The **primary objective** of the Funds is to ensure that there are sufficient funds available to meet all pension and lump sum liabilities as they fall due for payment.

The **funding objectives** for each Fund are documented in the Committee's Funding Strategy Statement, which is reviewed at least triennially. The funding objectives, together with the rates of return being targeted and levels of risk to be tolerated, are central to each Fund's investment strategy and govern the allocation across various asset classes.

The **investment objectives** of the Funds are to achieve a return on Fund assets which is sufficient over the long term to meet the funding objectives as outlined in the Funding Strategy Statement. Investment returns are generated by a combination of income (from dividends, interest and rents) and gains or losses on capital.

In effect, the Funds' objectives are to generate sufficient long term returns to pay promised pensions and to make the scheme affordable to employers now and in the future, while minimising the risk of having to increase contribution rates in the future.

Committee has set investment strategy with reference to the following **policy groups,** which are regarded as the key determinants of risk and return. The policy groups condense the vast array of investment choices into a manageable number of investment groups with broadly similar characteristics:

- **Equities** provide an equitable share in the assets and profits of companies. Income is provided through discretionary share dividends. Equities are listed in the UK or overseas, or are unlisted (private equity). Equities have historically produced returns above inflation.

- **Other Real Assets** are typically investments in a share of income and capital appreciation of tangible assets, including **property** (land and/or buildings for commercial or residential use),

infrastructure (assets deemed essential to the orderly functioning of daily life, such as renewable energy generation and transmission assets, water utilities, airports and toll roads) and **timberlands**. Income comes from dividends and rents.

- **Non-Gilt Debt** instruments are issued by a range of borrowers to finance their activities in various sectors of the economy, which means that they carry varying degrees of credit risk. Income is provided through interest, which is typically paid to the lender on a regular basis until the loan capital is repaid, generally at par by the issuer at a pre-determined date. Bonds can pay a fixed, variable or inflation-linked rate of interest. Bonds are either listed in the UK or overseas or are unlisted (private debt).

- **LDI~~Gilts~~** are gilts, which are debt instruments issued by the UK Government. Typically, these provide interest payments on a regular basis over the life of the loan until capital is repaid at maturity. Some gilts provide interest payments and capital repayment value that is directly linked to price inflation (the Retail Price Index (RPI)). These are known as Index Linked Gilts and they provide the closest match to the Funds' liabilities, most of which are inflation-linked, albeit to a different measure of price inflation (the Consumer Price Index (CPI)). Some other governments also issue this type of debt, but in different currencies tied to price inflation in their own countries.

- **Cash** is also a form of investment used to provide instant or short-term liquidity~~,~~ and can be held in both sterling and foreign currencies (including Treasury Bills, Money Market Funds and Secured Investments). Cash generates interest income, but typically at a lower rate than bonds and other debt.

As the returns of the above investments aren't completely correlated, the Funds expect to achieve diversification and better risk-adjusted returns by investing in assets from each policy group.

FUNDS' STRATEGIES

The Committee's agreed investment strategies (presented in Appendix A) are expressed in terms of allocations to various policy groups (or asset classes). These reference portfolios are expected to generate the required return with a reasonable probability of success. The rate of return being targeted and the level of risk to be tolerated are central to the determination of the investment strategy (or asset mix) of each Fund.

The Committee monitors performance of the Fund relative to benchmarks, including an asset benchmark. Asset benchmarks are not a perfect match for the objectives of the Fund, nor the strategies that it employs. Correct interpretation of the reported data requires a good understanding that the strategies position the Fund in lower risk Equities than the benchmark, so returns are likely to lag a strongly rising market but be better than benchmark when it experiences significant weakness. Real Assets and other private market assets lack good comparators, especially over the short- and medium-term timeframes, and the current benchmark often deviates quite significantly from the slow re-valuation of private market assets. Other policy groups are less difficult to interpret but represent a small portion of the total fund.

To provide suitable investment strategies for differing requirements of employers, **Lothian Pension Fund** currently operates four investment strategies, as follows:

- **Main Strategy** is a diversified portfolio, mostly invested in long-term, return-seeking assets, such as equities, due to the long-term nature of the pension liabilities. Approximately 93~~1~~% of employers' assets are invested in the Main Strategy.

- **MEG ("Mature Employers Group") Strategy** invests in a portfolio entirely invested in UK gilts and cash to reduce investment risk for employers (except for Transferee Admitted Bodies) that are close to leaving the Fund. These employers have a low tolerance for risk and this strategy protects them from short-term changes in funding level and employer contribution rates. Less than 1% of employers' assets are invested in the MEG Strategy.

- **50/50 Strategy** invests in a portfolio comprising 50% of the Main Strategy and 50% of the MEG Strategy for employers with a 'medium' tolerance for investment risk. ~~Approximately~~ Less than 1% of employers' assets are invested in the 50/50 Strategy.

- **Buses Strategy** is a diversified portfolio of assets tailored to suit the risk appetite of the Lothian Buses company**.** The Lothian Buses Pension Fund merged with Lothian Pension Fund in Q1 2019. It represents approximately 6~~7~~% of Fund assets.

There may also be demand from individual employers for other investment strategies. The Fund will consider such requests, subject to practical implementation of such strategies and, if appropriate, a review of employer contribution rates. It's not practical for the Fund to offer individual employers full flexibility on asset allocation.

Scottish Homes Pension Scheme was fully funded at the most recent actuarial valuation in March 2020. Its investment strategy protects this closed and mature scheme from short-term changes in funding level and increases in contribution rates by investing in UK gilts and cash.

The Funds' investment strategies are measured against strategy-specific benchmarks by an independent performance measurement specialist, and these are reported to Committee annually with reference to asset market returns as well as liability valuations. The Executive Director of Resources is responsible for monitoring investments and investment activity and he delegates this function to the Service Director - Finance and Procurement taking advice from the JISP, which meets at least quarterly.

STRATEGY IMPLEMENTATION

The Committee delegates implementation of strategy to the Executive Director of Resources, who delegates the role to the Service Director - Finance and Procurement, taking advice from the JISP. The Service Director - Finance and Procurement operates within the parameters agreed by the Committee, investing the Funds' assets in the policy groups within the permitted ranges.

The Service Director - Finance and Procurement, advised by the JISP, identifies the combination of investment managers and mandates within the policy groups to deliver the objectives of the Funds. The investment managers and mandates are listed in Appendix A. The Lothian Pension Fund employs both external and internal managers, recognising that there are cost and alignment advantages of an in-house investment team.

To reduce the risk that a Fund doesn't deliver its objective, controls are set around policy group allocations and each manager/mandate. For external managers, these are detailed in formal Investment Management Agreements; and similarly, formal investment objectives and constraints are set for internal mandates. The investment managers are responsible for the selection of individual holdings.

The Funds' investment managers and mandates are measured against mandate-specific benchmarks of risk and return by an independent performance measurement specialist. Performance and mandate implementation is monitored by the JISP on a quarterly basis.

The Funds collaborate with other investors to benefit from increased scale and cost sharing arrangements. The Funds obtained regulatory approval from the Financial Conduct Authority (FCA) to facilitate this element of strategy implementation.

OTHER INVESTMENT CONSIDERATIONS

Realisation of investments

Most of the Funds' investments are in liquid markets and can be expected to be sold relatively quickly if required. A proportion of the Funds' investments (such as property, private equity, private debt and infrastructure) have less or limited liquidity and would therefore take longer to be sold. The overall liquidity of each Fund's assets is considered in the light of potential demands for cash.

Stock Lending

The Funds lend a proportion of their investments to generate income from share ownership. Stock lending is conducted within parameters prescribed in the regulations. Stock lending doesn't prevent any investments from being sold. Safeguards are in place to reduce risk of financial loss in the event of default. These safeguards include receiving liquid collateral in excess of the value of the loan, an indemnity agreement with the lending agent and regular reviews of the credit-worthiness of potential borrowers.

Underwriting

Managers are permitted to underwrite and sub-underwrite stock issues subject to the security being deemed attractive on a medium-term view and subject to the application being limited to an amount the manager would wish to hold over the medium term.

Derivatives

The Committee has approved the use of derivatives, subject to prevailing legislation and control levels outlined in investment manager agreements. A derivative is a security or contract that derives its value from its relationship with another asset. The Funds may make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for efficient portfolio management or to hedge specific risks. For example, forward currency contracts allow the Funds to reduce risk from currency fluctuations and equity futures allow the Funds to reduce risk during major portfolio rebalances/transitions.

Safekeeping of Assets

The services of a global custodian are employed to ensure the safekeeping of investments.

COMPLIANCE

Regulations and Investment Limits

The Funds are compliant with the statutory restrictions set out in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 and the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Amendment Regulations 2016.

The Regulations contain limits on the percentage of a pension fund that may be invested in certain asset types. In accordance with the Regulations, the Committee have agreed the limits applicable to the Funds' investments in partnerships to accommodate the allocation to unlisted investments, including infrastructure, timber, property, equity and debt. The limits agreed by Committee are:

- All contributions to any single partnerships: 5% (statutory maximum of 5%)
- Contributions to all partnerships: 20% (statutory maximum of 30%)

The Committee took proper advice in respect of these limits from the Joint Investment Strategy Panel and from officers. The limits will apply for the period during which the Funds' strategic allocations include investments in partnerships, unless investment considerations require an earlier review. This decision is compliant with the Regulations.

CIPFA Principles for Investment Decision Making

Regulations require administering authorities to publish the extent to which they comply with guidance issued by Scottish Ministers, which in turn refer to guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Funds' compliance statement is provided in Appendix C.

Review of SIP

The Committee will review this statement annually or more frequently if appropriate. The Committee will consult with such persons as it considers appropriate and take proper advice when revising the statement.

APPENDIX A – INVESTMENT STRATEGIES (29~~3~~ JUNE 2022~~1~~)

Lothian Pension Fund: Main Strategy

Investment Objectives: to generate returns sufficient to pay pensions as they fall due.

Investment Strategy:

Policy group	Target weight 2021-2024	Permitted range
Equities	60%	50-70%
Real Assets	20%	10-30%
Non-Gilt Debt	10%	0-20%
LDI (formerly Gilts)	10%	0-25%
Cash	0%	0-15%
Total	**100%**	

Lothian Pension Fund: MEG ("Mature Employers Group") Strategy

Investment Objective: to achieve a return in line with gilts that match the duration of the liabilities.

Investment Strategy: the MEG Strategy invests exclusively in UK Gilts and Cash matching the duration of employer liabilities with the duration of the invested assets.

Lothian Pension Fund: 50/50 Strategy

Investment Objective: to achieve a return in line with a 50:50 investment in the Main Strategy and the MEG Strategy and generate a return that pays pensions as they fall due.

Investment Strategy:

Policy group	Target weight 2021-2024	Permitted range
Equities	30%	25-35%
Real Assets	10%	5-15%
Non-Gilt Debt	5%	0-10%
LDI (formerly Gilts)	55%	45-65%
Cash	0%	0-10%
Total	**100%**	

Lothian Pension Fund: Buses Strategy

Investment Objective: to generate sufficient returns to pay pensions as they fall due.

