



2022/23

ANNUAL REPORT AND ACCOUNTS





TRAVEL
AIR TICKET
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CREDIT CARD

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A MESSAGE FROM THE CONVENOR OF THE PENSIONS COMMITTEE

Our responsibility as an administering authority of the LGPS Pension Fund is to offer stability to our scheme members and employers. This year Lothian Pension Fund (LPF) has continued to improve and develop the organisation to ensure that it provides the pension services that its members and employers expect and deserve.

After the Council elections in May 2022, I was appointed Convenor of the Pensions Committee and LPF also welcomed two other new Pension Committee members, Councillor Nicolson and Councillor Doggart. Together with the continuing members, Councillor Ross, Councillor Burgess, Richard Lamont and John Anzani, the committee has continued the work of our predecessors, whilst bringing a fresh perspective, new ideas and constructive feedback to LPF.

In the pages that follow, the team will highlight the progress made in terms of LPF's pensions administration and investment activities, as well as the strategy and business plan. The report will also highlight the significant work undertaken on key projects, including further developing risk management and governance practices and the implementation of new legislation.

LPF is acutely aware of the difficult financial climate and in the coming year, LPF will continue to strengthen its governance, pensions administration, finance and investment arrangements with the aim of providing services that are efficient and effective.

I would like to extend my thanks to the Committee and Pension Board and all the Fund's employees for their continuing commitment to member-focussed change, which is vital for delivering services that meet or exceed the expectations of the scheme's members and employers. I hope you find the LPF annual report and accounts informative and useful.



Mandy Watt

Convenor of the Pensions Committee 2022/23

Lothian Pension Fund

21 June 2023

A REVIEW OF 2022/23

The financial year 2022/23 has seen the continuation of the conflict in Ukraine, and exacerbation of the cost-of-living crisis, with the latter leading to significant levels of industrial action, especially in the public sector with workers looking for significant pay increases to protect their earnings.

The passing of Queen Elizabeth II after 70 years on the throne and the subsequent coronation of King Charles III, illustrates both a commitment to service and the need for continuity alongside change.

It's within this context that I'm pleased to share some of our key highlights and achievements during 2022/23, demonstrating how colleagues at Lothian Pension Fund have continued to support our members, meet our commitments on responsible investing, and progress the priorities set out in our business plan.



Progress against our Strategy and Business Plan

We launched our new Strategy and Business Plan in early 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 challenges of the current economic climate, we were able to make good progress towards delivering these goals and you can read more about our progress throughout this report.

Delivering for our members and their families

2022 got off to a great start as we welcomed our colleagues back into the office in February 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 was 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.

2022/23 was another year of success and progress for LPF. We continued to deliver for our members, paying out £196,061,842 to 35,632 members and welcoming 7,553 new members.

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 also scored 92.7% for overall customer satisfaction in our annual surveys.

A REVIEW OF 2022/23

Enhancing our digital proposition

We launched our new website in March 2022, where members and visitors can 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 pensioners. This enables us to communicate more frequently with the large number of our members who have opted into electronic communications.

Our Digital strategy continued to progress and allowed for more on-line processing and self-service options for our members which has significantly reduced the timescales involved. We introduced on-line facial recognition software in August 2022 to make our 'Annual Proof of Existence' checks easier for our overseas members.

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 funding 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 2023 were £9,701m (March 2022 £9,607m).

Work has commenced on the new valuation as at 31 March 2023. The results of this should be reported on in next year's annual report.

WHAT OUR MEMBERS SAY:

"Very approachable staff, efficient and friendly professional service."



A REVIEW OF 2022/23

Investing in our people

During the year we recruited 26 new colleagues across a variety of roles within the Member Services, Finance, Legal, Risk & Compliance, Governance, Investment and IT teams. This includes Kerry Thirkell as Chief Risk Officer, who joins my Senior Leadership Team and the Board of LPFI, our regulated asset management company. Kerry brings extensive experience into this critical role and will help ensure our risk management framework and processes are robust and fit for purpose.

Hiring these colleagues 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. You can read more about what we're doing to make LPF a great place to work on pages 59-64.

The LGPS in Scotland and Northern Ireland

LPFI continued to provide advisory services to the LGPS funds of Fife, Falkirk, Scottish Borders, and Northern Ireland, as well as managing assets for Falkirk (two sovereign bond portfolios and a global equity portfolio) and for Fife (two global equity portfolios and one sovereign bond portfolio). In September 2022, we were pleased to receive confirmation from the FCA that the asset cap restricting the funds under management of LPFI was removed. This enables us to increase the funds we can manage for the Falkirk and Fife funds.



We continued to explore a merger with Falkirk Council Pension Fund. Work to take the 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.

Maintaining momentum on responsible investment

Our focus and commitment to being a responsible investor continued. Our investment strategy currently seeks alignment with the Paris goals and uses the Transition Pathway Initiative to guide us in this regard. We intend to explore a net zero commitment in 2023 and would expect to introduce such a commitment and target date once we're confident about what such a commitment means for a fund and that we're capable of achieving it.

In March 2023, we were proud to be listed as a signatory to the UK Stewardship Code, following the publication of our Stewardship Report. 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 and demonstrates how we're delivering against the 12 principles set out by the Financial Reporting Council.

A REVIEW OF 2022/23

We published Issues 5 and 6 of our ESG ezine, *ENGAGE*, which gives detailed information on LPF's approach to ESG and our responsible investment activities.

We continue to work with the Scottish Local Government Pension Scheme Advisory Board, who are considering enhanced climate change reporting, and advising Scottish Ministers following the Department for Levelling Up, Housing and Communities public consultation on the same subject for the Local Government Pensions Schemes (LGPS) in England and Wales.

McCloud and The Pensions Dashboard

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. Regulations are expected towards the end of 2023, and we remain ready to communicate with employers and members on the requirements and implications.

The Pensions Dashboard Regulations 2022 were laid and approved by the UK government and came into force on 12 December 2022. Between 2023 and 2025, pension schemes will be compelled to join the ecosystem by their staging deadline, which is 30 September 2024 for public service pensions. Pensions Dashboards will give increased transparency of expected pension benefits. The primary impact for LPF beyond supporting its introduction, is the likely increase in member queries from the increased visibility.

Affordability of pensions

During the year we assisted three employers with a managed exit from the Fund and we have a total of 19 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 amended our Funding Strategy Statement in line with regulatory amendments which allow greater flexibilities to help funds manage employer exits.

Oversight and governance of the Fund

The local elections in May 2022 resulted in changes to the composition of the Pensions Committee. Councillor Mandy Watt took over as convenor, with Councillors Doggart and Nicolson joining the



A REVIEW OF 2022/23

Committee. Councillors Rose, Child and Munn left the Council and Committee following the elections and I'd like to acknowledge their contribution to the effective governance of the Fund. With a comprehensive induction programme and continuity provided by the four remaining members of the Committee, good governance was maintained through the transition.

Throughout this report, there's comment from Mandy on behalf of the Pensions Committee, from Jim Anderson on behalf of the Board, Hugh Dunn on behalf of the LPFI and LPFE Boards and from Andy McKinnell 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
21 June 2023

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 2023 and were 106% funded at our last valuation in 2020, managing 93,716 records of 87,716 members and 63 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 1,349 deferred and pensioner members with £0.13 billion investments.

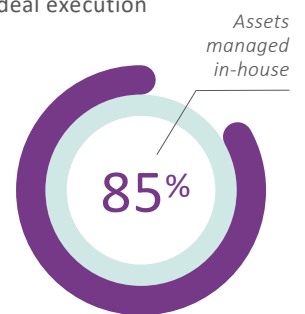
We manage over 85% of assets in-house investing in infrastructure, property and timberland in the private market portfolios as well as listed equity and bond portfolios.

LPF is unique within the Scottish LGPS sector in having our own FCA authorised asset management firm. 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 this accreditation along with 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, Pensions Administration Strategy and Pensions Discretions Policy.



COLLEAGUE PROFILE ANDREW DUFFY, DATA ANALYST

Andrew joined LPF in June of 2020 as a Trainee Pensions Administrator and started his current role as a Data Analyst in January of this year. Andrew helps to maintain and improve the quality of LPF's data as well as making sure the information we receive from employers every monthly is accurate.

"My role is challenging and interesting and I enjoy having the opportunity to explore improvements to our processes and data collection. I really like the people and culture at LPF. Having friendly and supportive colleagues make for a very pleasant working environment."



GOVERNANCE AND RISK

The Pensions Committee and Pensions Audit Sub-Committee

All LPF and SHPF 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 usually holds three meetings per year. LPF's governance structures continued to operate as designed, and meetings of the Committees and Pensions Board operate via a hybrid model with some members attending in person and others dialing in remotely via Teams.

The table below shows the Committee members for the year 2022/23:

COMMITTEE MEMBERS FROM 1 APRIL 2022 - 31 MARCH 2023

| PENSIONS COMMITTEE | PENSIONS AUDIT SUB-COMMITTEE |
|--|---|
| Councillor Mandy Watt (Convenor) (from 30 June 2022) | |
| John Anzani (Member representative) | John Anzani (Member representative) (Convenor from 29 June 2022) |
| Councillor Phil Doggart (from 19 May 2022) | Councillor Phil Doggart (from 29 June 2022) |
| Councillor Neil Ross | Councillor Neil Ross |
| Councillor Steve Burgess | |
| Councillor Vicky Nicolson (from 25 August 2022) | |
| Richard Lamont (Employer representative, VisitScotland) | |
| Councillor Rob Munn (Convenor) (until 5 May 2022) | |
| Councillor Cameron Rose (until 5 May 2022) | Councillor Cameron Rose (Convenor) (until 5 May 2022) |
| Councillor Maureen Child (until 5 May 2022) | Councillor Maureen Child (until 5 May 2022) |
| Councillor Marco Biagi (from 19 May 2022 to 25 August 2022) | |

GOVERNANCE AND RISK

The Pension Board

The Pension Board was established on 1 April 2015 as set out in 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, four representatives appointed from the employer bodies and five representatives appointed by trade unions for the membership of LPF. The Pension Board membership for 2022/23 is shown in the table below. There was one vacancy as of 31 March 2023.

MEMBER REPRESENTATIVES

| | |
|---------------------|----------------|
| Jim Anderson | Unison (Chair) |
| Thomas Carr Pollock | GMB |
| Brian Robertson | Unite |
| Thomas Howorth | Unison |
| Tony Beecher | Unite |

EMPLOYER REPRESENTATIVES

| | |
|-----------------------------|-------------------------------|
| Sharon Dalli | Police Scotland |
| Darren May | Scottish Water |
| Nick Chapman | Lothian Valuation Joint Board |
| Vacancy as of 31 March 2023 | |

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.

Committee and Board representatives also attended external conferences virtually and in person, 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 the Pension Committee and Pension Board members achieved the required training hours during 2022/23 with the exception of one member. Pensions Committee members have collectively attended 179 hours of training as at 31 March 2023 and members of the Pension Board undertook 262 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 seven representatives each from member and employers with a Joint Secretary to support each group, and included Councillor Cameron Rose until May 2022, and Councillor Mandy Watt from August 2022. Brian Robertson, one of the trade union representatives on LPF's Pension Board was the chair, then vice chair of the SAB during the year. There's more information on the Scheme Advisory Board at www.lgpsab.scot.



GOVERNANCE AND RISK

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 Limited (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 Service Director: Finance and Procurement. 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, Information and Communication Technology (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.

MEMBERSHIP OF LPFI AND LPFE BOARD OF DIRECTORS IN 2022/23

| LPFE Ltd | LPFI Ltd |
|---|--|
| Hugh Dunn, CEC, Service Director: Finance and Procurement | Hugh Dunn, CEC, Service Director: Finance and Procurement (Chair) |
| Leslie Robb, Non-Executive Director | Leslie Robb, Non-Executive Director |
| Andy Marchant, Non-Executive Director | Andy Marchant Non-Executive Director |
| Councillor Mandy Watt, Convenor of the Pensions Committee (from 30 August 2022) | John Burns, LPF, Chief Finance Officer |
| David Vallery, LPF Chief Executive Officer | Bruce Miller, LPF, Chief Investment Officer |
| Katy Miller, CEC, Head of HR (until 4 November 2022) | David Vallery, LPF, Chief Executive Officer |
| Councillor Rob Munn, Convenor of the Pensions Committee (until 5 May 2022) | Kerry Thirkell, LPF, Chief Risk Officer (from 16 September 2022) |
| Struan Fairbairn, LPF, Chief Risk Officer (Company Secretary) (until 15 September 2022) | Struan Fairbairn, LPF, Chief Risk Officer) (until 15 September 2022) |

GOVERNANCE AND RISK

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 two senior investment professionals from LPFI including the Chief Investment Officer and two external independent advisers.



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

The JISP advises the three pension fund administering 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 2022 to 31 March 2023 JISP met quarterly. The table below sets out the panel's membership.