Investment Strategy: to achieve its objective, the Buses Strategy invests in a proportion of the MEG Strategy and the Main Strategy that reflects the maturity of liabilities. This is currently 45:55. Based on the Main Strategy above, the Buses Strategy will have the following exposures.

Policy group	Target weight 2021-2024	Permitted range
Equities	33.0%	28-38%
Real Assets	11.0%	6-16%
Non-Gilt Debt	5.5%	0-11%
LDI (formerly Gilts)	50.5%	40-60%
Cash	0.0%	0-10%
Total	**100%**	

Scottish Homes Pension Fund

Investment Objective: to match cash flows from gilt income and redemption payments as closely as possible with the expected liability payments of the Fund to minimise the risk of additional employer contributions being required.

Investment Strategy: all assets are invested in UK gilts and cash. As some liabilities are fixed in nature and some are inflation-linked, the Fund invests in both nominal and index-linked gilts to match cash flows with liability payments one year beyond the next actuarial valuation. Longer dated liability payments are duration matched.

LOTHIAN PENSION FUND

APPENDIX B – INVESTMENT STRATEGY IMPLEMENTATION (29~~3~~ JUNE 2022~~1~~)

The investment strategies in Appendix A are implemented by investing in a range of mandates managed by external or internal investment managers. The current mandates and managers for the Funds are presented in the table below:

Policy Groups & Mandates	Manager	Actual allocation 31 March 2021	Actual allocation 31 March 2022
Equities		**60.0%**	**58.4%**
Global Low Volatility	Internal	13.1%	13.5%
In-Global High Divided Yield	Internal	13.4%	13.5%
Global Stable Multi-factor	Internal	13.7%	12.4%
Global Stable Equities	Nordea	3.5%	3.7%
Global Value	Harris	1.4%	1.4%
Global Alpha	Baillie Gifford	2.2%	1.9%
UK All Cap	Internal	3.1%	2.8%
UK Mid Cap	Internal	1.6%	1.2%
Europe (ex UK) Quality	Internal	2.7%	2.6%
US Value	Internal	3.4%	3.8%
Private Equity	Various	1.7%	1.8%
Currency Hedge	Internal	0.0%	0.0%
Real Assets		**18.2%**	**17.3%**
Property	Various	6.4%	6.1%
Other Real Assets	Various	11.8%	11.2%
Non-gilt Debt		**9.2%**	**7.6%**
Other Bonds	Various	9.2%	7.6%
LDI		**5.6%**	**8.5%**
UK Gilts	Internal	5.6%	8.5%
Cash		**7.1%**	**8.1%**
Total Fund		**100.0%**	**100.0%**

Note: Numbers may not sum due to rounding

APPENDIX C – UK STEWARDSHIP CODE 2020 – PRINCIPLES

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting transparency and integrity in business. It sets the UK's Corporate Governance and Stewardship Codes. The Stewardship Code 2020 requires signatories to report comprehensively on the following 12 Principles:

- *Principle 1: Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.*
- *Principle 2: Signatories' governance, resources and incentives support stewardship.*
- *Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.*
- *Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.*
- *Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities.*
- *Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.*
- *Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.*
- *Principle 8: Signatories monitor and hold to account managers and/or service providers.*
- *Principle 9: Signatories engage with issuers to maintain or enhance the value of assets.*
- *Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers.*
- *Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers.*
- *Principle 12: Signatories actively exercise their rights and responsibilities.*

APPENDIX D – CIPFA PRINCIPLES FOR INVESTMENT DECISION MAKING AND DISCLOSURE

The Chartered Institute of Public Finance and Accountancy (CIPFA) published six Principles for Investment Decision Making and Disclosure in the Local Governance Pension Scheme in the UK in 2012. Details of the principles and the Funds' compliance are described below.

Principle 1 – Effective decision making

Administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. Those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

- The Funds' Trustee Training Policy (comprising a compulsory training seminar for all new trustees and a requirement to undertake no less than three days (21 hours) of training in each financial year for all Pensions Committee and Pension Board members) provides the knowledge to enable them to evaluate and challenge the advice they receive. Standards relating to the administration of the Committee's business are strictly up-held.

- The Fund has appointed an Independent Professional Observer to strengthen governance. The role of the Observer is to provide the Committee with an impartial, additional source of experience and technical knowledge.

- The Pensions Committee focuses on setting the strategy for the Funds and monitoring performance. The Pension Board also attends Committee meetings and is responsible for assisting the Committee in securing compliance with relevant regulations and other legislation.

- The Committee delegates the day-to-day running of the Funds to the Executive Director of Resources, who in turn delegates to the Funds' officers. The Executive Director of Resources is responsible for the provision of the training plan for Committee to help them to make effective decisions to ensure that they are fully aware of their statutory and fiduciary responsibilities, and to regularly remind them of their stewardship role.

- The Joint Investment Strategy Panel advises the Executive Director of Resources on the implementation of the agreed strategies, reviewing structure, funding monitoring, performance and risk and asset allocation. The Joint Investment Strategy Panel meets at least quarterly and is made up of experienced investment professionals, including independent advisers.

- The in-house team undertakes day-to-day monitoring of the Funds. The team includes personnel with suitable professional qualifications and experience to provide the necessary skills, knowledge, advice and resources to support the Joint Investment Strategy Panel and the Pensions Committee.
- Conflicts of interest are managed actively. At each Committee meeting, elected members of the Pensions Committee and Pensions Board are asked to highlight conflicts of interest. A Code of Conduct applies to members of the Committee and the Pension Board. The Funds have a Compliance Policy, which ensures conflicts of interest are highlighted and managed appropriately.

Principle 2 – Clear Objectives

Overall investment objectives should be set out for the fund that take account of the scheme's liabilities, the potential impact on local council tax payers, the strength of the covenant of the participating employers, and the attitude to risk of both the administering authority and the scheme employers, and these should be clearly communicated to advisers and investment managers.

- The Statement of Investment Principles and the Funding Strategy Statement define the Funds' primary funding objectives.
- Asset-liability modelling is undertaken with the help of external advisers to aid the understanding of risks and the setting of investment strategy. Each Fund has a scheme-specific investment strategy.
- Employers' attitude to risk is specifically considered in the setting of strategy, and employers can request a bespoke investment strategy.
- Reviews of investment strategy focus on the split between broad asset classes (equities, real assets, non-gilt debt, LDI and cash).
- Investment Management Agreements set clear benchmarks and risk parameters and include the requirement to comply with the Funds' Statement of Investment Principles.
- Appointments of advisers are reviewed regularly. Investment and actuarial advisers are appointed under separate contract. Procurement of advisers is conducted within European Union procurement regulations.
- The setting of the Funding Strategy includes specific consideration of the desire to maintain stability in employer contribution rates.

Principle 3 – Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for council tax payers; the strength of the covenant of participating authorities; the risk of their default, and longevity risk.

- The Funds take advice from the scheme's actuary regarding the nature of its liabilities. Asset-liability modelling is undertaken periodically to aid the setting of investment strategy, and these exercises specifically take account of covenant strength and longevity risk.
- Lothian Pension Fund recognises that employers' circumstances vary and an alternative investment strategy for their section(s) of the Fund may be deemed suitable. The Fund will consider requests for such alternatives, subject to practical implementation of such strategies and, if appropriate, a review of employer contribution rates. It's not practical for the Fund to offer individual employers full flexibility on asset allocation.
- The Funding objectives for the Funds are expressed in relation to the solvency and employer contribution rates. The Funds regularly assess the covenants of participating employers.
- The Executive Director of Resources is responsible for ensuring the appropriate controls of the Funds. Controls are subject to internal audit, and results of audits are submitted to the Pensions Audit Sub Committee and/or the Pensions Committee.
- The Funds maintain a risk register, which is reviewed on a quarterly basis.

Principle 4 – Performance assessment

Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

- The Funds' performance and risk analysis is produced by an independent external provider.
- The internal investment team monitors the external investment managers' performance and risk on a regular basis and reports this to the Joint Investment Strategy Panel. The Joint Investment Strategy Panel assesses the performance and risk of both internal and external investment managers on a regular basis (typically quarterly).
- The Funds' contracts with its advisers are regularly market tested.
- The Joint Investment Strategy Panel assesses its own performance on a regular basis and reports to Committee on its activities, typically annually.
- Training and attendance of members of the Pensions Committee and the Pensions Board are monitored and reported on a regular basis. The composition of the Committee and Pension Board is reviewed on a regular basis.

Principle 5 – Responsible ownership

Administering authorities should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

A statement of the authority's policy on responsible ownership should be included in the Statement of Investment Principles.

Administering authorities should report periodically to members on the discharge of such responsibilities.

- The Funds' approach to responsible investment is described in the Statement of Investment Principles and the Statement of Responsible Investment Principles, both of which can be found ~~and~~ on the Funds' website.
- The Funds' policy on responsible ownership is included in the Stewardship Report, which has been assessed by ~~the statement on~~ the Financial Reporting Council, which can be found on the Funds' website. ~~'s Stewardship Code (s~~See Appendix C for a list of the Stewardship Code 2020 principles. ~~of the Statement of Investment Principles).~~

- Details of the Funds' voting and engagements are available on the Funds' website. The Funds' annual report and accounts includes a summary of the Funds' approach to responsible investment. A summary of the report and accounts is sent to members. The full report is available on the website and is sent to members on request.

Principle 6 – Transparency and reporting

Administering authorities should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and provide regular communication to members in the form they consider most appropriate.

- Meetings of the Pensions Committee are open to the public. Members of the public are entitled to make a deputation at Committee meetings. Committee papers are available on the City of Edinburgh Council's website. The Pension Board joins the Committee at all meetings.
- The Committee's remit covers wider pension scheme issues, other than the management and investment of funds.
- The Funds' policy statements, including the Communications Strategy, Statement of Investment Principles, Statement of Responsible Investment Principles and Funding Strategy Statement are maintained regularly. Stakeholders are consulted on changes. Documents are available on the Funds' website.
- The Funds produce an Annual Report and Accounts. The full report is available on the website and is sent to members on request. The Funds also produce regular newsletters for members as well as an annual benefit statement. Regular briefings are provided to employers. The Funds' website is updated regularly.

Pensions Committee

2.00pm, Wednesday, 29 June 2022

Joint Investment Strategy Panel Activity

1. Recommendations

The Pensions Committee (Committee) is requested to:

1.1 note the activities of the Joint Investment Strategy Panel during the financial year 2021/22.

David Vallery
Chief Executive Officer, Lothian Pension Fund

Contact: Bruce Miller, Chief Investment Officer, Lothian Pension Fund

E-mail: Mil33B55@lpf.org.uk | Tel: 0333 996 1904

Joint Investment Strategy Panel Activity

2. Executive Summary

2.1 The purpose of this report is to provide an update on the activity of the Joint Investment Strategy Panel (JISP) for the year to 31 March 2022, with a focus on the Lothian Pension Fund and the Scottish Homes Pension Fund.