JOINT INVESTMENT STRATEGY PANEL

| | |
|----------------------|---------------------------------|
| Bruce Miller | Chief Investment Officer (LPFI) |
| Stewart Piotrowicz | Portfolio Manager (LPFI) |
| 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 Lothian Pension Fund as at 31 March 2023 comprised:

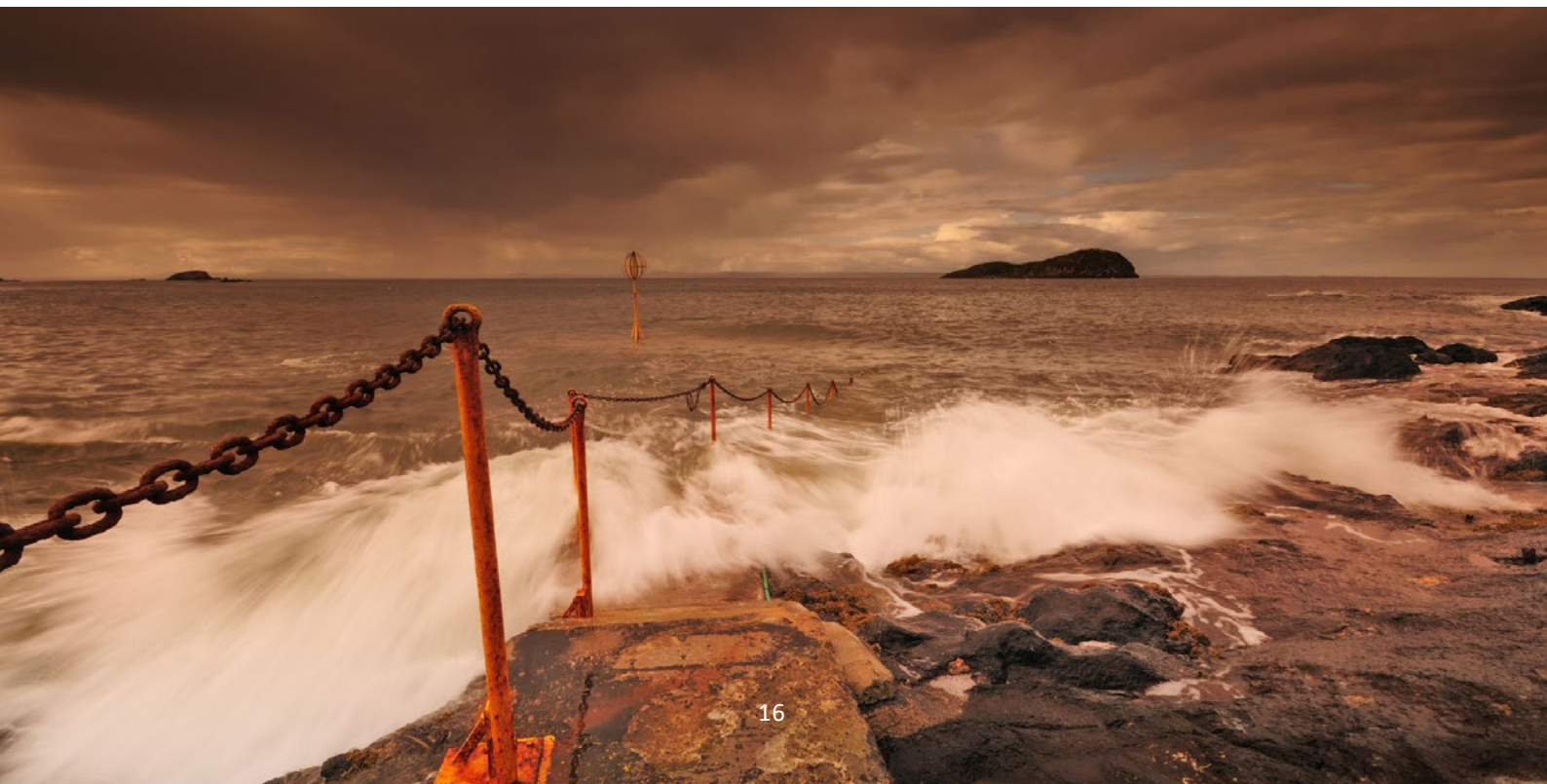
- David Vallery, Chief Executive Officer
- Bruce Miller, Chief Investment Officer
- Kerry Thirkell, Chief Risk Officer
- John Burns, Chief Finance Officer
- Helen Honeyman, Chief People Officer
- Karlyn Sokoluk, Chief Operations Officer



Risk Management

LPF has a risk management framework in place across its business functions and group entities including a toolkit and methodology for identifying, assessing, evaluating, monitoring and reporting risks and controls. This helps to ensure that we're able to operate and demonstrate an appropriate and effective control environment which continues to facilitate and support LPF's forward looking business strategy and objectives.

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 oversees the implementation and ongoing effectiveness of LPF's 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 convenors of the Pensions Committee and Audit Sub-Committee, Chair of the Pension Board and Independent Professional Observer each quarter.

At the last Risk Management Group meeting held within the reporting period, the most significant risks, together with the key controls and mitigants managing the risk, are summarised below:

Regulatory Risk

The risk of being unable to meet regulatory obligations is managed through a combination of oversight activities, compliance procedures and policies, staff training, regulatory horizon scanning and continuous improvement.

Cyber Risk

The risk that cybersecurity protections and/or back-up are insufficient to prevent or minimise attacks and disruptions, is managed through a comprehensive suite of technical security controls, complimented by an ongoing programme of training and communications, and phishing tests.

Projects & Change

The risk that project and change activities aren't effectively managed and don't deliver expected objectives is managed through a project and change framework and supporting methodology, with regular governance and oversight through a formal senior management forum.

Governance

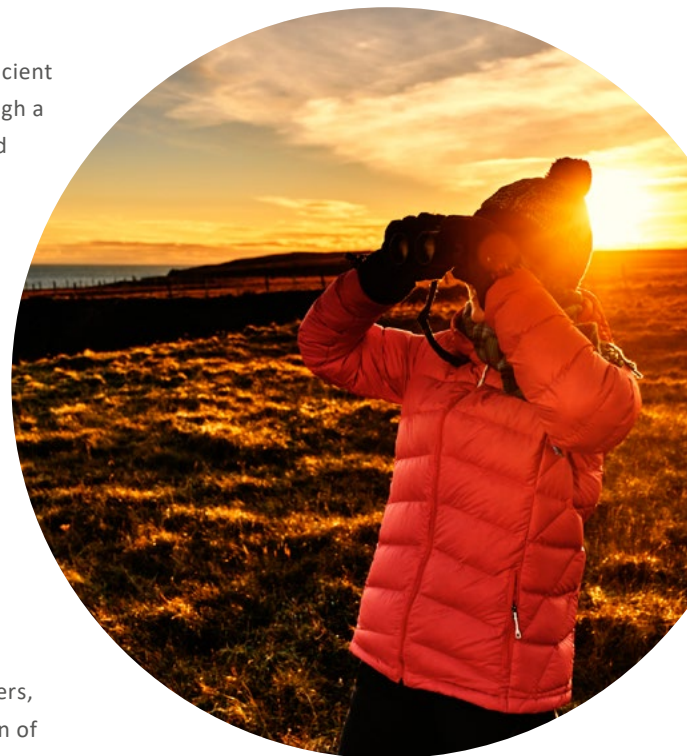
The risk that the group structure and governance arrangements aren't operating compliantly or effectively and with proper authority is managed through secretarial activities that include meeting and training scheduling for board and committee members, governance portal providing access to relevant material, provision of training to relevant stakeholders, appointment of Non Executive Directors on corporate boards, and documented delegations.

Third Party Suppliers

The risk that sub-optimal service delivery and oversight of third party suppliers leads to disruptions or errors is managed through a supplier management framework and procurement processes.

Resource

The risk that staff resource is insufficient to carry our core tasks is managed through regular review of headcount, structure and resource, with review and approval of organisational plans, succession plans and recruitment.



GOVERNANCE AND RISK

As LPFI is regulated by the FCA, it's subject to the requirements of the Investment Firm Prudential Regime ('IFPR'), and must ensure that it remains viable throughout the economic cycle, can address any harm from its ongoing activities, and that it can wind-down in an orderly manner. This means holding a minimum level of financial resources, and regularly assessing how much should be held. To facilitate this, an Internal Capital Adequacy and Risk Assessment (ICARA) process is required to be undertaken and regularly reviewed to ensure internal systems and controls are operating to monitor and reduce potential harms. The ICARA and the risk management framework need to be integrated to ensure all material relevant risks have been identified, articulated and assessed to ensure that risks of harm can be properly considered and accounted for. The LPFI board has oversight of this process.

3 Lines of Defence

A 3 Lines of Defence model helps underpin the integrity of the risk management framework:

1. **Line 1:** business management responsible for identifying and managing risk and ensuring its activities are compliant with legal, regulatory, and organisational requirements
2. **Line 2:** Risk & Compliance function support the business in managing risks and achieving compliance, monitoring risk and compliance levels in the business and reporting on risk and compliance matters to management and governance forums
3. **Line 3:** independent oversight by Internal Audit providing independent assurance on the control framework and quality of implementation.

OUTSTANDING SERVICE

'Your care and consideration in helping me to transfer my father's pension helped us greatly at a difficult time.'

INVESTMENT

Investment markets

For the 12 months to 31 March 2023, global equities, as measured by the MSCI ACWI index, returned -1.4% in sterling terms (source: MSCI). However, the weaker pound masked a more pronounced decline of -7.4% in US dollar terms (source: MSCI). It was a year almost as extraordinary as 2020, when Covid emerged, and returns for most asset classes were curtailed by the challenging conditions.

Soaring inflation and central banks' policy responses dominated the backdrop for financial markets. The mounting pace of inflation was worsened by the supply shock brought about by the war in Ukraine, with UK consumer price inflation reaching 40-year highs. The reaction from most major central banks was to aggressively tighten monetary policy, marking a dramatic shift from the extremely low interest rates that had been in place since the financial crisis of 2008. This is an environment that many had become unaccustomed to and the unfamiliar conditions exposed frailties in the financial system, contributing in some part to the LDI crisis in the UK and the failure of two large US banks.



Government bond prices fell over the year, due to rising base rates and higher inflation, with the political crisis in the UK causing forced sales of long-dated gilts by some pension funds. 10-year gilt yields rose from 1.61% to 3.49% (reaching as high as 4.6%), giving an annual return of -10.9%. Although corporate bond credit spreads (the difference in yields between bonds of differing quality) widened over the year, it was the sharp rise in underlying government bond yields that caused most of the damage, with sterling investment grade credit returning -10.2% over the year. Commercial real estate returns were also strained by falling capital values as property owners, many of which are highly leveraged, contended with rising borrowing costs. However, some of the most eye-catching falls were among 'growth' stocks where valuations were severely marked down as sentiment for this part of the market soured.

JOHN ANZANI

"This year the Audit Sub Committee has been engaged in assessing the effectiveness of LPFs audit, risk and compliance reporting. It has also taken steps to work closer with both the internal and external auditors. Effective oversight of internal and external auditors is key to the Audit Committee's ability to discharge its responsibilities in helping provide a clear understanding of the fund and ensuring that the internal audit plan is aligned to the key risks faced by the fund. The Committee reaffirmed its satisfaction that the fund operates within reasonable risk boundaries. It welcomes the evolving process that LPF's management team are implementing to ensure challenge and continuous improvement. In the future the Audit Sub Committee looks forward to working with LPF's auditors and management team to ensure that our risk and compliance monitoring programmes continue to meet the high expectations and standards of LPF."

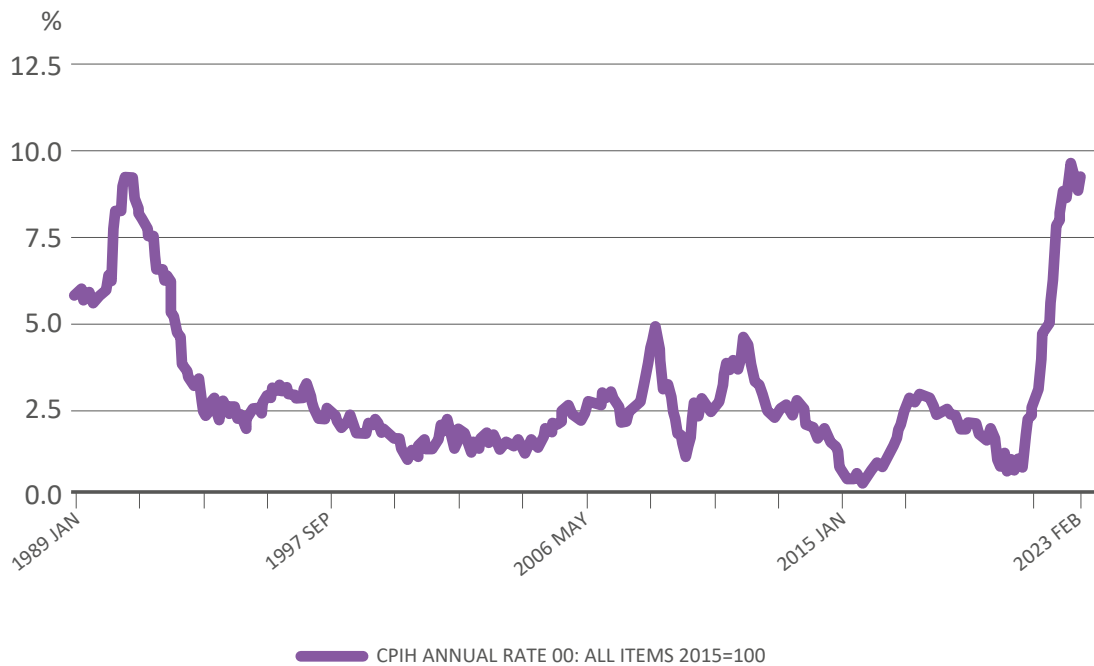


Convenor of the Audit Sub Committee in 2022/23

INVESTMENT

Inflation’s influence over investment markets appears set to continue with disinflation to pre-pandemic levels likely to take some time. However, there’s cause to believe that inflation has already peaked amid moderating commodity prices and the cooling effect of monetary policy. With that, central banks appear to be nearing the peak of this tightening cycle which may signal a more favourable backdrop ahead for asset valuations. However, risk remains around whether inflation proves to be ‘stickier’ than hoped. Expectations for corporate earnings have held up well to date, though those forecasts may prove overly optimistic as economic growth deteriorates in the face of the tight monetary policy, declining real wages and heightened geopolitical tensions. Meanwhile, fiscal policy is handicapped by high debt burdens and costlier borrowing, as demonstrated by the rapid unwinding of the Truss government’s plans. More positively, the recent reversal of China’s ‘zero-Covid’ policy provides a welcome boost for growth. With several meaningful macroeconomic and geopolitical challenges to be navigated, it’s hard to imagine that there won’t be further significant financial market volatility in the coming years.