2.2 To enable efficient collaboration, the three Chief Financial Officers of the Lothian, Falkirk and Fife Pension Funds established the JISP which is designed to align governance for the investment of funds. It advises the appointed officers with responsibility for oversight of the assets of the Lothian, Falkirk and Fife Pension Funds, currently being the Heads of Finance/CFO for the respective administering authorities.

2.3 Each Fund's Committee agreed its own bespoke investment strategy in 2021. During 2021/22, JISP has continued to advise and assist in the oversight of the three Funds' investment strategies, focusing on asset allocation, risk and performance. This includes the oversight of Lothian Pension Fund and Scottish Homes Pension Fund.

2.4 The JISP monitored and advised on the implementation of investment strategy by officers and the internal investment management team focusing on achieving targeted allocations within the constraints defined by Committee. For Lothian Pension Fund, the JISP advised in several areas, including policy group allocation, manager structure and strategies, benchmarks and performance, portfolio diversification and allocations to private market investments, including infrastructure and corporate loans. For the fully funded Scottish Homes Pension Fund, the JISP continued to monitor the asset-liability matching.

3. Background

3.1 The Heads of Finance/Chief Financial Officers of the Lothian, Falkirk and Fife Pension Funds operate the JISP to provide advice to their Pensions Committees and officers.

3.2 The JISP began the year with three independent advisers regularly in attendance at meetings. Scott Jamieson retired at the end of December 2021, leaving two independent advisers, Kirstie MacGillivray and Stan Pearson.

3.3 The Heads of Finance/Chief Financial Officers have operated the JISP with the two advisers since then and propose to retain the current arrangement. (The JISP previously operated with two advisers until 2020.) They will monitor its effectiveness over the next 12 months.

3.4 Consequently, the JISP now comprises:

- two independent advisers;
- the Chief Investment Officer of LPFI Limited (LPFI); and
- a second senior investment officer of LPFI.

3.5 The JISP provides strategic advice on the implementation of the investment strategies approved by this Committee for the two pension funds for which it is responsible – Lothian and Scottish Homes.

3.6 The JISP also provides strategic advice on the implementation of strategy for the Fife and Falkirk Pension Funds.

3.7 The external independent advisers on the JISP represent an important element of the governance framework, overseeing and scrutinising the investment strategies and implementation activity of the three collaborating funds.

4. Main Report

4.1 The JISP meets quarterly and provides strategic advice on all aspects of the investments of the Pension Funds. Regular activities include reporting to and making recommendations about investment strategy to the Committee, monitoring and advising on strategy implementation and risk and advising on the types of investment manager to utilise. The JISP ensures that important issues are reviewed on a regular basis and the agenda planning document is attached as Appendix 1.

4.2 The JISP advises on the appropriate investment management structure required to implement the Fund's investment strategy, and on the objectives and constraints appropriate to the various mandates that make up the Fund. It monitors the risk and performance of all portfolios. The JISP and the internal investment team monitor all managers on a regular basis using a traffic light system to ensure that scrutiny of portfolios is consistent and robust. Continuity of investment process, philosophy, people and ownership and performance are considered in the monitoring process. Where there are concerns over a manager, more regular and in-depth monitoring is undertaken.

4.3 The primary focus for the JISP during 2021/22 has been implementation of the investment strategies for Lothian Pension Fund and Scottish Homes Pension Fund, previously agreed by Committee, as well as implementation of the strategies of the collaborative partner funds. Each partner fund has its own bespoke investment strategy, but they are all defined in common terms, and have broadly similar objectives and strategies.

4.4 Special items addressed by Panel over 2021/22 have included:

- Annual review of investment strategy
- Annual reviews of each policy group, including strategy, portfolio constraints, currency exposures, activity, and risk / return
- Annual reviews of all investment mandates with assessment of strategic fit
- Performance measurement with the Fund's independent provider
- Responsible investment principles
- Carbon monitoring
- Triennial reviews of internal mandates: US, UK and UK Mid Cap Equity, Currency Hedging Programme
- Annual review of all internally managed portfolios by external advisers
- Consideration of the financial market regime and its impact on investment strategy
- Internal portfolio development discussions focused on the Quality style
- Special situations allocation discussions
- Investment benchmarking proposals
- Investment cost benchmarking
- Additional voluntary contribution (AVC) provision
- JISP Terms of Reference and Effectiveness
- Stewardship and engagement activities, including Statement of Investment Principles and Statement of Responsible Investment Principles
- Risk management, controls, and regulatory compliance
- The implications of a merger of the Lothian and Falkirk funds

4.5 Given a change in the composition of the JISP, a new Pensions Committee and the announcement of the exploration of the Lothian-Falkirk merger, officers have agreed to postpone the self-assessment of the effectiveness of the panel until the second half of 2022. This self-assessment is regarded as a useful exercise in good governance and has historically used qualitative and quantitative input. As a key stakeholder, the Committee will be asked to contribute to the assessment.

4.6 Over the year, JISP's activity has resulted in various outcomes:

- There has been investment activity across all policy groups, notably investments in infrastructure, corporate debt, and US inflation-protected sovereign bonds as well as rebalancing of global equity portfolios
- Mandate objectives and controls for each investment portfolio and each policy group were updated after consideration of investment constraints, ESG analysis and risk
- Governance and oversight of investment activity and investment positioning across all policy groups
- LPFI started managing a US TIPS portfolio for a partner fund
- LPFI started managing a global low volatility equity portfolio and a gilts portfolio for another partner fund
- Decisions about currency hedging and plans for further consideration, including training for Committees and Boards

- Full analysis of stock lending, including process and assessment of compensation for risks
- Adviser proposals for equity policy group allocations, including a global quality style allocation
- Changes to quarterly papers to streamline and create synergies where possible and amendment to annual agenda
- Analysis and discussion of alternative fee structures of external managers

4.7 Importantly, the focus of the JISP is the long-term superior risk-adjusted asset returns for the Funds. The short-term volatility of asset prices is less important given that the fund remains open to new entrants and cash flow is relatively stable. The JISP continues to focus on deploying each fund's long-term capital at an appropriate level of risk.

4.8 Members of JISP, including external advisers, will be presenting at training events and Committee meetings over the year ahead when they will provide further detail on its activities over the year.

5. Financial impact

5.1 Investment strategy is a key determinant of asset returns and risk, funding level and volatility of employer contribution rates. The advice of the JISP influences investment strategy with the aim of achieving required risk-adjusted returns.

6. Stakeholder/Regulatory Impact

6.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the fund and they are invited to comment on the relevant matters at Committee meetings.

6.2 There are no adverse governance, compliance or regulatory implications as a result of this report.

7. Background reading/external references

7.1 None.

8. Appendices

Appendix 1 – Agenda Planning for Joint Investment Strategy Panel

Joint Investment Strategy Panel – Agenda Planning

This document provides an overview of the proposed agendas for future meetings of the Joint Investment Strategy Panel. It also provides a more general overview of the current cycle of Panel papers. An agenda planning document will be provided each quarter.

Some agenda items refer to Committee reports. These are generally Lothian reports, but Falkirk and Fife reports may also be presented. There will, of course, be other matters and papers that need to be brought to the attention of the Panel on an ad hoc basis.

Since September 2019, investment mandates are reviewed annually at the same time as the relevant asset class focus.

The proposed agendas for the next two meetings are set out below.

September 2022

Special Items

- Policy Group Focus – Real Assets (property, infra & timber): Annual Reviews, incl. Policy Group Mandates
- Currency Exposures / Hedging: Annual Reviews, incl. Policy Group Mandate
- Investment Controls & Compliance (incl. custodian) (Committee Report)
- Audit of Foreign Exchange Transaction Costs

Quarterly Items

- Investment Strategy Implementation/ Funding Updates
- Investment Portfolio Monitoring (Traffic Lights)
- Asset/Liability Context – Investment Markets

December 2022

Special Items

- Policy Group Focus – Debt Assets (LDI (Gilts), Non-Gilt Debt, Cash): Annual Reviews, incl. Policy Group Mandates
- Review of Governance of Internal Portfolios by external JISP members
- Stewardship (including Statement of Responsible Investment Principles)
- Pension Fund Cost Benchmarking
- AVC Monitoring – Lothian, Falkirk & Fife
- Internal Mandate review: Europe ex-UK

Quarterly Items

- Investment Strategy Implementation/ Funding Updates
- Investment Portfolio Monitoring (Traffic Lights)
- Asset/Liability Context – Investment Markets

Future Joint Investment Strategy Panel Dates

- Tuesday 6 September 2022, 10.30am, TEAMS meeting or Atria One Boardroom
- Monday 5 December 2022, 10.30am, TEAMS meeting or Atria One Boardroom

Frequency			Month
Annually	**Fund Strategy Focus – Annual Review (to end March)** ***Incl. assessment of stock lending***		
	Lothian Pension Fund		June
	Falkirk Council Pension Fund		June
	Fife Pension Fund		June
	Scottish Homes Pension Fund		June
	Policy Group Focus – Annual Reviews, incl. Investment & Policy Group Mandates		
	Equities (listed & unlisted), incl. Carbon Assessment		June
	Real Assets (property, infra & timber)		September
	Currency Exposures/Hedging		September
	Debt Assets (LDI (Gilts), Non-Gilt Debt, Cash)		December
	Securities Lending Policy Review		March
	Traffic Lights Process – Annual Review		June
	Investment Controls & Compliance (incl. custodian)	Committee Report	September
	Statements of Investment Principles & Responsible Investment Policy	Committee Reports	June
	Joint Investment Strategy Panel – Terms of Reference & Effectiveness		June
	LPF Chief Risk Officer attends JISP meeting		September
	Audit of Foreign Exchange Transaction Costs		September
	Review of Governance of Internal Portfolios by external JISP members		December
	Stewardship (including Statement of Responsible Investment Principles)	Committee Report	December
	Pension Fund Cost Benchmarking	Committee Report	December or March
	AVC Monitoring – Lothian, Falkirk & Fife		December

Appendix 1

Frequency				Month
Quarterly	Investment Strategy Implementation/Funding Updates Investment Portfolio Monitoring (traffic lights) Asset/Liability Context – Investment Markets (incl. Adviser Ideas/Recommendations)			March, June, September, December
Every 3 Years (minimum)	Investment Strategy Reviews (at least every 3 years) Actuarial Valuations Funding Strategy Statements		Due 2024 Due 2023/24 Due 2023/24	Typically December or March
	Internal Mandate Reviews	**Most recent review**	**Review due**	
	UK All Cap	June 2021	June 2024	March, June, September and December
	UK Mid Cap	June 2021	June 2024	
	Europe ex-UK	December 2019	December 2022	
	US	March 2022	March 2025	
	GLOVE	March 2021	March 2024	
	GHDY	March 2021	March 2024	
	SMuRV	March 2021	March 2024	
	Debt Assets	December 2020	December 2023	
	Property	June 2020	September 2023	
As required	Development Work Transitions			

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Pensions Committee

2.00pm, Wednesday, 29 June 2022

Annual Investment Update – Lothian Pension Fund

1. Recommendations

The Pensions Committee (Committee) is requested to:

1.1 note the asset allocation, investment performance and funding update of the Lothian Pension Fund.

Bruce Miller
Chief Investment Officer, Lothian Pension Fund

Contact: Stewart Piotrowicz, Portfolio Manager, Lothian Pension Fund

E-mail: Pio23S77@lpf.org.uk | Tel: 0333 996 1967

Annual Investment Update – Lothian Pension Fund

2. Executive Summary

2.1 This report provides an update on the investments and funding position of the Lothian Pension Fund to 31 March 2022.

2.2 Over the twelve months to 31 March 2022, the total Fund return was +10.8%, which compares with the benchmark return of +8.8%. Investment market returns were mixed over the period. UK equities and UK property delivered double digit gains, as did global listed equities, as measured by MSCI ACWI (in GBP), which rose by 12.4%, boosted by sterling weakness. Debt markets, including sovereign bonds and corporate bonds, registered small gains or single digit losses.

2.3 Lothian's predominantly lower risk equities performed well gaining 13.4%. The Fund's real asset investments performed even better returning 13.8% as the property assets delivered gains of over 20%. Weaker, but still better than benchmark, returns came from non-gilt debt assets, which rose 4.1%. The LDI category comprising gilts generated low single-digit returns, slightly below its benchmark – nominal gilt exposure detracted from returns.

2.4 The Fund aims to achieve a return broadly in line with its strategic benchmark, over the long term, with a lower-than-benchmark level of risk. Despite strength over the last twelve months, the Fund has delivered returns below the benchmark over the five-year period, which reflects a very strong period for higher risk assets, but with lower risk. It returned +6.5% per annum compared with the benchmark +8.6% per annum (with ex-post risk of 6.7% for the Fund vs. benchmark risk of 8.8%). Over ten years, the Fund has gained 9.7% per annum, lagging the benchmark gain of 10.0% per annum, but with lower risk (ex-post risk of 6.8% vs. 8.0%).

2.5 Lothian Pension Fund's funding level (the ratio of assets to liabilities) is formally assessed on a triennial basis, with the most recent figure of 106% at the March 2020 valuation. Based solely on the movements of the Fund's assets and a proxy for the Fund's liabilities, the funding level will have improved over two consecutive years to end March 2022 as the Fund's assets have increased in value while the liabilities are estimated to have declined in value due to rising rates. The next triennial valuation at 31 March 2023 will be undertaken during 2023 and concluded by 31 March 2024 at the latest.

3. Background

3.1 The purpose of the report is to provide an update on the investments of the Lothian Pension Fund to 31 March 2022.

3.2 The investment performance of the Fund has a significant impact on funding level and potentially on the contributions required by employers.

3.3 The Fund's investment strategy was approved by the Pensions Committee in June 2021. The objective of the strategy is to achieve an investment return that the actuary prudently assumes will be consistent with acceptable and stable contribution rates. The expectation is that with such a return, the Fund will be able to pay pensions as they fall due.

Employer Strategies

3.4 To provide suitable investment strategies for the differing requirements of employers, the Fund operates four investment strategies. The assets in each strategy are shown in the table below. Employers fund their liabilities with the strategy that reflects their ability to tolerate risk.

Employer Group Strategies	Assets (£m)	Weight
Main Strategy	8,845	92.9%
Mature Employer Strategy	27	0.3%
50/50 Strategy	47	0.5%
Buses Strategy	606	6.4%
Total	9,525	100%

3.5 Most employer liabilities are funded under the Main strategy, which adopts a long-term investment strategy, aiming to generate an investment return that will minimise the cost to the employer within reasonable and considered risk parameters. The strategy retains significant exposure to real investments, such as Equities and Infrastructure, which have a history of protecting or enhancing purchasing power over the long term.

3.6 A small number of employers are funded in the Mature Employer strategy (MEG), which invests in UK index-linked gilts and cash to reduce funding level and contribution rate risk as these employers approach exit from the Fund.

3.7 The 50/50 strategy enables another small group of less mature employers to fund liabilities with a 50/50 mix of the Main strategy and the MEG strategy.

3.8 The Buses strategy, which was introduced on 31 January 2019 when the assets and liabilities of Lothian Buses Pension Fund were consolidated into the Lothian Pension Fund, is a 55/45 mix of the Main Strategy and the MEG strategy.

Policy Groups

3.9 For reporting purposes, Fund strategy is divided into five Policy Groups, which are broad asset classes that reflect the nature of the investments. Although individual investments within each group will have different risk and return characteristics, each Policy Group targets a long-term return in relation to the return from UK gilts. The return target provides perspective on the expected risk of each group in relation to Fund liabilities. These are detailed in the Statement of Investment Principles.

3.10 The table below presents the policy group allocations of the four investment strategies at end March 2022 along with the total fund strategy, which is the weighted average of the four strategies.

Employer Strategies

Policy Groups	Main Strategy	Mature Employer Strategy	50/50 Strategy	Buses Strategy	Total Fund Strategy
Equities	60%	0%	30%	33.0%	58.0%
Real Assets	20%	0%	10%	11.0%	19.3%
Non-Gilt Debt	10%	0%	5%	5.5%	9.7%
Gilts	10%	100%	55%	50.5%	13.1%
Cash	0%	0%	0%	0.0%	0.0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Totals may not sum due to rounding

Governance

3.11 Implementation of the investment strategy is currently delegated from the Pensions Committee to the Service Director: Finance and Procurement, who takes advice from the Joint Investment Strategy Panel (JISP), comprising independent advisers and senior officers from LPFI Limited, the Fund's FCA authorised investment vehicle. The JISP provides strategic advice to the Pensions Committee and officers on long term objectives and investment risk, and monitors implementation activity.

4. Main Report

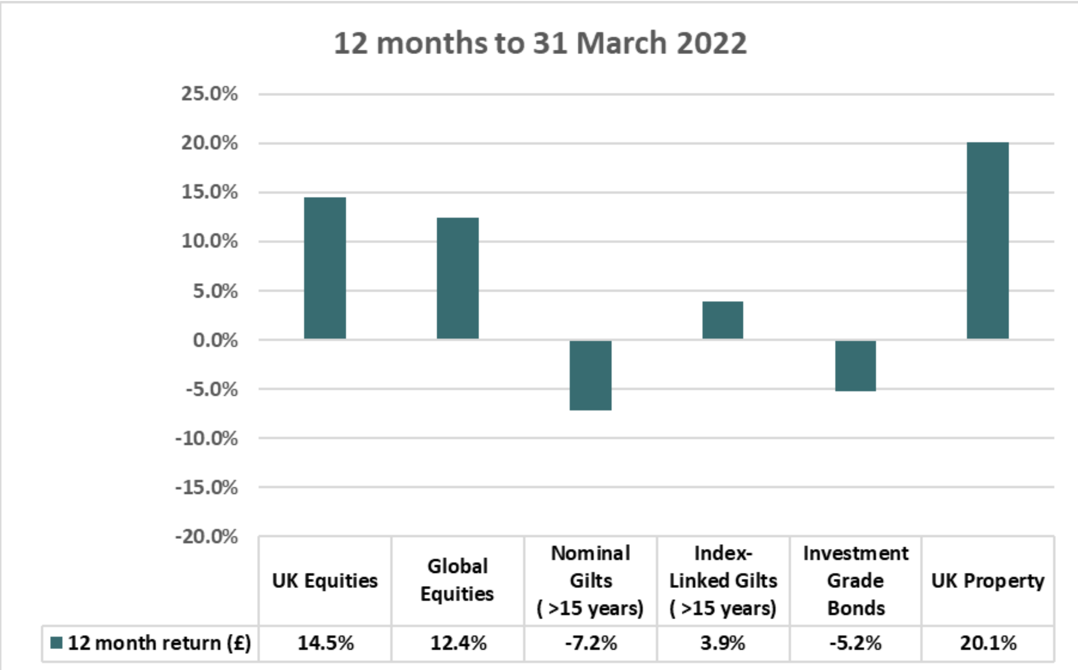
Market background to 31 March 2022

4.1 For the 12 months to 31 March 2022, UK equities (MSCI UK IMI) returned +14.5%, while global equities returned +12.4% (MSCI ACWI, in GBP). Returns for sterling-based investors were boosted by a weaker pound (global equities returned +7.3% in USD terms and underpinned by strong returns from developed markets (+15.4% in GBP) in contrast to emerging market equities (MSCI EM), which fell (-7.1% in GBP), in part reflecting the different pace at which economies are recovering from COVID-induced slowdowns.

4.2 Supply chains across the global economy experienced significant disruption as some countries re-opened and others locked back down. Rising energy prices, boosted by a combination of rebounding demand and an unexpected shortfall in renewables generation, have also been a major factor in inflation moving progressively higher over the past year.

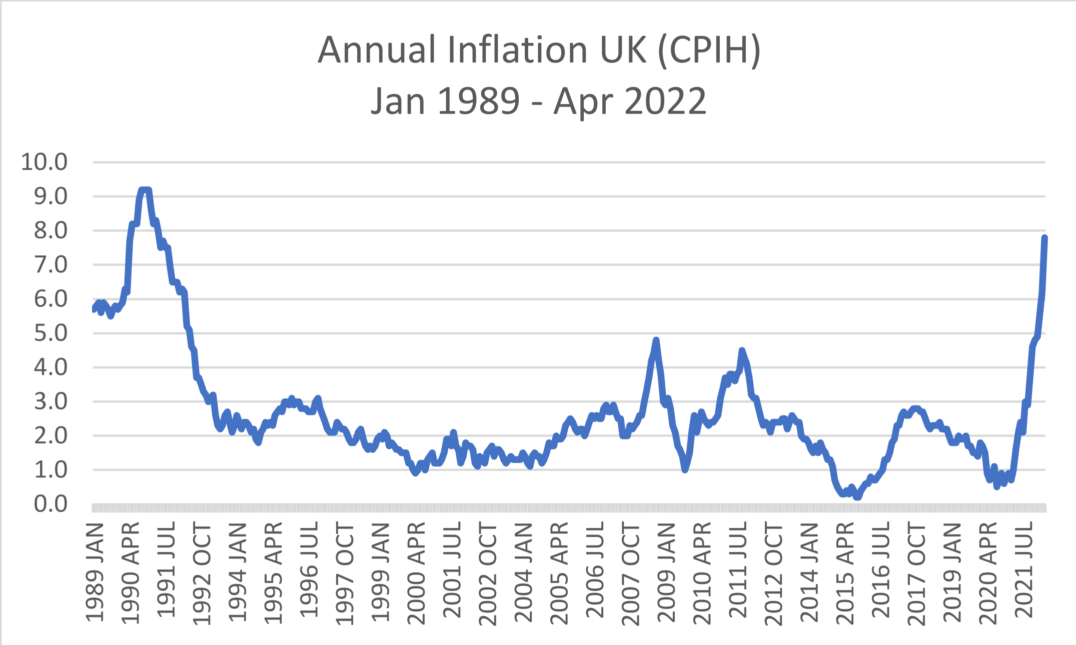
4.3 Against this backdrop, government bond yields rose over the period. Previous talk of inflation being "transitory" seems to have receded, with most central banks around the world having started to move rates higher. Corporate bonds, which had traded in a relatively narrow range over much of 2021, sold off during Q1 2022 as government bond yields rose and credit spreads widened. In the UK, 10-year gilt yields rose from 0.97% to 1.61%, which equates to a fall in value of 4.9%.