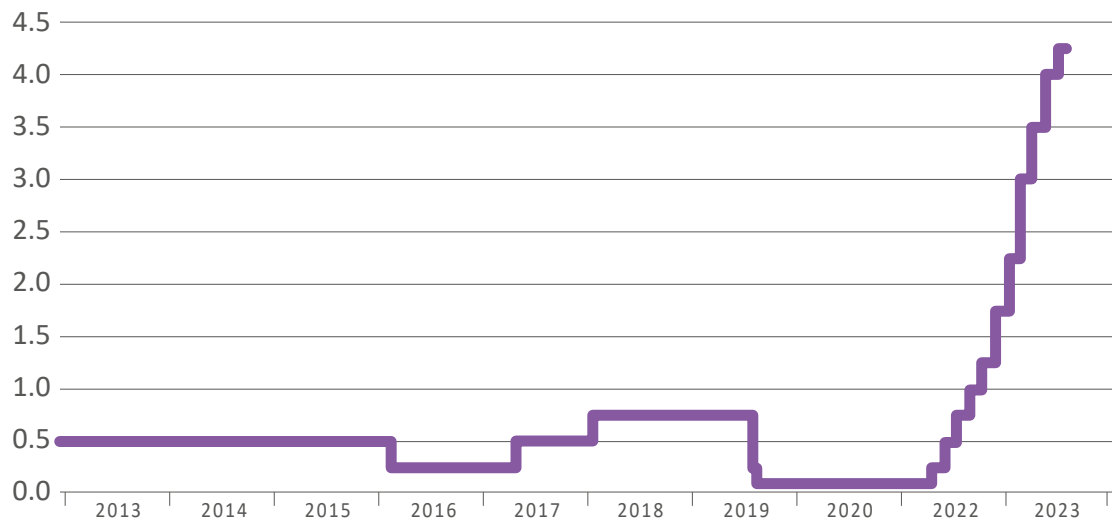
UK INFLATION (CPIH) - ANNUAL CHANGE



Source: <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/l55o/mm23>

INVESTMENT

BANK OF ENGLAND OFFICIAL RATE



Source: <https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp>

HUGH DUNN

"Over the last year, LPFI Ltd and LPFE Ltd, continued to focus on delivering key strategic aims and service improvements to support LPF. LPFE and LPFI are key in LPF's success in supporting thousands of scheme members. LPFE enables us to recruit and retain the best possible colleagues. This year LPFE welcomed 26 new colleagues including a new Chief Risk Officer and appointed a Chief Operating Officer for the first time. They join our existing skilled and member focussed teams. Meanwhile, LPFI facilitates us to have an efficient and cost effective investment service which supports our collaboration with other local government pension schemes. This year, LPFI's investment management service increased its assets under management to £1.4billion over the course of the year.



I have announced my intention to retire in September 2023 and I'm delighted to have had the opportunity to contribute to LPFI and LPFE's development, seeing both companies flourish and evolve over the last 7 years. I would like to thank everyone for their commitment and work on behalf of members. It has been a pleasure to work with you all in support of the members and employers of LPF."

Chair of LPFI and LPFE Boards, and CEC Service Director: Finance and Procurement

RESPONSIBLE INVESTMENT

'We recently joined Advance, an initiative focussed on human rights and social issues for workers, communities and society.'

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 Environmental, Social and Governance (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 to better understand the philosophy behind our overall approach to Responsible Investment, we publish our [Statement of Responsible Investment Principles](#) (SRIP). In this document, which is reviewed and updated annually, we set out how we undertake investment in a responsible manner, detailed on an asset class by asset class basis, to achieve our stewardship aims.

WHAT OUR MEMBERS SAY:

"Staff are very helpful on the phone as I am not confident using online."



RESPONSIBLE INVESTMENT

Responsible Investment (RI) and Stewardship Reporting

We produce an annual Stewardship Report which contains a wealth of detail and examples on the implementation of our RI policies. Our most recent Stewardship Report was published in October 2022 covering the year to 31 December 2021. It was assessed by the Financial Reporting Council, confirming our continued status as a signatory to the stringent UK Stewardship Code 2020.

Our Stewardship 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.

As a provider of responsible capital, we believe LPF should be an agent for positive change. Our *ENGAGE* e-zine provides insight into our investment activities; from providing examples of where ESG considerations have impacted our investment decision-making, to celebrating award-winning environmental initiatives.



RESPONSIBLE INVESTMENT

'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 February 2023, 195 members of the United Nations Framework Convention on Climate Change are parties to the Paris Agreement. The three key aims of the Paris 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.

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.

We engage with companies to encourage them to improve their disclosure to support us in integrating climate change risk and opportunities into the risk management and governance at 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. Details on our engagement and voting activity is provided in our annual [Stewardship Report](#).

In addition, we're a member of the Institutional Investors Group on Climate Change and of the Climate Action 100+ investor initiative. We actively participate as a co-lead in engagement with one of the 166 target companies in the initiative's 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, and 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 quantitatively managed equity funds utilise engagement to improve business practices. The selection and monitoring process for



RESPONSIBLE INVESTMENT

external managers incorporates ESG assessments, which continue to be refined as the industry evolves.

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 current investment in green energy is being 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.

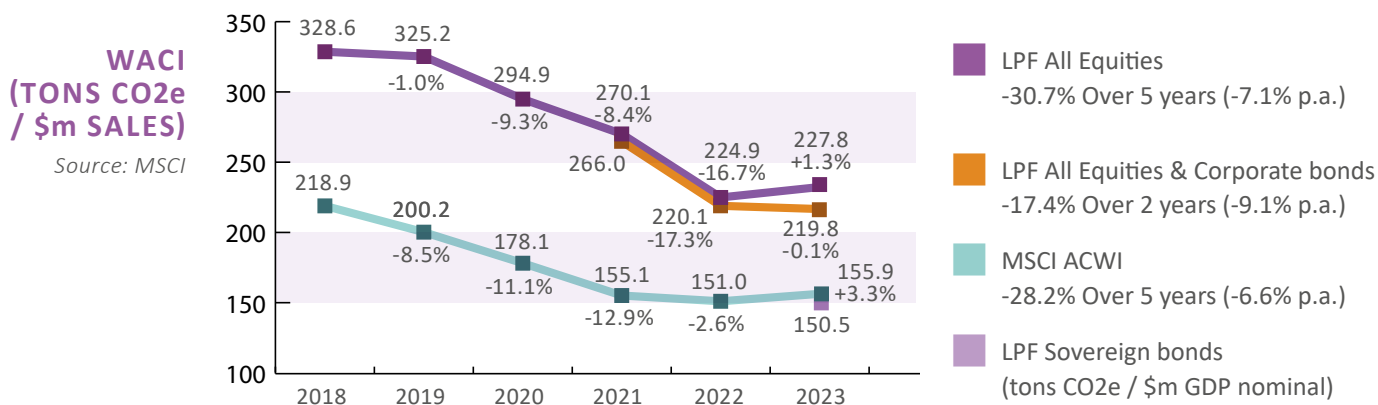


While it’s widely acknowledged that climate change is one of the great issues facing society, it’s one of several risks that we must mitigate. In that sense, it’s no different to any other risk. We believe in a holistic, integrated approach to analysis taking all risks, including climate-related risk, 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’ve reported a measure of carbon efficiency since 2018: WACI is the Weighted Average Carbon Intensity, with units of tons CO₂/\$M sales. We use this 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 calculate the portfolio WACI by weighting these intensities according to the portfolio position sizes and adding 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

Under the Greenhouse Gas (GHG) Protocol:

- Scope 1 emissions are defined as direct GHG emissions that are controlled or owned by an organisation
- Scope 2 emissions are indirect GHG emissions that are the result of an organisation's energy use, such as electricity, steam, heat or cooling
- Scope 3 emissions are all other indirect emissions, such as from the production of purchased materials and fuels, supply-chain transport-related activities, outsourced activities, waste disposal, customers' emissions when using or accessing the organisation's products or services.



Our WACI figures are calculated based on Scope 1 and 2 carbon emissions. 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) have enabled us to present combined data for our equity and corporate bond holdings since 2021. This year we've been able to also calculate the WACI for our sovereign bond investments. However as the sovereign bond WACI is calculated in a different way, it's not meaningful to aggregate this with the corporate WACI calculated for our equity and corporate bond holdings. We have an ambition to keep expanding the coverage of our emissions reporting across all our assets as data becomes available (supported by external managers and using estimates if necessary) and present more granular emissions data by scope ahead of the deadline for enhanced TCFD reporting for the Scottish LGPS.

While we expect the average carbon intensity of our investments to decline over the longer term as the global economy decarbonises, this trend may be volatile year on year as we incorporate more emissions data and as the out performance of certain sectors can swing the annual snapshot in any one year.



RESPONSIBLE INVESTMENT

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”. 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.

We firmly believe that global decarbonisation will provide benefits to society and the environment, and we therefore support efforts to reduce carbon emissions in the real economy. We do this by engaging (either directly or in collaboration with other investors) with companies and policy makers to encourage businesses to pivot towards a lower carbon future.

Paris alignment

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

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 simply divesting or excluding all stocks in high exposure sectors. We'll continue to engage with our holdings rather than setting specific carbon intensity targets for our overall portfolio.

We're also engaging with our external managers to better understand their approach to aligning the investments they make on our behalf to a future net zero emissions world, and to encourage improved reporting of emissions data and other sustainability metrics.

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



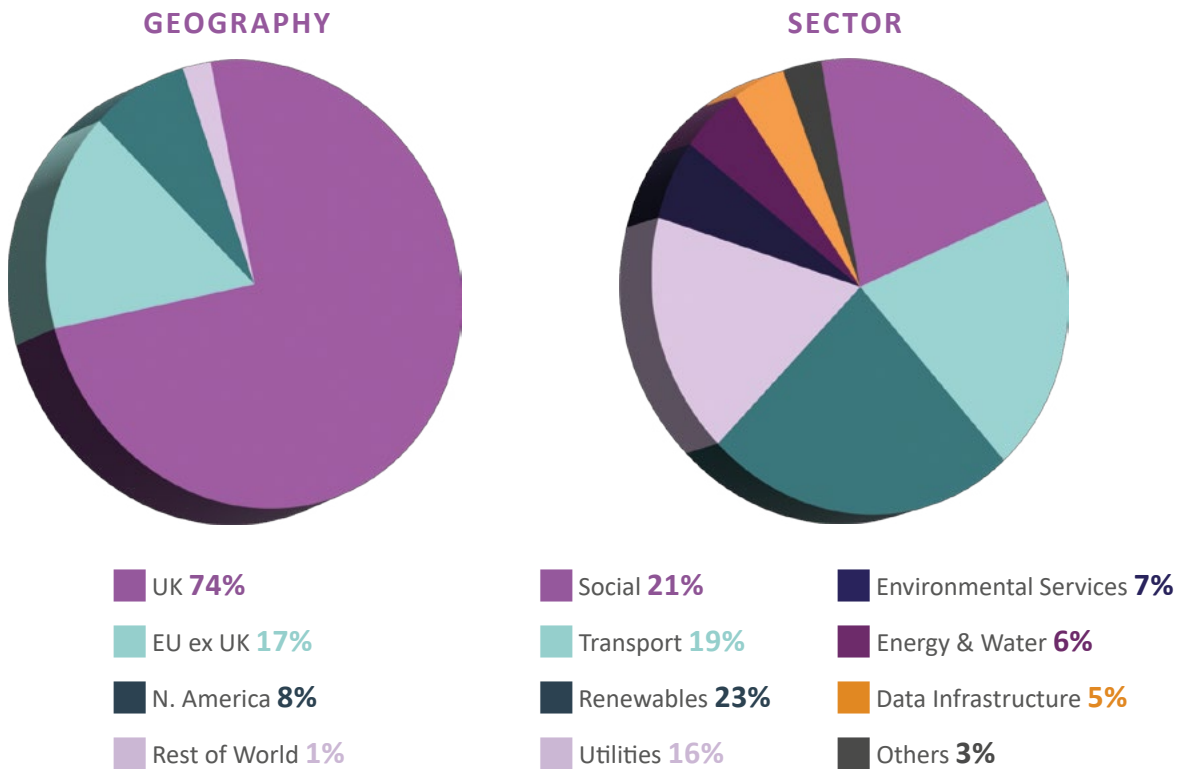
RESPONSIBLE INVESTMENT

Climate solutions

We're also monitoring our investments in climate solutions. These are companies or assets that help the global economy achieve net zero. One of the clearest examples of climate solutions is our investments in renewable energy projects through our infrastructure portfolio.

Infrastructure investments represented 13.4% of the value of Lothian Pension Fund assets at 31 March 2023, comprising one of the largest and most diversified allocations among UK LGPS funds. Of the total infrastructure portfolio, the majority is invested in the UK, and around a quarter of the portfolio is invested in renewables. During 2022/23, Lothian Pension Fund invested over £100m in renewable energy projects.

The geographic and sector diversification for Lothian Pension Fund infrastructure (as a percentage of infrastructure asset value of £1.3bn) is shown in the charts below.



FUNDING STRATEGY STATEMENT

The Funding Strategy Statement was fully revised at the 2020 Actuarial Valuation and reflects CIPFA guidance: "Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme 2016". Amendments were made in 2022 following amendments to scheme regulations.

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.

Full reviews of both the Funding Strategy Statement and the investment strategies will be carried out as part of this process.

WHAT OUR MEMBERS SAY:

"From start to finish you have been fabulous, as I have friends with terrible experiences. So, for me, I could not say how you could make anything better, so thanks."



OUTSTANDING SERVICE

'The LPF pension system is a lot more streamlined and easier to administer than the pensions from my previous jobs.'