4.4 The graph below shows index returns over 12 months to 31 March 2022 for a range of asset classes.



Source: FTSE, Bloomberg, MSCI, Portfolio Evaluation (MSCI UK IMI, MSCI ACWI, FTSE Actuaries Gilts >15 Yrs, FTSE UK Govs Index Linked >15 Yrs, iBoxx £ Non-Gilts, MSCI UK Balanced Portfolios Quarterly Property Index – all GBP total return)

4.5 Loose monetary policy, brought about by decades of disinflation, has collided with soaring commodity prices, brought about by a combination of underinvestment in production growth and the invasion of Ukraine by Russia impacting commodities supply. Meanwhile, the pandemic continues to disrupt society and economic growth, with China currently in rolling lockdowns across much of the country. While many central banks are now tightening monetary policy through higher rates to combat inflation, many believe that the global economic outlook has already begun to deteriorate, and the concern is that central banks may tighten too far. The heightened volatility in markets observed in early 2022 seems likely to continue for some time yet.



Source: ONS, April 2022

Asset Allocation and Strategy Implementation

4.6 As described above, the overall Fund strategy is made up of four investment strategies. The strategic allocation to policy groups is the weighted average of the four employer strategies. The strategic allocations at end March 2021 and end March 2022 are shown in the table below along with the actual allocations. The strategic allocations changed over the year as a result of the revision to investment strategy approved by the Pensions Committee in June 2021. The actual allocations changed as a result of the relative movements of investment markets described above and investment activity during the year.

Policy Group	Actual Allocation 31 March 2021	Actual Allocation 31 March 2022	Strategic Allocation 31 March 2021	Strategic Allocation 31 March 2022
Equities	60.0%	58.5%	62.1%	58.0%
Real Assets	18.2%	17.3%	17.7%	19.3%
Non-Gilt Debt	9.2%	7.6%	10.5%	9.7%
LDI	5.6%	8.5%	9.6%	13.1%
Cash	7.1%	8.1%	0.0%	0.0%
Total	100%	100%	100%	100%

Note: numbers may not sum due to rounding

4.7 Over the year, the actual allocation to **Equities** has fallen modestly, consistent with the reduced strategic allocation. Over the course of the twelve months, ~£272m in cash was withdrawn from the equity policy group (equivalent to ~3.3% of total fund value at end March 2021). The **Real Assets** allocation also reduced modestly over the year, but this was because of strong distributions of income and capital from existing private market investments, which exceeded new commitments in the first half of the year. The **Non-Gilt Debt** allocation fell slightly over the year, broadly consistent with the revised strategy allocation. A combination of private debt distributions, maturing fixed income securities and market movements caused the change - the asset class performed relatively weakly over the year. The largest change in allocation over the twelve-month period was the increase in the **LDI** policy group. This was triggered by a higher revised investment strategy allocation. Given the extremely low interest rates engineered post-COVID by central banks and the expectation that inflation would rise, gilts purchases were undertaken slowly over the year as interest rates rose. The net result of the changes was an increase in **Cash**, which is a temporary, defensive position supported by the fund's advisers. This proved to be a better option than nominal gilts, which fell over the year to end March 2022. The actual allocations lie within the permitted ranges defined in the Statement of Investment Principles (SIP).

4.8 The Fund implements strategy by allocating to several investment mandates across the five Policy Groups. Most assets are managed by Lothian's internal investment team, but external mandates are awarded where access to investments is not available to the internal team, for example in private markets where the Fund achieves investment exposure to assets such as infrastructure and timber through externally managed investment vehicles. The table below details the actual allocations to Policy Groups and investment mandates.

Policy Groups and Investment Mandates – 31 March 2021 and 31 March 2022

Policy Groups & Mandates	Manager	Actual Allocation 31 March 2021	Actual Allocation 31 March 2022
EQUITIES		**60.0%**	**58.4%**
Global Low Volatility	Internal	**13.1%**	**13.5%**
Global High Dividend Yield	Internal	**13.4%**	**13.5%**
Global Stable Multi-factor	Internal	**13.7%**	**12.4%**
Global Stable Equities	Nordea	**3.5%**	**3.7%**
Global Value	Harris	**1.4%**	**1.4%**
Global Alpha	Baillie Gifford	**2.2%**	**1.9%**
UK All Cap	Internal	**3.1%**	**2.8%**
UK Mid Cap	Internal	**1.6%**	**1.2%**
Europe (ex UK) Quality	Internal	**2.7%**	**2.6%**
US Value	Internal	**3.4%**	**3.8%**
Private Equity	Various	**1.7%**	**1.8%**
Currency Hedge	Internal	**0.0%**	**0.0%**
REAL ASSETS		**18.2%**	**17.3%**
Property	Various	**6.4%**	**6.1%**
Other Real Assets	Various	**11.8%**	**11.2%**
NON-GILT DEBT		**9.2%**	**7.6%**
Other Bonds	Various	**9.2%**	**7.6%**
LDI		**5.6%**	**8.5%**
UK Gilts	Internal	**5.6%**	**8.5%**
CASH		**7.1%**	**8.1%**
TOTAL FUND		**100.0%**	**100.0%**

Note: numbers may not sum due to rounding

Equities

4.9 The current equity investment strategy has remained broadly unchanged for several years now. Over the course of the last twelve months there were no new or complete sale of existing mandates.

4.10 Income continues to be withdrawn from the three large, internally managed global portfolios, with ~£132m withdrawn over the 12-month period. In addition to this, a further ~£110m was withdrawn from the SMuRV portfolio in Q4'21, consistent with the reduced strategic allocation to equities.

4.11 The Equity policy group is expected to perform relatively well when equity markets are weak and produce good positive absolute returns in rising equity markets, whilst providing attractive levels of income.

4.12 None of the Fund's equity portfolios are constrained by market capitalisation indices, or the tracking error measurement of risk, which is regarded as a suboptimal approach to portfolio construction. Instead, the focus is on capital preservation and the sustainability of income generation. The Fund's independent performance measurer, Portfolio Evaluation, reports that the Fund's equity risk over the last 1, 3 and 5 years was between 87% and 91% of benchmark risk.

4.13 As of 31 March 2022, approximately 88% of the Fund's listed equities are managed internally with the majorityof these in low cost, low turnover strategies, which are expected to enhance the Fund's risk-adjusted returns over the long term.

4.14 The Fund also hedges exposures to the currencies of overseas listed equities with the explicit aim of reducing volatility rather than seeking to generate improved returns. The Fund therefore maintains exposure to currencies that are expected to reduce volatility, such as the US Dollar and Japanese Yen which tend to fall as equities rise, and hedges exposure to currencies that are expected to increase volatility, such as the Australian Dollar which tends to rise as equities rise.

4.15 Given the focus on risk reduction, new commitments to private equity investments were discontinued as they tend to be more volatile investments involving greater financial leverage. As historic investments mature, cash is being returned though strength in listed private equity over the last 12 months (+24.4%) has resulted in the allocation increasing marginally to 1.8%.

Real Assets

4.16 Over recent years, the Fund's strategy has been to increase the actual allocation to the Real Asset policy group, which includes investments in property, infrastructure and timber funds and assets. The long term and defensive nature of most of these assets provides an element of diversification to the overall investment strategy and the objective is to provide attractive risk-adjusted returns that are expected to be somewhat lower than listed equities over the long term whilst providing diversification. Most of these investments are unlisted and increasing exposure is dependent on sourcing attractive opportunities. The Fund's longstanding commitment to infrastructure investing has resulted in a large and diverse portfolio of Real Asset investments.

4.17 The Real Assets allocation also reduced modestly over the year, but this was because of strong distributions of income and capital from existing private market investments, which exceeded new commitments in the first half of the year. In private markets, it is not possible to match purchases with sales at the same point in time. The Fund continued to source new investments to achieve the target allocation and was a net investor in the policy group in the second half of the year in both infrastructure assets and property, including the well-publicised acquisition of the Titan logistics / industrial unit in central Scotland. The allocation to Real Assets fell from 18.2% to 17.3%.

Non-Gilt Debt

4.18 Exposure to Non-Gilt Debt also fell slightly over the year, broadly consistent with the revised strategy allocation. A combination of private debt distributions, maturing fixed income securities and market movements caused the change - the asset class performed relatively weakly over the year. The allocation to Non-Gilt Debt fell from 9.2% to 7.6%.

LDI

4.19 The largest change in allocation over the twelve-month period was the increase in the LDI policy group (gilts). This was triggered by a higher revised investment strategy allocation. Given the extremely low interest rates engineered post-COVID by central banks and the expectation that inflation would rise, gilts purchases were undertaken slowly over the year as interest rates rose. The exposure to LDI rose from 5.6% to 8.5%.

Cash

4.20 The net result of the changes was an increase in cash, which is a temporary, defensive position supported by the fund's advisers. This proved to be a better option than nominal gilts, which fell over the year to end March 2022.

Unfunded Commitments

4.21 Across a number of policy groups, the Fund makes commitments to unlisted investments and the timing of these can be uncertain as it depends on the manager being able to purchase assets. Details of outstanding commitments at 31 March 2022 are shown in the table below. Unfunded commitments of £218m compares with £220m at 31 March 2021.

Private Markets Unfunded commitments	**£m**	**% of Fund assets**
Private Equity	32	0.3%
Infrastructure	102	1.1%
Timber & Agriculture	56	0.6%
Property	2	0.0%
Private Debt	27	0.3%
Total Commitments	**218**	**2.3%**

Investment performance to 31 March 2022

4.22 The Fund's performance over the last year and over longer-term timeframes is presented in the table below, both relative to benchmark and with other relevant long-term measures - a liability proxy (over 15-year gilts index) and two inflation measures, the consumer price index (CPIH) and average weekly earnings (AWE)

Annualised returns to 31 March 2022 (% per year)	1 Year	5 Years	10 Years
Lothian Pension Fund	10.8%	6.5%	9.7%
Benchmark	8.8%	8.6%	10.0%
Relative	*2.0%*	*-2.1%*	*-0.3%*
Liability proxy	-7.2%	0.9%	5.0%
Consumer price index (CPIH All Items)	6.5%	2.6%	2.0%
Average Earnings (AWE)	9.9%	4.1%	3.0%

4.23 The Fund aims to achieve a return broadly in line with its strategic benchmark, over the long term, with a lower-than-benchmark level of risk. Over the twelve months to end March 2022, the Fund produced an absolute return of +10.8%, which was ahead of the benchmark return of +8.8%. With risk below benchmark, it achieved its long-term objective over the short 1-year timeframe. Returns were predominantly driven by equities and real assets, which both produced double digit gains over the period. The Fund's equities gained 13.4% over the year, modestly ahead of the global index (MSCI ACWI in GBP) return of +12.4%. Within the real assets category, the return of +13.8% was led by strength in both the direct (+22.5%) and indirect (+16.3%) property investments.