FINANCIAL PERFORMANCE

Administration expenses

A summary of the Fund's administrative expenditure for 2022/23, 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 £38,376k against the budget of £34,550k represented an overspend of £3,826k (11.1%) for the Fund.



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

- **Investment managers fees – Uninvoiced – £4,757k overspend.** The reason for the Funds overspend against budget is due to its uninvoiced investment management costs, a majority of which relates to its private market investments. One off refurbishment and transaction costs for the Funds in-house direct property mandate was the contributing factor to the variance against budget
- **Investment managers fees - Invoiced – £600k underspend.** Invoicing based for externally managed mandates based on market value. A £50m divestment from one of these mandates and below forecasted market values have resulted in an underspend for the year
- **Supplies and Services – £228k underspend.** Underspending occurred against budget for investment systems, in particular the delay in the scheduled upgrade to the Fund's front office system
- **Other third-party payments– £186k underspend.** Underspend occurred in a variety of areas including custody services, broken deal provision and project costs
- **Capital funding - depreciation– £29k overspend.** A decision was taken during the year to write off the Atria refurbishment costs over 2022/23-2023/24 financial year with potential office move taking place
- **Income – £258k 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 | 7,126 | 6,930 | (196) |
| Transport and premises | 278 | 272 | (6) |
| Supplies and services | 2,396 | 2,168 | (228) |
| Investment managers fees - invoiced* | 4,000 | 3,400 | (600) |
| Investment managers fees - uninvoiced* | 20,725 | 25,482 | 4,757 |
| Other third-party payments | 1,727 | 1,541 | (186) |
| Capital funding - depreciation | 257 | 286 | 29 |
| Direct Expenditure | 36,509 | 40,079 | 3,570 |
| Support costs | 620 | 618 | (2) |
| Income | (2,579) | (2,321) | 258 |
| Total net controllable cost to LPF | 34,550 | 38,376 | 3,826 |

*Does not include performance element. In 2022/23, £9.1m 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 | 38,376 |
| Securities lending revenue included in income above | 536 |
| Investment management fees deducted from capital – performance related element | 9,062 |
| IAS19 LPFE retirement benefits | (8,364) |
| LPFE deferred tax on retirement benefits | 1,088 |
| Corporation tax | 38 |
| Total cost to LPF (inclusive of full cost investment management fees) | 48,736 |
| Per Fund Accounts | |
| Lothian Pension Fund Group | 40,683 |
| Scottish Homes Pension Fund | 53 |
| Total | 40,736 |

FINANCIAL PERFORMANCE

LOTHIAN PENSION FUND

Cashflow

Cashflow 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 23 March 2023, 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.

| | 2022/23 Projected | 2022/23 Accruals basis | 2022/23 Cash Basis |
|--|----------------------|---------------------------|-----------------------|
| | £000 | £000 | £000 |
| Income | | | |
| Contributions from employers | 210,500 | 201,867 | 201,504 |
| Contributions from employees | 55,000 | 57,383 | 57,067 |
| Transfers from other schemes | 7,000 | 6,551 | 6,551 |
| | 272,500 | 265,801 | 265,122 |
| Expenditure | | | |
| Pension payments | (206,000) | (206,225) | (206,225) |
| Lump sum retirement payments | (66,000) | (62,030) | (60,752) |
| Refunds to members leaving service | (830) | (845) | (845) |
| Transfers to other schemes | (13,000) | (11,689) | (11,689) |
| Administrative expenses | (3,000) | (3,202) | (3,202) |
| | (288,830) | (283,911) | (282,713) |
| Net additions/(deductions) from dealings with members | (16,330) | (18,190) | (17,591) |

FINANCIAL PERFORMANCE

Cashflow (cont.)

| Lothian Pension Fund | Actual | Cash flow forecast | | | | | | | | | |
|-------------------------------|---------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | | 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 | 265.8 | 278.7 | 291.7 | 305.3 | 319.6 | 334.6 | 350.3 | 366.7 | 383.9 | 401.9 | 420.9 |
| Pensions expenditure | (284.0) | (315.3) | (327.3) | (339.9) | (353.1) | (366.9) | (381.4) | (396.6) | (412.6) | (429.4) | (447.0) |
| Net pensions cash flow | (18.2) | (36.6) | (35.6) | (34.6) | (33.5) | (32.3) | (31.1) | (29.9) | (28.7) | (27.5) | (26.1) |
| Net investment income | 339.1 | 352.7 | 366.8 | 381.5 | 396.8 | 412.7 | 429.2 | 446.4 | 464.3 | 482.9 | 502.2 |

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 2022/23 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

| | 2022/23 Projected | 2022/23 Accruals basis | 2022/23 Cash Basis |
|--|----------------------|---------------------------|-----------------------|
| Income | £000 | £000 | £000 |
| Administration charge | 90 | 90 | 90 |
| Expenditure | | | |
| Pension payments | (6,500) | (6,258) | (6,258) |
| Lump sum retirement payments | (750) | (773) | (783) |
| Transfers to other schemes | (100) | (17) | (17) |
| Administrative expenses | (90) | (55) | (55) |
| | (7,440) | (7,103) | (7,113) |
| Net additions/(deductions) from dealings with members | (7,350) | (7,013) | (7,023) |

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 £7.1 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

Cashflow (cont.)

| Scottish Homes Pension Fund | Actual | Cash flow forecast | | | | | | | | | | |
|-------------------------------|--------------|--------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | | 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 | 2032 /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 | 0.0 |
| Pensions expenditure | (7.1) | (7.7) | (7.5) | (7.4) | (7.3) | (7.2) | (7.1) | (7.0) | (6.9) | (6.8) | (6.7) | (6.7) |
| Net pensions cash flow | (7.1) | (7.7) | (7.5) | (7.4) | (7.3) | (7.2) | (7.1) | (7.0) | (6.9) | (6.8) | (6.7) | (6.7) |
| Net investment income | 2.0 | 2.0 | 2.0 | 1.9 | 1.8 | 1.7 | 1.7 | 1.7 | 1.6 | 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.

Work has commenced on the next triennial valuation for both funds which will be undertaken as at 31 March 2023. Results from this are expected in the final quarter of 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 Convenor'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 RACHELLE WONG, MEMBER ADMINISTRATOR

Rachelle joined us in June 2020 as a trainee. Rachelle helps with the day-to-day processing in general tasks and most recently has updated the refund procedure to let members claim their refund of contributions online.

"The team is very approachable and you can always find an answer to a question with the depth of knowledge the pension admin team holds. I also love the diversity in the role in our everyday tasks."



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 TOM COWIE, SENIOR FINANCE MANAGER

Tom joined us in May 2022 as a Senior Finance Manager. Tom supports the smooth running of the Finance team of the Fund, ensuring the delivery of accurate financial information so that our members are paid correctly and on time.

"From the very first day I started with LPF, I've been welcomed into a supportive and nurturing work environment. No day has been the same and the variety of projects and opportunities I've had to develop my career has been fantastic. I look forward to continually serving LPF to achieve the very best outcomes for our members!"



FINANCIAL PERFORMANCE

| | Lothian Pension Fund | | Scottish Homes Pension Fund | |
|--|----------------------|------------|-----------------------------|-----------|
| | 2021/22 | 2022/23 | 2021/22 | 2022/23 |
| | £000 | £000 | £000 | £000 |
| Investment management expenses in compliance with CIPFA guidance | 36,356 | 44,336 | 48 | 47 |
| Investment management expenses per financial statements | 37,183 | 44,942 | 98 | 88 |
| Disclosure of management expenses in excess of CIPFA guidance | 827 | 606 | 50 | 41 |

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.

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 299 pension funds representing £8.8 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 2022) showed that LPF's investment costs of 0.29% of average assets were significantly lower than CEM's benchmark cost of 0.50%, an equivalent annual saving of approximately £18.9m. 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.

PERFORMANCE AND ADMINISTRATION

Key performance indicators 2022/23

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 focussed 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.

| 2021/2022 | | Target | 2022/2023 |
|----------------------------|---|------------------------|----------------------------|
| Retained | Maintain Customer Service Excellence Standard (CSE) (Annual assessment) | Retain | Retained |
| Unqualified opinion | Audit of Annual Report and Accounts | Unqualified opinion | Unqualified opinion |
| 100% | Proportion of members receiving a benefit statement by August | 100% | 100% |
| 96.5% | Overall satisfaction of employers, active members and pensioners measured by surveys | 90% | 92.7% |
| 99.8% | Percentage by value of pension contributions received within 19 days of end of month to which they relate | 99% | 99.91% |
| | Rolling 10-year fund return is >+5% pa unless the benchmark is <+5%pa, in which case, the relative return is positive | Meet benchmark monthly | Met |
| Met | Monthly pension payroll paid on time | Met | Met |
| 2.5% | Level of sickness absence | 4.0% | 2.58% |
| 100% | All colleagues complete at least two days training per year | 100% | 100% |
| 76% | Colleague engagement index | Greater than 70% | 79% |

OUTSTANDING SERVICE

'I didn't realise it was so easy to upload documents to My Pension Online. I'll encourage my co-workers to do the same.'

PERFORMANCE AND ADMINISTRATION

Value for money

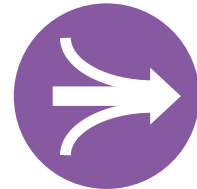
Pension administration benchmarking

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 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

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

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 costs 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 LPF. 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:

"I found Lothian Pension Fund knowledgeable, friendly, and prepared even to anticipate steps beyond my limited questions and requests, and to offer very welcome and helpful possible alternatives."



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 2023 remains above the 90% target at 92%.

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 24,832 processes in 2022/23 and there were very few complaints made, less than 0.01 %. Complaints covered a broad range of issues including aggregating previous membership, late payment of retirement benefits and transferring pension benefits.

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 2022/23, there was one Stage 1 dispute for investigation. If a member remains dissatisfied with the Stage 1 decision, they have six months to take their appeal to Stage 2. In 2022/23 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 | 0 | dismissed | 0 |
| Non return of contributions on re-joining LGPS | 0 | dismissed | 0 |
| Awards, e.g. early payment of deferred pension on health grounds | 1 ongoing | 1 upheld | 2 |

Further information about the IDRP and complaints procedure is available on our website at [Complaints and Appeals / LothianPensionFund](#).

PERFORMANCE AND ADMINISTRATION

Our data

We issued 100% of benefit statements by the statutory deadline of 31 August 2022.

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 2022 annual scheme return. Lothian Pension Fund and Scottish Homes Pension Fund scored 98.6% and 97.8% respectively for common data (2021 scores were 98.4% and 97.5% respectively) and 99.5% and 100% for conditional data (2021 scores were 99.5% and 99.9% respectively). The quality of data continues to be considered to be of a high standard.

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-focussed 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 16 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."

We're currently awaiting the government's response to the original consultation and implementation of the amendment regulations which was postponed to 1 October 2023. A further consultation is expected after the England and Wales May 2023 elections.

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

- Assigned a Project Manager
- Received data from employers with less than 100 active members
- Are in the process of issuing data requests to employers with over 100 active members
- Recruited new Trainee Pensions Administrators to ensure we have sufficient resources to deal with both remedy and current workloads
- Acquired a data validation tool to analyse employer responses
- Continued to receive updates to our pensions administration software in respect of calculations
- 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

Member service

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) and so on. 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 continued to target 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, 97.88% of key procedures in 2022/23 were completed on target.



PERFORMANCE AND ADMINISTRATION

The table below shows performance against key procedures in 2022/23.

| 2021/22 | | Target | 2022/23 |
|---------|---|------------------|---------|
| 97.4% | Proportion of critical pensions administration work completed within standards – individual performance within this indicator are shown below | Greater than 92% | 97.9% |
| 97.7% | Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request | 91% | 99.7% |
| 98.7% | Pay lump sum retirement grant within seven working days of receiving all the information we need from the member | 96% | 98.3% |
| 95.6% | Acknowledge of the notification of the death of a member to next of kin within five working days | 96% | 97.4% |
| 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% |
| 94% | Notify early leavers entitled to deferred benefits of their rights and options within 10 days of being informed of end of pensionable service | 91% | 97.4% |
| 79.1% | Proportion of non-key procedures completed within standard including Additional Regular Contributions, responding to member communications, updating nominations and maintaining the member database | 75% | 75.8% |
| 93.5% | Notification of dependant benefits within five working days of receiving all necessary paperwork | 96% | 96.5% |
| 98.8% | Payment of CETV within 20 working days of receiving all completed transfer out forms | 96% | 97.2% |
| 93% | Provide transfer-in quote within 10 working days of receiving the Cash Equivalent Transfer Value (CETV) from member's previous pension provider | 96% | 98.1% |
| 94% | 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% | 96.7% |
| 99.2% | Pay a refund of contributions within seven working days of receiving the completed declaration and bank detail form | 91% | 98.5% |
| 99.7% | Estimate requested by employer of retirement benefits within 10 working days | 91% | 100% |
| 97.1% | Pay any lump sum death grant within seven working days of receipt of the appropriate documentation | 96% | 99.4% |

PERFORMANCE AND ADMINISTRATION

Online services

We continue to encourage members to visit the website and access the online service. 51.4% of all members have registered for My Pension Online and for active members, this figure rises to 58.0% using the service.

To increase this, we've worked with employers to obtain email addresses where these aren't held.

We've made further enhancements to our online services in the last 12 months, giving members the option to complete their retirement online. This was initially introduced for active members retiring voluntarily and deferred members and we've been really encouraged by the uptake, with 74.4% of active members and 84.2% of deferred members requesting payment of their benefits online. We'll look to make further improvements during the coming year to allow active members retiring through redundancy or ill-health to complete the process online.

Members leaving after less than two years' membership can also now claim their refund of contributions online. Since this was launched in October 2022, 64% of members who received payment of a refund requested this through the online service.



In addition to these improvements, we have also partnered with Crown Agents Bank to provide our overseas pensioners with a digital means to carry out the annual existence check exercise. The existing process required members to attend a Western Union bureau with photographic ID or complete a Proof of Life Certificate and have it countersigned by an appropriate person. The new process allows members to complete the process from home, using digital facial authentication, by uploading a photo of themselves and of their photographic ID. The option to use a Proof of Life Certificate is still available.

Following a successful trial with a small group of members, we rolled out the process to all overseas members in October 2022. In total, 381 members completed the exercise, and of those, 335 (or 88%) did so using the digital method.

Our current website went live in March 2022 and provides a single integrated platform, which allows development of further online services. We continually review and update the website to ensure information is accurate and provide information on changes we've made to our processes, as a result of complaints, as well as our service and performance standards.

Our employers also use a variety of digital services including providing monthly contribution returns via a secure transfer portal and 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.

PERFORMANCE AND ADMINISTRATION

Protecting members from transfer scams

The Pensions Act 2021 introduced two new conditions to be satisfied before a member's pension could be transferred to another scheme.

The first is that the scheme receiving the transfer must either be a Public Sector pension scheme or a Master Trust or Collective Money Purchase scheme named on The Pension Regulator's (TPR's) approved list. If this condition isn't met, the transferring scheme has to check for any red or amber flags before we can proceed with the transfer. Where red flags are present, the transfer must be cancelled, while the member should be referred to MoneyHelper if there are any amber flags.

Red flags include that the member requested the transfer as a result of unsolicited contact or was offered an incentive to transfer. Amber flags include where the member couldn't provide evidence of a link to the new pension scheme (e.g. that they work for an employer that is part of the scheme) or where the new scheme's charges or investment structure are unclear.



We've now reviewed all our transfer procedures to make sure that we identify any of these flags and refer the member to MoneyHelper, when needed, to protect our members from pension scams.

AVC "Nudge"

New regulations introduced in June 2022 mean that members over the age of 50 who've been paying Additional Voluntary Contributions (AVCs) need to take additional steps before they can do anything with their AVC fund. This is known as a 'Stronger Nudge to Pensions Guidance' and provides further protection to members by helping them make an informed decision about what to do with their AVC fund.

We've now updated our processes and relevant documents. When a member applies to take payment of their AVCs alongside their main pension, or transfer them to access through another Defined Contribution scheme, they need to either take guidance from Pension Wise to ensure they make an informed decision or tell us that they are opting out of taking this guidance. Members can make an appointment with Pension Wise themselves or ask us to do it for them, but they need to provide evidence that they have received guidance, or confirm in writing that they've opted out.

COLLEAGUE PROFILE MARK DOBBIE, PORTFOLIO MANAGER

Mark joined LPF in August 2022 as a Portfolio Manager in the equities team. He's responsible for managing one of our in-house global equity strategies and supporting the implementation of the Fund's wider equities investment strategy. Mark says:

"I'm proud to be part of an organisation that has such a clear focus on delivering positive outcomes for our many members. Working alongside a friendly, talented and dedicated team makes this all the more rewarding."



PERFORMANCE AND ADMINISTRATION

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.

WHAT OUR MEMBERS SAY:

"I didn't realise it was so easy to upload documents to my pension online i.e., forms and passport. I will encourage my co-workers to do the same. Everyone on the phones were helpful."



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 2022/23, 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 2022/23 is shown below, with 2021/22 shown for comparison purposes.

| Case type | Target (working days) | 2021/22 | | | 2022/23 | | |
|-------------------|-----------------------|-----------------|----------------------|-----------------|-----------------|----------------------|-----------------|
| | | Number received | Number within target | % within target | Number received | Number within target | % within target |
| New members | 20 | 6,099 | 5,335 | 87% | 7,553 | 6,979 | 92% |
| Leavers | 20 | 3,529 | 2,074 | 59% | 4,575 | 2,609 | 57% |
| Retirements | 20 | 1,425 | 544 | 38% | 1,450 | 517 | 36% |
| Deaths in Service | 10 | 32 | 20 | 63% | 15 | 5 | 33% |

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 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 | 6 | Bellrock | 1 |
| Dacoll | 1 | Edinburgh Leisure | 1 |
| Edinburgh Development Group | 1 | Heriot-Watt University Students Association | 1 |
| Pilton Equalities Project | 1 | Scottish Futures Trust | 1 |
| TOTAL | | | 13 |

Contributions by value paid on time



99.8% of contributions by value were paid on time. Of the 777 payments made, 13 were paid late and these are shown in the table. The option to levy interest on overdue contributions was not exercised in 2022/23 as late contributions weren't received significantly later than the 19th day.

OUR COLLEAGUES

Our colleagues

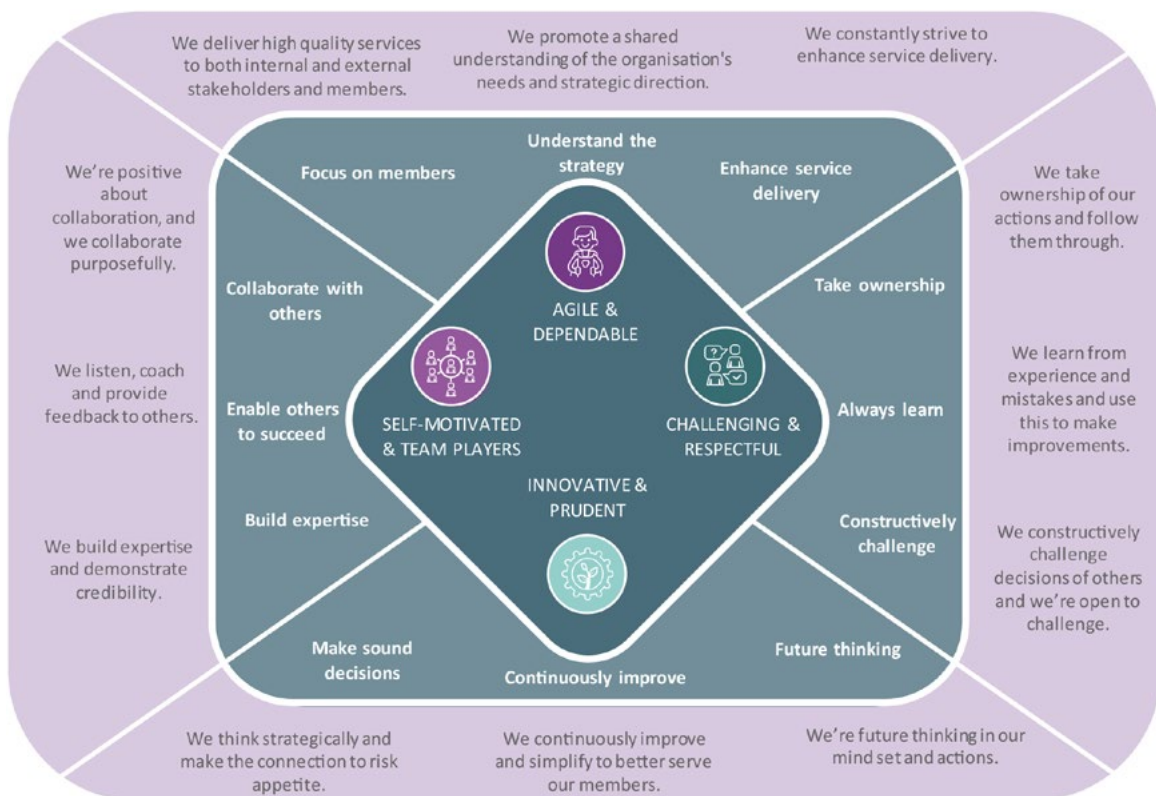
Engaging our colleagues is critical to delivering our strategy and ambition. We firmly believe that having happy and motivated colleagues helps us deliver for our members, employers and stakeholders.

Our core values

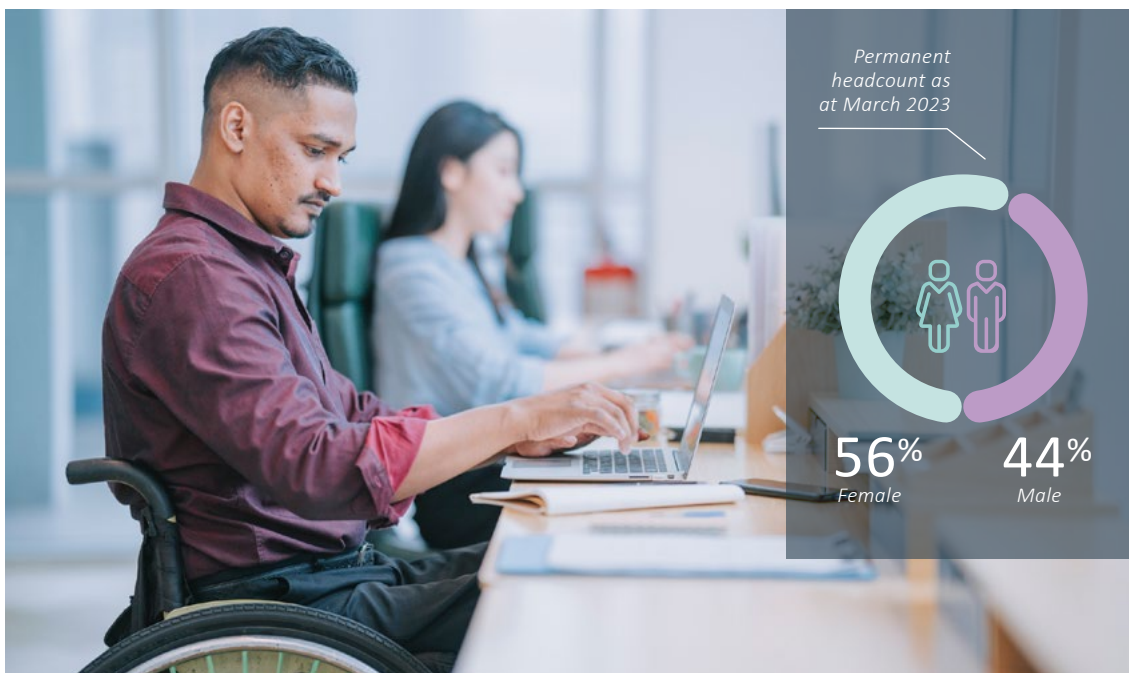
We're passionate about pensions and our values are enduring principles that inform, inspire and instruct our day to day behaviour. We're proud to be:



- 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 our colleagues 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 2023 our permanent headcount was 56% female and 44% 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 focussed 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.



OUTSTANDING SERVICE

'I feel that my pension is in safe hands with LPF. I'm really happy with the service I receive and my pension's always paid on time.'

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 2023 we have, on aggregate, 58% women in our top three leadership layers and across the whole company, 56% of our workforce are women
- Our mean gender pay gap is 20.6%
- 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
- In 2022/23 we recruited 26 colleagues; 58% of these were women.



Performance and reward

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 monthly all colleague calls and biannual events. More information on our remuneration policies and employee share plans can be found later in this document.

In October 2022 we awarded a large proportion of our colleagues with a £1,500 (pro rata) salary increase. This out of cycle increase was in addition to the usual annual pay review and was to support them with the cost-of-living crisis.

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.

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 create a bespoke management training programme devised to upskill our management population. We secured the funding again in 2022 and were able to roll out the same programme to our new managers to ensure everyone had the same opportunities and skills to successfully perform in their roles. The programme was rolled out over a series of half day sessions for our management population and focussed on performance management, difficult conversations, assertiveness skills, effective leadership and leading and motivating teams.

In September 2022 customer service and complaint handling training was delivered to our customer facing colleagues. The customer service training helped develop colleagues' awareness of the personal skills, attitudes and behaviours that influence the customer experience. The complaint handling training helped individuals take personal responsibility for customer service and allows them to handle customer complaints effectively.

In December 2022 our managers and senior administrators attended training on coaching for performance. The aim of this training was to: provide them with the tools and techniques required to carry out different styles of coaching; be able to undertake effective coaching conversations and coaching sessions; and coach colleagues to improve performance.

Investing in colleagues

In 2022 we procured a new human resource information system (HRIS) which would integrate our people, learning and payroll system into one application and improve our efficiencies and data analysis. The new HR system was implemented on 9 January 2023 and our upgraded learning management system went live on 16 January. We now have an online performance management process and all colleagues have recorded their 2023 performance goals.

The new systems have been well received by our colleagues, so we'll continue to build on the functionality of both systems over the coming months to make sure our colleague experience remains positive.

Our digital e-learning platform, Compliance Serve, 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 2023, 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 continue to develop our suite of Moments that Matter documents focusing on mental health, physical health, financial health, relationships, 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.

OUR COLLEAGUES

Throughout 2022 we held various sessions focusing on wellbeing. During Mental Health Awareness Week, we planned daily activities to promote mental health and we invited an external speaker to talk about building personal resilience and taking care of our mental health during challenging times.

During Pride month we raised awareness of the current issues facing the LGBTQ+ community by sharing key messages with the team and suggesting ways for everyone to get involved. We sponsored the Edinburgh Pride march in Edinburgh on its 25th anniversary and the first since 2019.

On Mental Health Day, we welcomed Therapy dogs into the office to show the benefits of having pets as companions and they talked about the good work they do in education.

Charity days

During 2022 several teams across the organisation completed various charity days to help support our local communities. The teams carried out a variety of activities including painting and gardening to support the local community as well as sorting and packing clothes for Kids Love Clothes.