4.24 Five-year returns were lower than benchmark at +6.5% p.a. vs +8.6% p.a. and over ten years the comparison was +9.7% p.a. vs +10.0% p.a. As noted above, these figures will be impacted for some time by the difficult experience of 2020 and the boom in financial asset prices over recent years.

4.25 On the risk side of the equation, the Fund has achieved its returns with notably lower levels of volatility than its benchmark (approximately 76% of benchmark risk over five years and 85% over ten years), so from a risk / return perspective the outcomes were in line with or better than expected over 1, 5 and 10-year timeframes.

4.26 The returns from the Fund's broad policy group benchmarks over 1 and 5 years are as follows (policy group returns not available for 10 years):

To end March 2022

Policy Group	1 Year (%)		5 Year (% pa)		10 Year (% pa)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equities	13.4	12.4	7.4	10.5		
Real Assets	13.8	6.4	7.7	6.8		
Non-Gilt Debt	4.2	-5.0	3.2	2.5		
LDI (Gilts)	2.7	3.9	3.1	3.3		
Total Fund Return	10.8	8.8	6.5	8.6	9.7	10.0
Total Fund Risk*	8.4	9.4	6.7	8.8	6.8	8.0

**1 year predicted; 5 & 10 years ex-post (source: Portfolio Evaluation)*

4.27 In the table above, absolute returns have been strong from both equities and real assets. Within equities, while the 12-month relative return is positive, the 5-year figure is -3.1% p.a.. Lothian's lower risk equities have, unsurprisingly, lagged the notable equity market gains. This was particularly evident through 2020, when the Fund's lower risk exposure was negatively impacted by Covid and associated lockdowns, relative to the benchmark. This will continue to impact longer-term figures for some time. Despite this, absolute equity returns remain strong at +7.4% p.a.. Real assets have gained 13.8% over 12 months and 7.7% p.a. over 5 years and are ahead of their gilts +2.5% p.a. benchmark.

4.28 Other policy group returns were modest over both the 12-month and 5-year periods.

4.29 Over the year to 31 March 2022, notable performance within each policy group was as follows:

- The Fund's equity investments produced a good return of +13.4% but, within this, results were mixed. In what was almost a mirror image of last year, weakness was seen from Baillie Gifford Global Alpha (-6.8%), UK All Cap (-5.5%) and UK Mid Cap (-4.1%) while strength was seen from the private equity (+24.4%), US (+22.1%), GLOVE (+19.0%), Nordea (+15.6%), GHDY (+15.3%) and SMuRV (+14.3%) equity portfolios.
- The Fund's Real Assets allocation returned +13.8% over the year. Returns from property (+21.3%) were the key driver of strength, while timber & agriculture (+18.4%), listed infrastructure (+13.1%) and infrastructure limited partnerships (+8.9%) also contributed strongly.
- The Fund's Non-Gilt Debt exposure produced a return of +4.1% over the year. Relative strength was seen in private debt (+7.2%) and US TIPS (+7.0%) with weakness from Baillie Gifford Corporate Bonds (-4.7%) and more defensive credit - Legal & General AAA-AA-A Fund – (-5.1%).
- The Fund's Index-Linked investments delivered a return of +2.7% over the year, lagging other policy group returns.

4.30 Returns relative to the benchmark over a one-year period need to be placed in the context that there are no ideal benchmarks for many of the assets held in the Fund, especially within the Real Assets policy group and more broadly across the various unlisted investments. The true value and returns on unlisted investments will not be known until assets are realised, perhaps not for several years.

Scrutiny & Transparency of Investments

4.31 Details of the Lothian Pension Fund's investments are reported regularly, both in Committee reports and in the Annual Report & Accounts, both of which are publicly available. The Fund is also subject to regular Freedom of Information requests to which it responds promptly. A complete list of holdings is also made available on the Fund's website.

Funding Level Update

4.32 Based on the movements of the Fund's assets and a proxy for the Fund's liabilities, the funding level is expected to have improved over the year to end March 2022 as the Fund's assets have increased in value from end March 2021, while the liabilities are estimated to have declined in value due to rising rates.

4.33 The next triennial valuation at 31 March 2023 will be undertaken during 2023 and concluded by 31 March 2024 at the latest.

Conclusions

4.34 In general, the investment strategy changes were relatively small as one would expect from a long-term pension scheme. The changes to actual asset mix were also relatively minor. The largest actual change was the increase in LDI, which rose by 2.9 percentage points over the year.

4.35 The equity allocation was reduced somewhat over the year and is now broadly in line with the strategic target at 31 March 2022 (58.4% vs 58.0%). The largest deviation from strategy is the overweight position in cash (+8.1%), which reflects increasing concern about the valuation of other assets. With interest rates extremely low, the fund has underweight positions in LDI (8.5% vs 13.1%) and Non-Gilt Debt (7.6% vs 9.7%), both of which are vulnerable to rising interest rates. The Real Assets (17.3% vs 19.2%) policy group is also underweight but this is due to liquidity constraints and market movements rather than an intentional position. The Fund has operated comfortably within the prescribed ranges over the year.

4.36 The most significant investment activity during the year was the increase in LDI (+£324m) and the reduction in equities (-£272m), both of which were prompted by the revised strategic allocations.

4.37 The absolute performance of Lothian Pension Fund over the twelve-month period was +10.8%. Five-year performance is +6.5% per annum. Over ten years, the Fund returned +9.7% per annum.

4.38 The returns for the 12-month to end March 2022 are strong in absolute terms and ahead of benchmark (+10.8% vs. +8.8%). As a result of a relatively weak 2020 calendar year, five and ten-year returns are behind benchmark, though strong in absolute terms. These returns have been achieved at lower than benchmark risk, broadly in-line with strategy.

4.39 The funding level is expected to have improved over the year to end March 2022 as the Fund's assets have increased in value from end March 2021, while the liabilities are estimated to have declined in value due to rising rates. The funding level will be updated at the time of the triennial actuarial valuation in 2023.

5. Financial impact

5.1 The report details the investment performance and funding position of Lothian Pension Fund. The investment performance has a significant impact on the funding levels and potentially on the contributions required from employers.

6. Stakeholder/Regulatory Impact

6.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the fund and they are invited to comment on the relevant matters at Committee meetings.

6.2 There are no adverse governance, compliance or regulatory implications as a result of this report.

7. Background reading/external references

7.1 None.

8. Appendices

None.

Pensions Committee

2.00pm, Wednesday, 29 June 2022

Annual Investment Update – Scottish Homes Pension Fund

1. Recommendations

The Pensions Committee (Committee) is requested to:

1.1 note the asset allocation, investment performance and funding update of the Scottish Homes Pension Fund.

Bruce Miller
Chief Investment Officer, Lothian Pension Fund

Contact: Ross Crawford, Portfolio Manager, Lothian Pension Fund

E-mail: Cra51R33@lpf.org.uk | Tel: 0333 996 1957

Annual Investment Update – Scottish Homes Pension Fund

2. Executive Summary

2.1 This report provides an update for the year to end March 2022 on the strategic allocation and the invested assets of the Scottish Homes Pension Fund (the Fund).

2.2 As reported at the March 2021 Pensions Committee meeting, the funding level of the Scottish Homes Pension Fund on 31 March 2020 was 117.7%, an increase from 104.7% at the 2017 valuation.

2.3 In line with the Scottish Government's guidance, the Fund's objective is to minimise the investment shortfall risk of assets relative to liabilities. Accordingly, the Fund's assets comprise UK gilts and cash as closely matched to the estimated liability payments as possible.

3. Background

3.1 The City of Edinburgh Council took over the administration of the deferred and pensioner liabilities of Scottish Homes (Fund) in July 2005. An agreement between the Scottish Government and the City of Edinburgh Council (the Guarantee) was put in place in June 2005 whereby the Scottish Government acts as the 'Guarantor' for the Fund liabilities.

3.2 The Guarantee and the investment strategy are designed to reduce investment risk as the Fund is closed to new members and the liabilities are maturing over time.

3.3 The Target Funding Level (TFL), as set out in the Guarantee, was 94.5% on 31 March 2020 rising to 100% in 2044. The Actual Funding Level (AFL) on 31 March 2020 was 117.7%.

3.4 As the AFL was above the TFL, no deficit contributions are required from the Scottish Government (as Guarantor) for the period April 2021 to March 2024. The Guarantor is, however, responsible for meeting the cost of administration and oversight and governance, and these have been set at £90,000 per annum. Any investment expenses will be met from the current funding surplus.

4. Main Report

Funding Level

4.1 As reported at the March 2021 Pensions Committee meeting, the funding level of the Scottish Homes Pension Fund at end March 2020 was 117.7%, an increase from 104.7% at the 2017 valuation. The increase in funding level reflects actuarial revisions to financial and demographic assumptions based on actual experience over the three years as well as changes to asset values, which are not a perfect match for liability values.

4.2 As full funding had been achieved faster than expected, the Scottish Government was consulted over future funding options. It decided not to change the Funding Agreement, and so the investment strategy to minimise investment risk is retained.

Investment Objective

4.3 Given achievement of full funding, the Committee approved the following investment objective in June 2018:

To match the cash flow from gilt income and redemption payments as closely as possible with the expected liability payments of the Fund.

The objective was reaffirmed in June 2021 and is reflected in the Statement of Investment Principles.

Investment Strategy

4.4 The strategic allocation to bonds (UK gilts) is essentially 100%. The actual allocation is shown in the table below.

	Actual Allocation	
Policy Group	**31 March 2021**	**31 March 2022**
Gilts	**90.5%**	**91.9%**
Index-Linked Gilts	*60.1%*	*64.6%*
Nominal Gilts	*30.4%*	*27.3%*
Cash	**9.5%**	**8.1%**
TOTAL	**100%**	**100%**
Asset Value (£)	**£158m**	**£154m**

4.5 A detailed analysis of the Fund's liabilities was undertaken during 2018/19 to ensure that the invested assets were as closely matched with the liability profile as possible, taking into consideration the expected duration of liabilities and whether they are fixed or index-linked in nature. This resulted in an increase in holdings of nominal gilts and a decrease in index-linked gilts to achieve a closer asset-liability match.

4.6 At end March 2022, the fund's assets are matched with the duration of the liabilities. The fund's strategy is to match the cash flows of liabilities one year beyond the date of the next valuation and to match the duration of liabilities beyond that. This is because of the greater visibility of pension payments in the near term. Over the longer term, funding levels are subject to the actuary's financial and demographic assumptions of future experience, which are re-examined every three years.

4.7 At end March 2022, the funding level is estimated to be broadly similar to the position at the end March 2020 valuation. The next triennial actuarial valuation will calculate the funding level at end March 2023.

4.8 As the Fund is mature, it must redeem maturing assets to pay pensions. Cash or cash equivalents are held to enable pensions to be paid in between the dates that gilts redeem. Over 2021/22, £7.2m was redeemed to pay pensions, which compares with the Fund value of £154m at the end of March 2022.

4.9 Being fully funded, the fund invests excess cash in short-dated bills and gilts. The cash and cash equivalents balance at end March 2022 covers pension payments for approximately twenty-one months.

5. Financial impact

5.1 The financial impact for the Scottish Government is described in paragraph 3.4. The funding level of the Scottish Homes Pension Fund, which depends on relative changes to asset and liability values, affects the contributions required from the Scottish Government. Lothian Pension Fund recovers expenses for administering and managing the Fund.

5.2 The Scottish Government's decision not to change the funding agreement provides greater certainty of the funding level, but at a potentially higher long-term cost.

6. Stakeholder/Regulatory Impact

6.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the fund and they are invited to comment on the relevant matters at Committee meetings.

6.2 There are no adverse governance, compliance, or regulatory implications as a result of this report.

7. Background reading/external references

7.1 None.

8. Appendices

None.

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Pensions Committee

2.00pm, Wednesday, 29 June 2022

Risk Management Summary

1. Recommendations

The Pensions Committee (Committee) is requested to:

1.1 note the Quarterly Risk Overview as at 23 May 2022.

Struan Fairbairn
Chief Risk Officer, Lothian Pension Fund

Contact: Sean Reid, Risk and Compliance Manager, Lothian Pension Fund

E-mail: Rei97S22@lpf.org.uk | Tel: 0333 996 1964

Risk Management Summary

2. Executive Summary

2.1 In line with the Lothian Pension Fund's (**LPF**) ongoing risk management procedures, this paper provides an overview of LPF's risk analysis arising from the meeting of the Risk Management Group on 23 May 2022.

2.2 LPF's Senior Leadership Team (**SLT**) have reviewed the Quarterly Risk Overview.

3. Background

3.1 LPF's risk management procedures require it to:

3.1.1 maintain a detailed operational risk register which sets out all the risks identified and assessed by the officers on an ongoing basis against the group's risk appetite, the degree of risk associated in each case and the action taken to mitigate those risks (the **Operational Risk Register**); and

3.1.2 produce a summary report of the risk register for the Committee and the Pensions Committee which highlights the material risks facing the group and identifies any new risks/concerns and the progress being made over time by the officers in mitigating the relevant risks (the **Quarterly Risk Overview**).

3.2 The Conveners and Independent Professional Observer receive a copy of the full risk register every quarter.

3.3 The Audit Sub Committee reviews the full risk register on an annual basis as part of its in-depth review in December, which also includes a review of the group's overall risk assurance analysis and risk appetite statement.

3.4 The LPFI Limited (**LPFI**) and LPFE Limited (**LPFE**) boards consider their own risks separately and, in the case of LPFI, in line with the regulatory requirements of the Financial Conduct Authority. However, material risks relating to these operational subsidiaries do feed into the overarching group risk management process to the extent appropriate. The Committee also receives a separate update on the operations of those underlying operational subsidiary companies.

4. Main Report

4.1 The Quarterly Risk Overview as at 23 May 2022 (**Appendix 1**) is included for the Committees consideration.

4.2 The group is currently subject to an internal audit of its risk management framework as part of this year's annual audit plan. This is being carried out by PwC under direction of the City of Edinburgh Council's internal audit team. At the time of writing, fieldwork has been completed and a draft report is expected shortly. The fund will report to the Committee on any relevant findings but initial feedback from PwC suggests there are no material findings and only a handful of advisory considerations.

5. Financial impact

5.1 There are no direct financial implications as a result of this report.

6. Stakeholder/Regulatory Impact

6.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the fund and they are invited to comment on the relevant matters at Committee meetings.

6.2 Except as otherwise stated in the report itself, there are no adverse health and safety, governance, compliance or regulatory implications as a result of this report.

7. Background reading/external references

7.1 None.

8. Appendices

Appendix 1 – Quarterly Risk Overview, as at 23 May 2022

LOTHIAN PENSION FUND

Quarterly Risk Overview

23 May 2022

LOTHIAN PENSION FUND

Executive Summary

This document provides a summary of the assessment of the LPF group's risks by the Risk Management Group (RMG) on 23 May 2022. The RMG oversees the LPF group risk register, which is reviewed on an ongoing basis by the risk function and at least quarterly by RMG itself.

Risks are managed across the group by existing controls – activities and measures put in place to prevent and detect risks. These controls are subject to ongoing monitoring and assurance. Where further one-off actions are needed to mitigate risks, these actions are managed at an operational level with reporting to, and oversight by, the RMG. This report provides a narrative update on relevant key risks, rather than lists of actions and controls.

Background

The LPF group risks should be viewed in the context of the following wider background and organisational changes:

Project Forth

- Project Forth – a potential merger with Falkirk Council Pension Fund – was publicly announced on 24 May 2022.
- Project specific risks are tracked and managed within the project, with an information flow to ensure material risks are taken into account on LPF-group risk register where necessary. The potential impact of Project Forth is therefore being reflected in current risk register scoring and mitigations.

COVID-19 and move to blended model

- The pandemic is no longer judged to have a material impact on risk scoring.
- The final phase of a move to a 'blended' model commenced in March 2022, with all LPF colleagues are now working two days physically in office and the remainder remote. The impact of the blended model on areas such as operations, business continuity and staff morale remains closely monitored, as is medium term analysis of the systems and controls supporting that model.

IT provider and information security

- The group moved to a new IT provider in August 2021. Previously, services were provided as part of CEC's wider IT service. Following a period of bedding in, this is now in ongoing business-as-usual - with systems and day-to-day operations more stable and resilient than previously, and greater control and visibility over any issues.
- A number of assurance activities have been carried out during and post-migration - including penetration testing, data protection impact assessments, an internal audit on LPF's technology model, and a cyber security maturity assessment. Action plans are underway to address recommendations arising from these activities.
- Risk scores on data protection, information rights, and cyber security are elevated while these actions are underway, and will be re-assessed as they progress.

Investment management services

- FCA-regulated investment management services were launched in December 2020 for collaborative partners.
- Assets under management are expected to increase further over the next 6-12 months as other new portfolios are taken on. This expansion of services may increase operational risks – i.e. day to day operations, resourcing, increased regulatory obligations and monitoring.

Council elections

- On 5 May 2022, the council elections took place which resulted in changes to the Pension Committee membership.

- Due to the uncertainty of the scheduled meetings and the potential impact on decisions required of pensions committee at the time of assessing this risk, the risk has been elevated. Once induction training has taken place for new members and committee dates for 2022 re-confirmed, scores will be re-evaluated.

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Risk register at 23 May 2022

Total risks	High	Moderate	Low
38	1	14	23

See Appendix 2 for full list of risks.

Changes since last review 15 Feb 2022

New	Closed	Improved	Deteriorated	Unchanged
0	0	3	2	33

No new risks added or removed

3 risk scores improved since last review:

- **Risk 7 – Failure of IT systems.** Reduced from 30 to 24, Moderate to Low. Now in BAU, systems are stable with ongoing controls and supplier monitoring in place.
- **Risk 11 – Business continuity.** Reduced from 30 to 24, Moderate to Low. No longer operating in business continuity: now in final phase of move to blended model with two days physically in office and remainder remote.
- **Risk 33 – Resource.** Reduced from 36 to 30, High to Moderate. A number of mitigating actions have completed, including approval of organisational plans; recruitment; appointment of external firm to perform project management on Forth.

2 risk scores deteriorated since last risk review:

- **Risk 9 – Pension committee.** Increased from 24 to 30, Low to Moderate. Elections in May 22 resulted in new pension committee members and requirement for training; LPF have taken steps to plan engagement and induction activities. Scores will reduce once induction for new members compete.
- **Risk 27 - Governance not working effectively.** Increased from 30 to 35, Moderate to High. Recent elections increased probability of disruption to schedule of committee meetings, and timing of decisions. Score will be reassessed once committee cycle for remainder of 2022 confirmed.

Other relevant updates

- Material litigation – none
- **Risk 32 – Over reliance on dominant service provider(s).** Risk description changed from reliance on *single service provider*, to *dominant service provider(s) to capture a slightly broader spectrum of risks in this area*.

LOTHIAN PENSION FUND

Detailed Update

Update on all 'High' or 'Moderate' risks, detailing the risk score (0-100), any score changes since last report, and narrative:

Risk & reference number	Update
27 - Group structure and governance fully compliant and up-to-date	**Score: 35. Deteriorated** Recent elections increased probability of disruption to schedule of committee meetings, and timing of decisions. Score will be reassessed once committee cycle for remainder of 2022 confirmed.
36 - Cybersecurity protections and/or back-up not sufficient to prevent/minimise cyber-attacks.	**Score: 32. Unchanged.** Independent cyber security maturity assessment completed in Dec 2021. Concluded that current state has "features of higher-level maturity" but highlighted risks on defined processes, incident response, and supply chain management. These are being addressed by an action plan. Escalating global tensions and potential for heightened cyber threat being kept under review. Not impacting our risk scores – existing controls will remain in place regardless of threat.
38 – Project and change activities not effectively managed	**Score: 32. Unchanged** Over the next 12 months this will be primarily driven by Project Forth, but in time will reflect the ongoing suite of project and change activities. It is currently rated Amber but will be kept under review as project deliverables, timelines and resource requirements are clarified. The Fund has recruited dedicated project management resource, and set up appropriate governance, to help support this aspect of its business and mitigate this risk.
9 - Pension committee (or other) members take decisions against sound advice, on political grounds or due to lack of knowledge	**Score: 30. Deteriorated** Elevated due to requirement for training and onboarding of new committee members following recent council elections. Once induction training has taken place, scores will be re-evaluated.
12 - Members' confidential data is lost or made public. Breach of Data Protection Act	**Score: 30. Unchanged** The Information Governance project is underway to review and address our data protection systems and controls, and this score will be reviewed on completion – expected during Q2 – Q3 2022. The Fund is comfortable our systems and controls to protect member data and identify and report breaches are robust. Enhancements are required to fully document existing processes, and to refresh training and awareness amongst colleagues.
21 - Information Rights processes not in accordance with regulations	**Score: 30. Unchanged** Score is elevated while an Information Governance project is underway to review and improve processes around records management and retention i.e. not keeping information for longer than is necessary.
23 - Acting beyond proper authority/delegations	**Score: 30. Unchanged** Score unchanged while mitigating actions are in process - the risk remains amber, although there has been no breach in existing delegations. A review and refresh of the Scheme of Delegations is underway, to clearly map them to the functions within the LPF group.
20 - Regulatory breach	**Score: 30. Unchanged**

Risk & reference number	Update
	Risk remains higher to reflect the increased regulatory burden from FCA-regulated investment services. LPFI compliance monitoring has been enhanced and is picking up minor findings and recommendations, which shows it is working effectively. Score expected to be reviewed after a full annual cycle of LPFI's improved monitoring (Q2 2022).
25 - Procurement/framework breach	**Score: 30. Unchanged**
	The risk is static due to the enhanced impact the procurement regime has on LPF's developing business model (sitting within all of the financial services, pensions and public sector regimes) and the fact that progress on developing new systems, controls and procedures in this area has been hampered by the prevailing circumstance of the last 18 months. LPF is continuing to work closely with CEC to align procurement processes to the specific needs of the LPF group business and also satisfy CEC's oversight requirements.
33 - Staff Resource within the Fund not sufficient to carry out core tasks	**Score: 30. Improved.**
	Score was previously high to reflect the increasing burden on existing staff, particularly senior management, from Project Forth, assurance activities, and other organisational development projects and change initiatives. An organisational review and additional recruitment has been completed. Governance for Project Forth has been agreed and the project is underway, with resource risks tracked within project.
4 - Failure to recruit, engage and retain talent	**Score: 28. Unchanged**
	Unchanged. There has been successful recruitment in a number of areas however it is a candidate tilted market, particularly in more technical roles. We are incurring more recruitment related costs.
3 - Failure of an employer to pay contributions	**Score: 28. Unchanged**
	Employers continue to be under increasing financial pressure due to the global pandemic and resulting economic implications. The fund continues to monitor this on an ongoing basis with regular employer contact and existing controls. Admission agreements are subject to review and update following employer covenants review.
1 - Investment Performance pressure on employer contributions	**Score: 25. Unchanged**
	A number of actions have been taken to reflect recent JISP investment strategy review, including adjustments to allocations, and strategy/unitisation reporting to JISP.
2 - Adverse Movement - pressure on employer contributions	**Score: 25. Unchanged**
	The employer contribution rates approach has changed from deterministic to risk-based, with Funding Strategy Statement updated and employers consulted and informed.
35 - Inadequate, or failure of, supplier and other third-party systems (including IT and data security).	**Score: 25. Unchanged**
	We monitor availability for key suppliers, reported to relevant groups. Our supplier management processes are being reviewed, and a risk-based framework will be implemented to ensure greater consistency across providers.