Management commentary approved by:

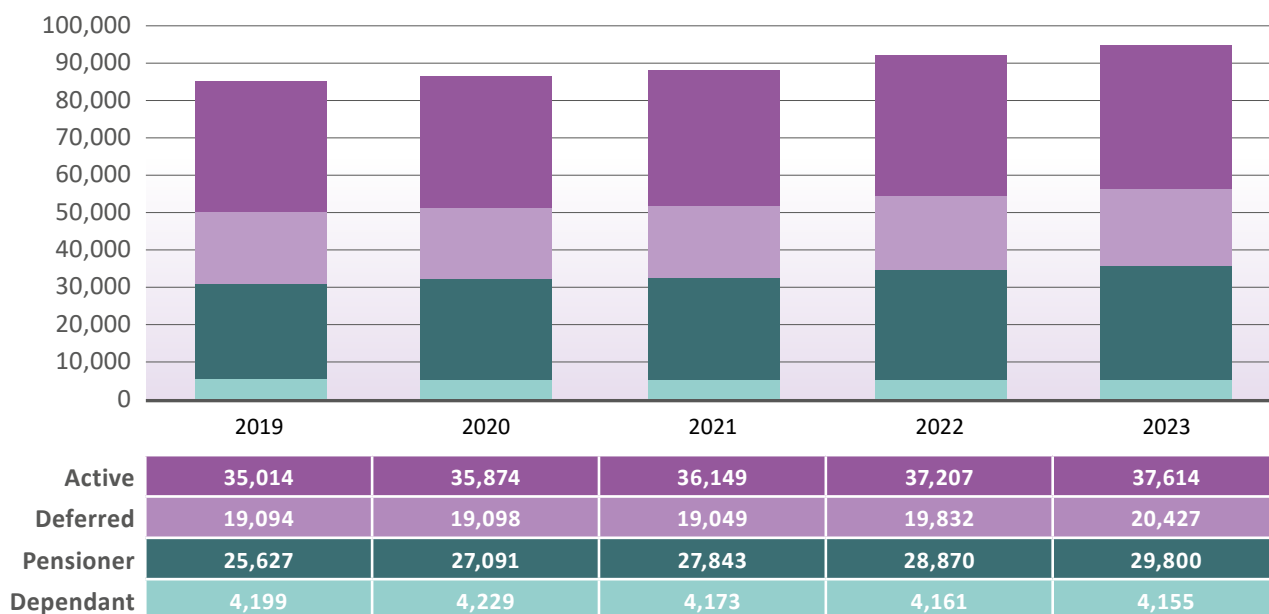
Andrew Kerr
Chief Executive Officer
The City of Edinburgh Council
21 June 2023

David Vallery
Chief Executive Officer
Lothian Pension Fund
21 June 2023

Hugh Dunn
Service Director: Finance and Procurement
The City of Edinburgh Council
21 June 2023

LOTHIAN PENSION FUND INVESTMENT STRATEGY

LOTHIAN PENSION FUND MEMBERSHIP DATA



Investment strategy

The Fund’s current investment strategy was approved by the Pensions Committee in June 2021.

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 more inflationary environment 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.

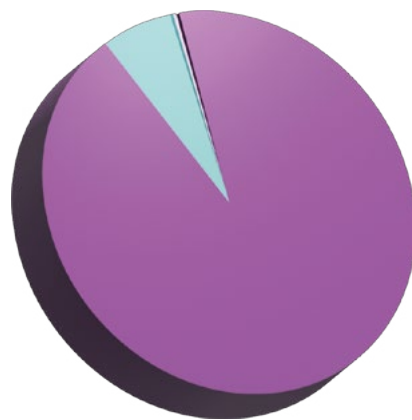
There were no changes to fund strategy over the year to end March 2023. The Total Fund Strategy percentages shown below are a weighted average of the employer strategies. Movements in the relative size of these strategies has resulted in modest changes to the Total Fund Strategy weightings.

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.

**EMPLOYER
GROUP
STRATEGIES
31 MARCH 2023**



- Main Strategy **94.1%** (£9,075m)
- Buses Strategy **5.3%** (£513m)
- 50/50 Strategy **0.4%** (£37m)
- Mature Employer Strategy **0.1%** (£15m)

TOTAL WEIGHT 100%
TOTAL ASSETS 9,701 (£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 0.2% 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 0.4% 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 5.4% 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.

The table below presents the policy group target allocations of the four investment strategies at end March 2023 along with the total Fund strategy, which is the weighted average of the four employer strategies.

| LOTHIAN PENSION FUND 31 March 2023 | Main strategy | Mature Employer strategy | 50/50 strategy | Buses strategy | Total Fund Strategy |
|---------------------------------------|------------------|--------------------------------|-------------------|-------------------|---------------------------|
| Equities | 60.0% | 0.0% | 30.0% | 33.0% | 58.3% |
| Real Assets | 20.0% | 0.0% | 10.0% | 11.0% | 19.4% |
| Non-Gilt Debt | 10.0% | 0.0% | 5.0% | 5.5% | 9.7% |
| LDI (Gilts) | 10.0% | 100.0% | 55.0% | 50.5% | 12.5% |
| 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

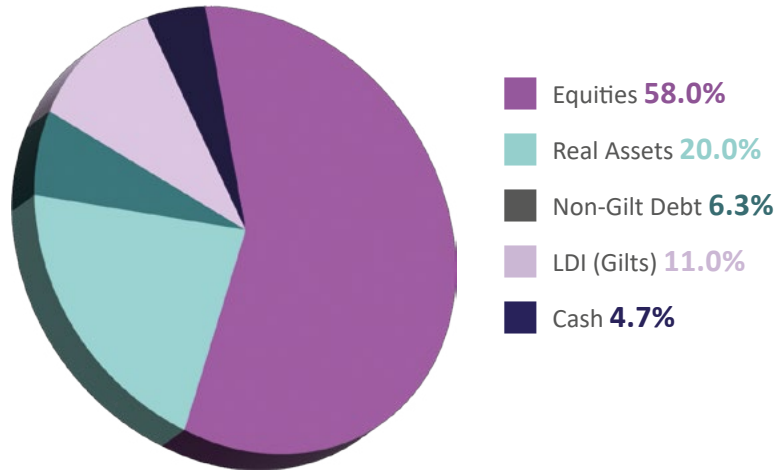
The LDI policy group comprises index-linked and nominal gilts. It does not use financial leverage, which caused some pension funds to become forced sellers of assets in the autumn of 2022. This is the lowest risk, lowest expected return policy group as it's possible to match the cash flows of gilts with 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 2023 is presented in the pie chart below. The largest deviation from strategy is the overweight position in cash (+4.7%), which reflects continuing caution about the valuation of other assets, though is considerably lower than last year following recent opportunities to increase allocation to Real Assets and LDI at more favourable prices. Offsetting underweight positions are in LDI (or gilts) and Non-Gilt Debt. The Fund's exposure to Equity and Real Assets, which should help protect against inflation, is broadly in-line with target. The Fund has operated comfortably within the prescribed ranges over the year.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

ACTUAL ASSET ALLOCATION TOTAL FUND 31 MARCH 2023



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 allocation 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 is 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 Fund is to diversify equity risk, it eschews most high yield debt instruments, which are riskier and strongly correlated with equities. 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 2022 | Actual Allocation 31 March 2023 | Change % |
|---------------|------------------------------------|------------------------------------|----------|
| Equities | 58.5% | 58.0% | -0.5% |
| Real Assets | 17.3% | 20.0% | +2.7% |
| Non-Gilt Debt | 7.6% | 6.3% | -1.3% |
| Gilts | 8.5% | 11.1% | +2.6% |
| Cash | 8.1% | 4.7% | -3.4% |
| Total | 100% | 100% | |

Note: Numbers may not sum due to rounding

The Equity allocation is broadly unchanged over the last twelve months.

The Real Assets allocation increased during the year, primarily due to net new investment activity. In particular, new infrastructure investments were made throughout the year which offset distributions of income and capital for existing private market investments. The Fund continued to source new investments to achieve the target Real Asset allocation, and the real asset policy group was a net investor during the year.

The allocation to Non-Gilt Debt fell modestly over the year, mainly as a result of weak relative returns. In contrast, the exposure to LDI (or gilts) increased, despite weak returns. Having been underweight LDI for some time, the Fund took the opportunity to accelerate its hitherto gradual purchases of UK government bonds during the Truss government-induced market weakness in September/ October 2022.

The net result of the changes was a reduction in cash. The cash position twelve months ago was highlighted to be a temporary, defensive position which was supported by the Fund's advisers. Some of this cash was utilised during the market dislocation in gilts referenced above, to purchase gilts at more attractive yields and move the Fund closer to the strategic target allocation.

There were no changes to investment strategy during the period; changes to Total Fund Strategy allocation weightings over the year were solely a result of movements in the relative size of the underlying strategies. The changes to actual asset mix, while more significant, were also relatively minor. The largest actual change was the reduction in cash which was used to increase the allocation to Real Assets and LDI.

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 recently.

| Annualised returns to 31 March 2023 (% per year) | 1 year | 5 years | 10 years |
|--|--------|---------|----------|
| Lothian Pension Fund | 0.3 | 6.3 | 8.3 |
| Benchmark* | -14.6 | 4.5 | 6.9 |
| Average Weekly Earnings (AWE) | 4.9 | 4.3 | 3.5 |
| Consumer Price Index (CPIH All Items) | 8.9 | 3.8 | 2.6 |

*Comprises equity, 'gilts plus' and gilts indices

COLLEAGUE PROFILE ABIGAIL FORTUNE, GRADUATE TRAINEE ACCOUNT

Abby joined us as a graduate trainee accountant in June 2019. Abby's role involves carrying out a wide variety of financial analysis and control tasks across the Fund, while also working towards her professional accountancy qualification.

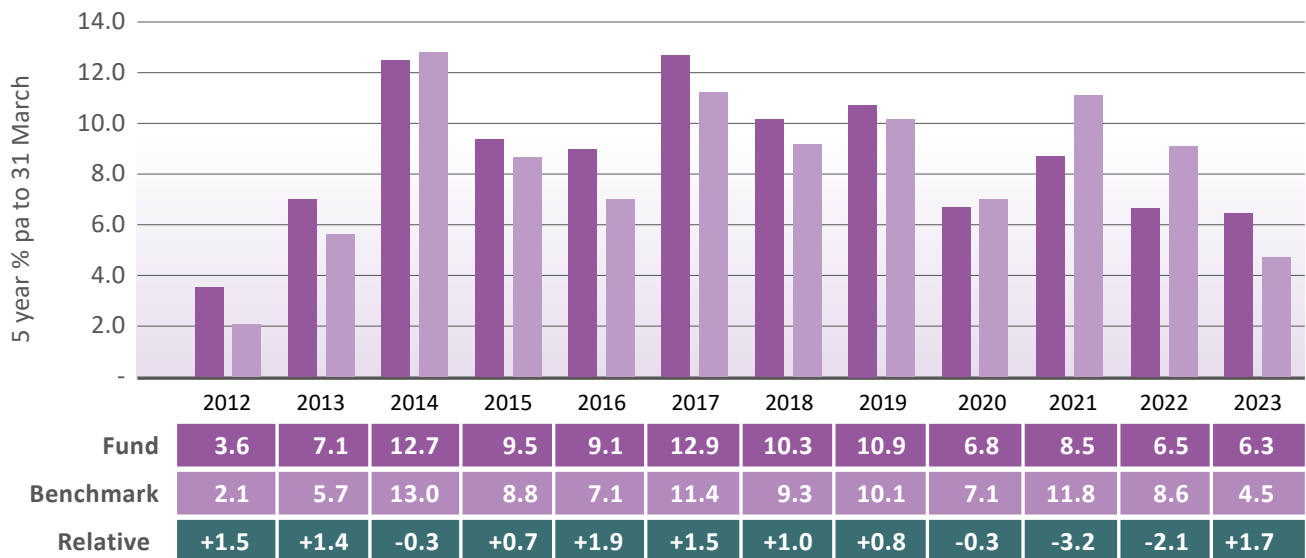
"As a graduate trainee accountant with LPF, I've valued the freedom to work across a wide variety of areas, which is something I likely wouldn't have had in larger companies. I am currently working on the testing for our new finance system, the implementation of which will increase the finance team's efficiency and improve workflows across the company."



LOTHIAN PENSION FUND INVESTMENT STRATEGY

The following bar chart presents the underlying performance data in a long-term context. It shows rolling 5-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. It is important to remember that the objective of the Fund is to balance both risk and return. While the chart below looks solely at the return component, the table with policy group components (below the bar chart) adds the perspective of the risk taken to achieve those returns.

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



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

The following table presents the Fund's risk and return over 1, 5 and 10 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, only one policy group has meaningful 10-year data.

TO END MARCH 2023

| POLICY GROUP | 1 year (%) | | 5 year (% pa) | | 10 year (% pa) | |
|--------------------------|------------|--------------|---------------|-------------|----------------|------------|
| | Fund | Benchmark | Fund | Benchmark | Fund | Benchmark |
| Equities | 4.3 | -1.4 | 8.4 | 9.7 | | |
| Real Assets | 7.9 | -36.6 | 7.5 | -3.8 | | |
| Non-Gilt Debt | -3.7 | -10.0 | 1.9 | -0.5 | | |
| LDI (Gilts) | -38.6 | -39.1 | -6.7 | -6.7 | 0.9 | 1.3 |
| Total Fund Return | 0.3 | -14.6 | 6.3 | 4.5 | 8.3 | 6.9 |
| Total Fund Risk* | 8.3 | 10.8 | 7.0 | 11.2 | 6.8 | 9.3 |

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

The Fund produced an absolute return of +0.3% over the twelve months to end March 2023, which was notably ahead of the benchmark return of -14.6%. With risk below benchmark, it outperformed its long-term objective over the short 1-year timeframe.