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Appendix 1 – Risk Scoring & Distribution Chart

Risk scoring:

	Impact	Probability
1	No discernible effect	Virtually impossible
2	Little discernible effect	Extremely unlikely
3	Some effect noticeable	Remotely possible
4	Some effect on service provision	May occur
5	Noticeable effect on service provision	Fairly likely to occur
6	Some disruption of service	More likely to occur than not
7	Significant service disruption	Likely to happen
8	Material disruption to services	Probably will happen
9	Major service disruption	Almost certainly will happen
10	Catastrophic	Already happening

RAG (Red Amber Green) status:

	Risk Status
	High: resolve urgently where possible (probability and impact total 35 and above)
	Moderate: resolve where possible (probability and impact total 25 to 34)
	Low: monitor (probability and impact total 24 and below)

Risk Distribution - at 23 May 2022:

Probability \ Impact	1	2	3	4	5	6	7	8	9	10
10										
9										
8				1						
7				1	1					
6					2					
5			1	1	3	5				
4				5	7	3	1	1		
3			1	2	1		2			
2										
1										

Appendix 2 – Full Risk Key

Full risk register Red Amber Green (RAG) status at 23 May 2022:

Ref	Risk	RAG
1	Investment Performance causes higher employer contributions	
2	Adverse change in assumptions - pressure on employer contributions	
3	Failure of an employer to pay contributions	
4	Recruitment & retention of staff	
5	Fraud by LPF staff or relating to members (including pension liberation fraud)	
6	Staff negligence, maladministration or lack of specialist knowledge	
7	Failure of IT systems	
8	Staff culture & engagement issues	
9	Pension Committee members take decisions against sound advice	
10	Pension Board not operating effectively	
11	Business continuity issues	
12	Members' confidential data is lost or made public. Breach of Data Protection Act	
13	Compliance with Statement of Responsible Investment Principles	
14	Risk of incorrect pension payments	
15	Late payment of pension	
16	Market abuse by investment team	
17	Portfolio transition issues	
18	Disclosure of confidential information	
19	Material breach of contract	
20	Regulatory breach	
21	Information Rights in accordance with regulations	
22	Incorrect communication with members	
23	Acting beyond proper authority/delegations	
24	Inappropriate use of pension fund monies	
25	Procurement/framework breach	
26	Procurement process compromising ability to secure required resource.	
27	Group structure and governance fully compliant and up-to-date.	
28	Claim or liability arising from shared services	
29	Unauthorised access to employer online system	
30	Incorrect data from Employers leading to fines	
31	Inadequate contractual protection for services	
32	Over reliance on dominant service provider	
33	Staff Resource within the Fund not sufficient to carry out core tasks	
34	Breach of Health and safety regulations	
35	Inadequate, or failure of, supplier and other third-party systems	
36	Cybersecurity protections and/or back-up not sufficient to prevent/minimise cyber-attacks.	
37	Climate related operational risks	
38	Project and change activities not effectively managed	

Appendix 3 – Three-year risk trends

Ref	Risk	Q2 2019/20	Q3 2019/20	Q4 2019/20	Q1 2020/21	Q2 2020/21	Q3 2020/21	Q4 2020/21	Q1 2021/22	Q2 2021/22	Q3 2021/22	Q4 2021/22	Q1 2022/23
1	Investment Performance causes higher employer contributions	Green	Green	Green	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber
2	Adverse change in assumptions - pressure on employer contributions	Red	Red	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber
3	Failure of an employer to pay contributions	Amber	Amber	Green	Green	Green	Amber	Amber	Amber	Amber	Amber	Amber	Amber
4	Recruitment & retention of staff	Green	Green	Green	Green	Green	Green	Green	Amber	Amber	Green	Amber	Amber
5	Fraud by LPF staff or relating to members (including pension liberation fraud)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
6	Staff negligence, maladministration or lack of specialist knowledge	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
7	Failure of IT systems	Red	Red	Red	Red	Red	Red	Red	Red	Amber	Amber	Amber	Green
8	Staff culture & engagement issues						Amber	Amber	Amber	Amber	Amber	Green	Green
9	Pension Committee members take decisions against sound advice	Green	Green	Green	Amber	Amber	Green	Amber	Green	Green	Amber	Green	Amber
10	Pension Board not operating effectively	Green	Green	Amber	Amber	Amber	Green	Amber	Green	Green	Green	Green	Green
11	Business continuity issues	Amber	Amber	Amber	Red	Red	Red	Red	Red	Amber	Amber	Amber	Green
12	Members' confidential data is lost or made public. Breach of Data Protection Act	Amber	Amber	Amber	Red	Red	Red	Red	Red	Amber	Amber	Amber	Amber
13	Compliance with Statement of Responsible Investment Principles									Green	Green	Green	Green
14	Risk of incorrect pension payments	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
15	Late payment of pension	Green	Green	Green	Amber	Amber	Amber	Red	Amber	Amber	Amber	Green	Green
16	Market abuse by investment team	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
17	Portfolio transition issues	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
18	Disclosure of confidential information	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
19	Material breach of contract	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
20	Regulatory breach	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber
21	Information Rights in accordance with regulations	Green	Green	Green	Green	Green	Green	Green	Green	Amber	Amber	Amber	Amber
22	Incorrect communication with members	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
23	Acting beyond proper authority/delegations	Green	Green	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber
24	Inappropriate use of pension fund monies	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
25	Procurement/framework breach	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber
26	Procurement process compromising ability to secure required resource.				Green	Green	Green	Green	Green	Green	Green	Green	Green
27	Group structure and governance fully compliant and up-to-date.	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Red
28	Claim or liability arising from shared services	Green	Green	Green	Green	Green	Amber	Green	Green	Green	Green	Green	Green
29	Unauthorised access to employer online system	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
30	Incorrect data from Employers leading to fines	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
31	Inadequate contractual protection for services	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
32	Over reliance on dominant service provider	Amber	Amber	Amber	Amber	Amber	Green	Green	Green	Green	Green	Green	Green
33	Staff Resource within the Fund not sufficient to carry out core tasks	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Red	Red	Amber
34	Breach of Health and safety regulations	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
35	Inadequate, or failure of, supplier and other third-party systems	Green	Green	Green	Green	Green	Amber	Amber	Amber	Amber	Amber	Amber	Amber
36	Cybersecurity protections and/or back-up not sufficient	Green	Green	Green	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber
37	Climate related operational risks									Green	Green	Green	Green
38	Project and change activities not effectively managed											Amber	Amber

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Appendix 4 – Background and Parameters (extract from Risk Register)

The Risk Management Group, and risk register, form part of the LPF group's critical assurance framework, covers all entities within the group and should be read in conjunction with the other forms of assurance set out in LPF's assurance overview document.

The register is formally considered by the Risk Management Group quarterly but is also updated on an ad hoc basis where required. The register also takes into account material risks identified by the wider business, including arising from (i) the other oversight groups (e.g. SLT, People, ICT Oversight and/or any relevant project groups), (ii) any prior board, committee and stakeholder feedback, and (iii) compliance monitoring and processes (e.g. breach reporting, whistleblowing).

*The Risk Management Group itself comprises senior officers of each function within the LPF group, as well as the Senior Leadership Team (**SLT**). All members are accountable for escalating material risks, with a particular focus on their respective areas, for consideration. If relevant and deemed sufficiently material, the risk will be included in the register and monitored by the risk function in conjunction with the relevant business unit.*

The approved risk register is tabled and considered by SLT following sign-off to ensure additional oversight and ongoing engagement with any resulting actions. Those actions are tracked and followed up by the LR&C team with the business on an ongoing basis. The risk register is also circulated to the conveners of the Pensions Committee and Audit Sub- Committee, Chair of the Pension Board and Independent Professional Observer on a quarterly basis, with summary analysis and reporting provided to those bodies each quarter. In addition, an in-depth risk report is provided to the Audit Sub Committee annually, which includes a review of the full register.

The risk register is a continually evolving document and doesn't purport to be a comprehensive list of every risk or potential exposure to which the LPF group entities are subject or involved in managing. It should therefore continue to be read in the context of the LPF group's overall business strategy, risk appetite and assurance map. The risk register may cross-refer to separate operational project management tools or action trackers which monitor relevant items in more granular detail and for which the business units are accountable.

Importantly, that risk appetite and assurance structure will flex to ensure that it continues to be proportionate to the size and nature of the business of the LPF group and also adhere to the following industry best practice principles:

- *Ensure that the LPF group's risk appetite **aligns with its strategy** and is **set by its senior management team without undue influence** either externally or otherwise across its assurance stack.*
- *Integrates risk as **a key component of the group's management and decision-making** processes, and so through the spine of its governance and operations.*
- *Engenders an **open, 'live' and engaged risk culture** which seeks to pro-actively identify current and future risks for the business, simplifying layers of controls to ensure this is not stifled, and so…*
- ***Not establish or perpetuate systems, controls or processes** which are out of line with, or **disproportionate to, the group's risk appetite**. That can be counterproductive in distracting key focus and resource away from delivering the group's strategy, core function and assurance over a manageable number of critical risks.*
- *Remain **aligned to LPF's existing resources** and organisational development.*
- *Ensure an **effective and independent risk and compliance function** is maintained, as a general principle and in line with the standards of the UK regulated financial services sector.*
- *Ensure appropriate levels of **separation and independence** of each of the **'four lines of defence'**, as a general principle and in line with the standards of the UK regulated financial services sector.*
- *Ensure appropriate levels of **co-operation and information sharing** across the **'four lines of defence'**.*

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