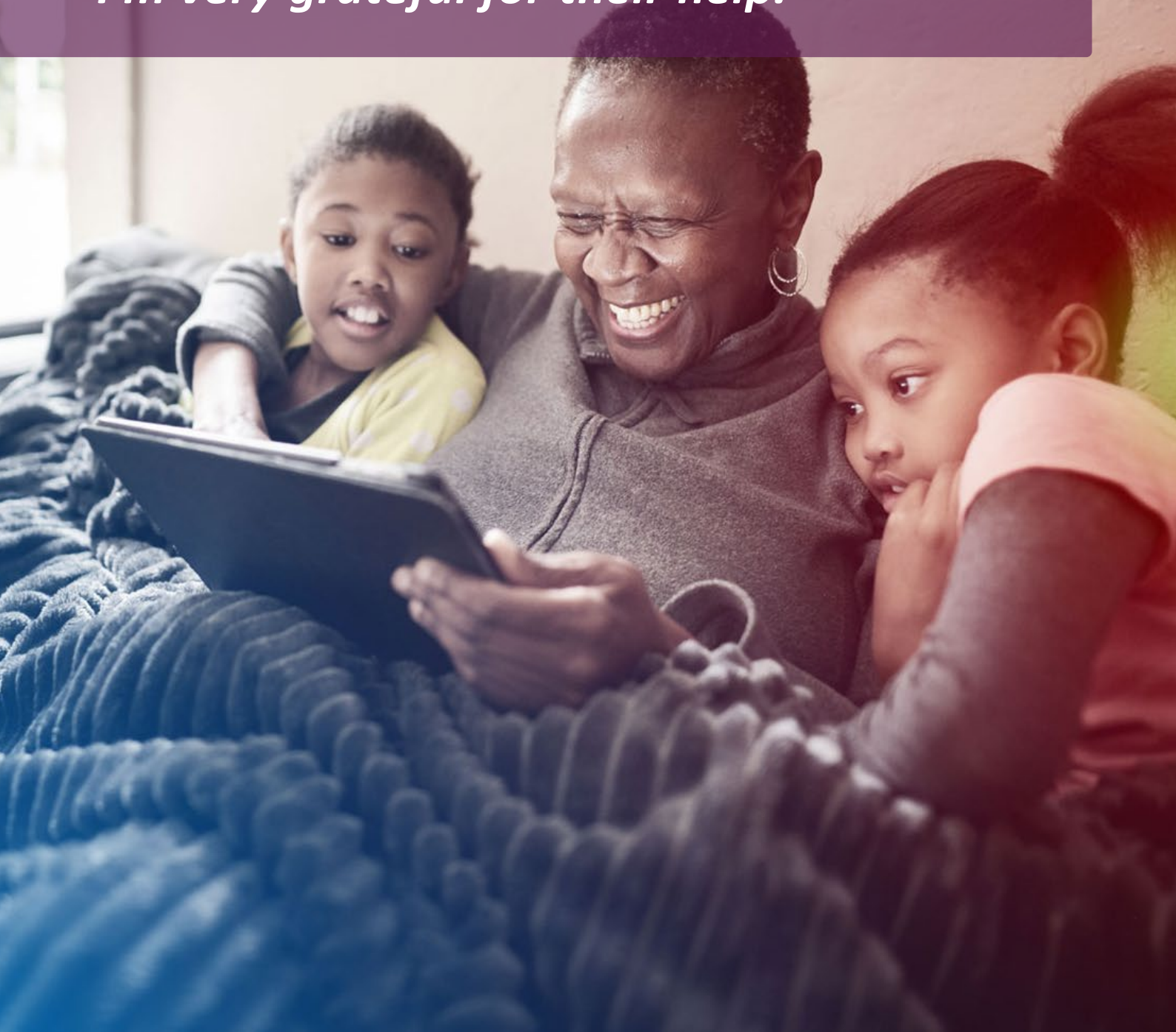
Reasonable returns were achieved within Equities and Real Assets. The Fund's Equities gained 4.3% over the year, comfortably ahead of the global index (MSCI ACWI in GBP) return of -1.4%. Within the Real Assets category, the return of +7.9% was led by strength in both unlisted infrastructure (+19.6%) and timber & agriculture (+12.0%) investments.

Five-year returns were above benchmark at +6.3%pa vs +4.5%pa and over ten years the comparison was +8.3%pa vs +6.9%pa. In summary, over each of these time periods, Fund returns have been above benchmark.

On the risk side of the equation, the Fund has achieved its returns with notably lower levels of volatility than its benchmark (approximately 63% of benchmark risk over five years and 73% over ten years), so from a risk / return perspective the outcomes were notably better than expected over the 1, 5 and 10-year timeframes.

OUTSTANDING SERVICE

'I'm not tech savvy, but the colleague I spoke to over the phone was very helpful and guided me through the online process. I'm very grateful for their help.'



LOTHIAN PENSION FUND ACCOUNT FOR YEAR ENDED 31 MARCH 2023

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 |
| 2021/22 | 2021/22 | | | 2022/23 | 2022/23 |
| £000 | £000 | | Note | £000 | £000 |
| Income | | | | | |
| 198,944 | 198,944 | Contributions from employers | 4 | 201,867 | 201,867 |
| 53,201 | 53,201 | Contributions from members | 5 | 57,383 | 57,383 |
| 5,130 | 5,130 | Transfers from other schemes | 6 | 6,551 | 6,551 |
| 257,275 | 257,275 | | | 265,801 | 265,801 |
| Less: expenditure | | | | | |
| 195,116 | 195,116 | Pension payments including increases | 7 | 206,225 | 206,225 |
| 51,043 | 51,043 | Lump sum retirement payments | 8 | 52,541 | 52,541 |
| 7,662 | 7,662 | Lump sum death benefits | 9 | 9,489 | 9,489 |
| 531 | 531 | Refunds to members leaving service | | 845 | 845 |
| - | - | Premiums to State Scheme | | - | - |
| 5,874 | 5,874 | Transfers to other schemes | 10 | 11,689 | 11,689 |
| 2,820 | 2,439 | Administrative expenses | 11a | 3,202 | 1,088 |
| 263,046 | 262,665 | | | 283,991 | 281,877 |
| (5,771) | (5,390) | Net (withdrawals)/additions from dealing with members | | (18,190) | (16,076) |
| Returns on investments | | | | | |
| 276,010 | 276,010 | Investment income | 12 | 339,114 | 339,114 |
| 676,468 | 676,468 | Change in market value of investments | 14, 19b | (188,055) | (188,055) |
| (37,183) | (35,534) | Investment management expenses | 11b | (44,942) | (39,595) |
| 915,295 | 916,944 | Net returns on investments | | 106,117 | 111,464 |
| 909,524 | 911,554 | Net increase in the fund during the year | | 87,927 | 95,388 |
| 8,697,762 | 8,693,689 | Net assets of the fund at 1 April 2022 | | 9,607,286 | 9,605,243 |
| 9,607,286 | 9,605,243 | Net assets of the fund at 31 March 2023 | | 9,695,213 | 9,700,631 |

LOTHIAN PENSION FUND

NET ASSETS AS AT 31 MARCH 2023

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 2022 | 31 March 2022 | | | 31 March 2023 | 31 March 2023 |
| £000 | £000 | | Note | £000 | £000 |
| Investments | | | | | |
| 9,528,867 | 9,528,867 | Assets | | 9,650,374 | 9,650,374 |
| (4,466) | (4,466) | Liabilities | | (9,386) | (9,386) |
| 9,524,401 | 9,524,401 | Net investment assets | 13 | 9,640,988 | 9,640,988 |
| Non current assets | | | | | |
| 13,061 | 13,061 | Debtors | 23 | 10,688 | 10,688 |
| 719 | 719 | Computer systems | | 486 | 486 |
| 690 | - | Share Capital | | 690 | - |
| - | - | Retirement benefit obligation | 29 | - | 4,866 |
| - | 875 | Deferred tax | 28a | - | - |
| 14,470 | 14,655 | | | 11,864 | 16,040 |
| Current assets | | | | | |
| 3,870 | 3,870 | The City of Edinburgh Council | 27 | 2,311 | 2,311 |
| 68,241 | 69,098 | Cash balances | 20, 27 | 44,224 | 45,703 |
| 20,042 | 20,473 | Debtors | 24 | 21,221 | 21,891 |
| 92,153 | 93,441 | | | 67,756 | 69,905 |
| Non current liabilities | | | | | |
| - | (3,498) | Retirement benefit obligation | 29 | - | - |
| - | - | Deferred tax | 28a | - | (213) |
| - | (14) | Creditors | | - | (16) |
| - | (3,512) | | | - | (229) |
| Current liabilities | | | | | |
| (23,738) | (23,742) | Creditors | 25 | (25,395) | (26,073) |
| (23,738) | (23,742) | | | (25,395) | (26,073) |
| 9,607,286 | 9,605,243 | Net assets for the fund | | 9,695,213 | 9,700,631 |

LOTHIAN PENSION FUND ACCOUNTS

The unaudited accounts were issued on 21 June 2023.

Hugh Dunn

Service Director: Finance and Procurement

The City of Edinburgh Council

21 June 2023

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 147.

2 Lothian Pension Fund Group

Basis of consolidation, presentation of financial statements and notes

Commencing with the year ended 31 March 2018, 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 their respective audited financial statements for 2022/23. 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 2023, 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:

| | 2021/22 | 2022/23 |
|---|----------------|----------------|
| | £000 | £000 |
| By category | | |
| Primary Contribution (future service) | 180,554 | 195,628 |
| Secondary Contribution (past service deficit) | 5,433 | 5,399 |
| Strain costs | 3,209 | 705 |
| Cessation Contributions | 9,748 | 135 |
| | 198,944 | 201,867 |

| | 2021/22 | 2022/23 |
|-----------------------------|----------------|----------------|
| | £000 | £000 |
| By employer type | | |
| Administering Authority | 71,515 | 75,947 |
| Other Scheduled Bodies | 95,937 | 104,123 |
| Community Admission Bodies | 30,123 | 20,190 |
| Transferee Admission Bodies | 1,369 | 1,607 |
| | 198,944 | 201,867 |

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 | 2021/22 | 2022/23 |
|------------------------------|---------------|---------------|
| By employer type | £000 | £000 |
| Administering Authority | 18,969 | 20,488 |
| Other Scheduled Bodies | 27,596 | 29,886 |
| Community Admission Bodies | 6,212 | 6,521 |
| Transferee Admission Bodies | 424 | 488 |
| | 53,201 | 57,383 |

| 6 Transfers in from other pension schemes | 2021/22 | 2022/23 |
|---|--------------|--------------|
| | £000 | £000 |
| Group transfers | 1,649 | 6,551 |
| Individual transfers | 3,481 | - |
| | 5,130 | 6,551 |

| 7 Pensions payable | 2021/22 | 2022/23 |
|-----------------------------|----------------|----------------|
| By employer type | £000 | £000 |
| Administering Authority | 84,339 | 87,871 |
| Other Scheduled Bodies | 91,909 | 98,401 |
| Community Admission Bodies | 18,537 | 19,537 |
| Transferee Admission Bodies | 331 | 416 |
| | 195,116 | 206,225 |

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.

8 Lump sum retirement benefits payable

| | 2021/22 | 2022/23 |
|-----------------------------|---------------|---------------|
| By employer type | £000 | £000 |
| Administering Authority | 17,553 | 19,160 |
| Other Scheduled Bodies | 28,214 | 29,727 |
| Community Admission Bodies | 4,905 | 3,221 |
| Transferee Admission Bodies | 371 | 433 |
| | 51,043 | 52,541 |

9 Lump sum death benefits payable

| | 2021/22 | 2022/23 |
|-----------------------------|--------------|--------------|
| By employer type | £000 | £000 |
| Administering Authority | 2,985 | 3,421 |
| Other Scheduled Bodies | 4,294 | 5,351 |
| Community Admission Bodies | 382 | 708 |
| Transferee Admission Bodies | 1 | 9 |
| | 7,662 | 9,489 |

10 Transfers out to other pension schemes

| | 2021/22 | 2022/23 |
|----------------------|--------------|---------------|
| | £000 | £000 |
| Group transfers | - | - |
| Individual transfers | 5,874 | 11,689 |
| | 5,874 | 11,689 |

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

11a Administrative expenses

| | LPF Parent 2021/22 | LPF Group 2021/22 | LPF Parent 2022/23 | LPF Group 2022/23 |
|--|-----------------------|----------------------|-----------------------|----------------------|
| | £000 | £000 | £000 | £000 |
| Employee costs | 1,775 | 2,042 | 1,937 | 2,263 |
| System costs | 462 | 467 | 508 | 514 |
| Actuarial fees | 96 | 96 | 248 | 248 |
| External/Internal audit fees | 74 | 79 | 84 | 88 |
| Legal fees | 24 | 24 | 22 | 23 |
| Printing and postage | 158 | 158 | 119 | 119 |
| Depreciation | 81 | 81 | 108 | 108 |
| Office costs | 85 | 85 | 97 | 97 |
| Sundry costs less sundry income | 65 | 93 | 79 | 88 |
| IAS19 retirement benefit adjustments - see note 29 | - | (762) | - | (2,839) |
| Deferred tax on retirement benefit obligation - see note 28 | - | 65 | - | 369 |
| Corporation tax | - | 11 | - | 10 |
| | 2,820 | 2,439 | 3,202 | 1,088 |

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 EMMA BURNS, GOVERNANCE OFFICER

Emma joined LPF in September 2022 as Governance Officer. Emma assists with the Governance of the scheme and helps to run the Pension Board and Committee. Emma says:

“From the very first day of joining the organisation I have received such a warm welcome and really appreciated the effort from colleagues in making me feel included and part of the team. The role is very busy, varied and interesting, with lots of opportunity to build knowledge and new skills.”



LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

11b Investment management expenses

| | LPF Parent 2021/22 | LPF Group 2021/22 | LPF Parent 2022/23 | LPF Group 2022/23 |
|---|-----------------------|----------------------|-----------------------|----------------------|
| | £000 | £000 | £000 | £000 |
| External management fees: | | | | |
| invoiced | 3,213 | 3,213 | 3,175 | 3,175 |
| deducted from capital (direct investment) | 23,772 | 23,772 | 24,525 | 24,525 |
| deducted from capital (indirect investment) | 827 | 827 | 606 | 606 |
| Securities lending fees | 81 | 81 | 107 | 107 |
| Transaction costs - Equities | 1,624 | 1,624 | 2,249 | 2,249 |
| Property operational costs | 1,770 | 1,770 | 7,164 | 7,164 |
| Third party - Invest property service charge expense | 5,964 | 5,964 | 8,266 | 8,266 |
| Third party - Invest property service charge income | (5,964) | (5,964) | (8,266) | (8,266) |
| Employee costs | 2,938 | 3,477 | 3,876 | 4,589 |
| Custody fees | 426 | 426 | 366 | 366 |
| Engagement and voting fees | 112 | 112 | 89 | 89 |
| Performance measurement fees | 98 | 98 | 117 | 117 |
| Consultancy fees | 110 | 110 | 86 | 86 |
| Research fees | 442 | 442 | 503 | 503 |
| System costs | 909 | 918 | 1,123 | 1,136 |
| Legal fees | 275 | 358 | 337 | 447 |
| Depreciation | 170 | 170 | 172 | 172 |
| Office costs | 127 | 127 | 153 | 153 |
| Sundry costs less sundry income | 289 | (866) | 294 | (1,111) |
| IAS19 retirement benefit adjustments - see note 30 | - | (1,253) | - | (5,525) |
| Deferred tax on retirement benefit obligation - see note 29 | - | 108 | - | 719 |
| Corporation tax | - | - | - | - |
| Corporation tax gains utilised by CEC group | - | 20 | - | 28 |
| | 37,183 | 35,534 | 44,942 | 39,595 |

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

11b Investment management expenses (cont.)

| | Total | Management /Expense fees | Performance related fee | Transaction costs |
|----------------------------|--------|--------------------------|-------------------------|-------------------|
| 2022/2023 | £000 | £000 | £000 | £000 |
| Bonds | 109 | 109 | - | - |
| Equities | 5,321 | 3,079 | (7) | 2,249 |
| Pooled investment vehicles | 25,167 | 16,073 | 9,062 | 32 |
| Property | 7,164 | 7,164 | - | - |
| Cash and FX contacts | 65 | 65 | - | - |

| | 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 | 1,770 | 1,770 | - | - |
| Cash and FX contacts | 45 | 45 | - | - |

Investment costs directly attributable to a specific fund are charged to the relevant Fund, costs that are common to both 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 £9.1m (£9.1m direct) in respect of performance-related fees compared to £9m in 2021/22 (£8.9m 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 1 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 £0.6m in costs (2022 £0.8m).

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 2021/22 | LPF Group 2021/22 | LPF Parent 2022/23 | LPF Group 2022/23 |
|--------------------------------|-----------------------|----------------------|-----------------------|----------------------|
| | £000 | £000 | £000 | £000 |
| Administrative costs | 2,534 | 2,032 | 2,687 | 703 |
| Investment management expenses | 34,514 | 34,185 | 41,447 | 38,332 |
| Oversight and governance costs | 2,953 | 1,756 | 4,010 | 1,648 |
| | 40,001 | 37,973 | 48,144 | 40,683 |

JIM ANDERSON

"Having once again become chair of the Pension Board I wish to thank the Board members for their continuing support. The Board are key to providing 'oversight and assurance' and have been reassured by the efforts of the Fund. The Board has supported the Committee in its consideration of the investment strategy, governance, administration, communications, Project Forth and LGPS regulation changes. In addition, the Board reviewed operational improvements including the 'Members Self Service' [website] facility. The Board has worked tirelessly in its members interests in what was yet another challenging year."



Chair of the Pension Board

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

12 Investment income

| | 2021/22 | 2022/23 |
|--|----------------|----------------|
| | £000 | £000 |
| Income from bonds | 4,586 | 7,645 |
| Dividends from equities | 168,743 | 192,831 |
| Unquoted private equity and infrastructure | 85,598 | 118,735 |
| Income from pooled investment vehicles | 2,805 | 2,507 |
| Gross rents from properties | 22,500 | 25,983 |
| Interest on cash deposits | 57 | 4,968 |
| Stock lending and sundries | 407 | 536 |
| | 284,696 | 353,205 |
| Irrecoverable withholding tax | (8,686) | (14,091) |
| | 276,010 | 339,114 |

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's assumed that the Fund will make full recovery of these reclaims. For the period of 2022/23 £8,041k of the stated income relates to tax yet to be received. At 31 March 2023 £29,014k (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 2022 | 31 March 2023 |
|---|------------------|------------------|
| | £000 | £000 |
| Investment assets | | |
| Bonds | | |
| Public sector fixed interest | 157,498 | 243,549 |
| Public sector index linked gilts quoted | 957,545 | 1,198,067 |
| | 1,115,043 | 1,441,616 |
| Equities | | |
| Quoted | 5,434,373 | 5,469,139 |
| | 5,434,373 | 5,469,139 |
| Pooled investment vehicles | | |
| Private equity, infrastructure, private debt & timber | 1,344,172 | 1,711,625 |
| Property | 116,925 | 82,890 |
| Other | 203,941 | 177,904 |
| | 1,665,038 | 1,972,419 |
| Properties | | |
| Direct property | 431,303 | 365,745 |
| | 431,303 | 365,745 |
| Derivatives | | |
| Derivatives - forward foreign exchange | - | 2,549 |
| | - | 2,549 |
| Cash deposits | | |
| Deposits | 837,138 | 341,424 |
| | 837,138 | 341,424 |
| Other investment assets | | |
| Due from broker | 1,417 | 908 |
| Dividends and other income due | 44,555 | 56,574 |
| | 45,972 | 57,482 |
| Total investment assets | 9,528,867 | 9,650,374 |
| Investment liabilities | | |
| Derivatives | | |
| Derivatives - forward foreign exchange | (2,375) | - |
| | (2,375) | - |
| Other financial liabilities | | |
| Due to broker | (2,091) | (9,386) |
| | (2,091) | (9,386) |
| Total investment liabilities | (4,466) | (9,386) |
| Net investment assets | 9,524,401 | 9,640,988 |

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

14a Reconciliation of movement in investments and derivatives

| | Market value at 31 March 2022* | Purchase at cost & derivative payments | Sale & derivative receipts | Change in market value | Market value at 31 March 2023 |
|---|--------------------------------|--|----------------------------|------------------------|-------------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Bonds | 1,115,043 | 1,487,342 | (882,212) | (278,557) | 1,441,616 |
| Equities | 5,434,373 | 980,072 | (985,504) | 40,198 | 5,469,139 |
| Pooled investment vehicles | 1,665,038 | 392,099 | (185,094) | 100,376 | 1,972,419 |
| Property | 431,303 | 17,016 | (6,437) | (76,137) | 365,745 |
| Derivatives - futures | - | - | - | - | - |
| Derivatives - forward foreign exchange | (2,375) | 7,468 | (2,061) | (483) | 2,549 |
| | 8,643,382 | 2,883,997 | (2,061,308) | (214,603) | 9,251,468 |
| Other financial assets / liabilities | | | | | |
| Cash deposits* | 837,138 | | | 26,512 | 341,424 |
| Broker balances* | (674) | | | 36 | (8,478) |
| Investment income due* | 44,555 | | | - | 56,574 |
| | 881,019 | | | 26,548 | 389,520 |
| Net financial assets | 9,524,401 | | | (188,055) | 9,640,988 |

* As per CIPFA disclosures 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.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

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

| | 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 | (1,640,565) | 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 |

* 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

| Pooled investments | Market value at 31 March 2022 | Level 3 transfers | | Purchases at cost & derivative payments | Sale & derivative receipts | Unrealised gains / (losses) | Realised gains / (losses) | Market value at 31 March 2023 |
|--------------------|-------------------------------|-------------------|----------|---|----------------------------|-----------------------------|---------------------------|-------------------------------|
| | £000 | in | out | £000 | £000 | £000 | £000 | £000 |
| Infrastructure | 932,043 | - | - | 317,032 | (94,671) | 118,858 | 25,455 | 1,298,717 |
| Property | 66,667 | - | - | 12,152 | (36,883) | (27,131) | 29,035 | 43,840 |
| Private equity | 43,835 | - | - | (8) | (13,552) | (6,216) | 8,606 | 32,665 |
| Timber | 107,614 | - | - | 27,910 | (2,495) | (19,966) | (2,005) | 111,058 |
| Private debt | 260,680 | - | - | 32,229 | (32,508) | 18,192 | (9,409) | 269,184 |
| Freehold property | 431,303 | - | - | 17,016 | (6,437) | (76,137) | - | 365,745 |
| | 1,842,141 | - | - | 406,331 | (186,546) | 7,600 | 51,682 | 2,121,209 |

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 2023.

| 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 | 53,113 | 93,335 | 2,549 | - |
| One to six months | CHF | USD | - | - | - | - |
| One to six months | USD | CHF | - | - | - | - |
| Open forward currency contracts at 31 March 2023 | | | | | 2,549 | - |
| Net forward currency contracts at 31 March 2023 | | | | | | 2,549 |

Prior year comparative

| | | | | | | |
|--|--|--|--|--|---|---------|
| Open forward currency contracts at 31 March 2022 | | | | | - | (2,375) |
| Net forward currency contracts at 31 March 2022 | | | | | | (2,375) |

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

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 2022 | % of total 31 March 2022 | Market value at 31 March 2023 | % of total 31 March 2023 |
|---|---------------------------|-------------------------------------|--------------------------------|-------------------------------------|--------------------------------|
| | | £000 | % | £000 | % |
| In-house | UK all cap equities | 265,832 | 2.8 | 295,441 | 3.1 |
| In-house | UK mid cap equities | 110,344 | 1.2 | 99,315 | 1.0 |
| Total UK equities | | 376,176 | 4.0 | 394,756 | 4.1 |
| In-house | European ex UK equities | 250,266 | 2.6 | 202,168 | 2.1 |
| In-house | US equities | 359,548 | 3.8 | 372,923 | 3.9 |
| Total regional overseas equities | | 609,814 | 6.4 | 575,091 | 6.0 |
| In-house | Global high dividend | 1,289,083 | 13.5 | 1,342,866 | 13.9 |
| In-house | Global low volatility | 1,285,006 | 13.5 | 1,272,317 | 13.2 |
| In-house | Global multi factor value | 1,177,932 | 12.4 | 1,196,232 | 12.4 |
| In-house | Global quality | - | - | 63,719 | 0.7 |
| Harris | Global equities | 132,500 | 1.4 | 138,204 | 1.4 |
| Nordea | Global equities | 351,784 | 3.7 | 329,513 | 3.4 |
| Baillie Gifford | Global equities | 178,332 | 1.9 | 170,952 | 1.8 |
| Total global equities | | 4,414,637 | 46.4 | 4,513,803 | 46.8 |
| In-house | Currency hedge | (2,374) | - | 2,549 | - |
| Total currency overlay | | (2,374) | - | 2,549 | - |
| Total listed equities | | 5,398,253 | 56.8 | 5,486,199 | 56.9 |
| In-house | Private equity unquoted | 43,946 | 0.5 | 32,744 | 0.3 |
| In-house | Private equity quoted | 123,673 | 1.3 | 75,720 | 0.8 |
| Total private equity | | 167,619 | 1.8 | 108,464 | 1.1 |
| Total equity | | 5,565,872 | 58.6 | 5,594,663 | 58.0 |
| In-house | Index linked gilts | 497,000 | 5.2 | 756,003 | 7.8 |
| In-house | Normal gilts | - | - | 51,285 | 0.5 |
| In-house | Mature employer gilts | 316,605 | 3.3 | 262,748 | 2.7 |
| Total inflation linked assets | | 813,605 | 8.5 | 1,070,036 | 11.0 |
| In-house | Indirect property | 116,925 | 1.2 | 82,890 | 0.9 |
| In-house | Property | 459,147 | 4.8 | 405,137 | 4.2 |
| In-house | Infrastructure unquoted | 932,043 | 9.8 | 1,298,717 | 13.5 |
| In-house | Infrastructure quoted | 28,666 | 0.3 | 24,845 | 0.3 |
| In-house | Timber | 107,614 | 1.1 | 111,058 | 1.2 |
| Total real assets | | 1,644,395 | 17.2 | 1,922,647 | 20.1 |
| Baillie Gifford | Corporate bonds | 33,412 | 0.4 | 29,683 | 0.3 |
| In-house | Private debt | 260,680 | 2.7 | 269,185 | 2.8 |
| In-house | Sovereign bonds | 298,857 | 3.1 | 184,978 | 1.9 |
| In-house | Investment Grade Credit | 134,640 | 1.4 | 121,334 | 1.3 |
| Total debt assets | | 727,589 | 7.6 | 605,180 | 6.3 |

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

16 Investment managers and mandates (cont)

| Manager | Mandate | Market value at 31 March 2022 | % of total 31 March 2022 | Market value at 31 March 2023 | % of total 31 March 2023 |
|--------------------------------|-------------|-------------------------------------|--------------------------------|-------------------------------------|--------------------------------|
| | | £000 | % | £000 | % |
| In-house | Cash | 772,033 | 8.1 | 448,096 | 4.6 |
| In-house | Transitions | 907 | 0.0 | 366 | 0.0 |
| Total cash and sundries | | 772,940 | 8.1 | 448,462 | 4.6 |
| Net financial assets | | 9,524,401 | 100.0 | 9,640,988 | 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 2023, £92.5m (2022 £167.6m) of securities were released to third parties. Collateral valued at 105.1% (2022 107.3%) of the market value of the securities on loan was held at that date.

18 Property holdings

| | 2021/22 | 2022/23 |
|----------------------------|----------------|----------------|
| | £000 | £000 |
| Opening balance | 366,125 | 431,303 |
| Additions | 380 | 17,016 |
| Disposals | (7,982) | (6,437) |
| Net change in market value | 72,780 | (76,137) |
| Closing balance | 431,303 | 365,745 |

As at 31 March 2023, there were no restrictions on the realisability of the property or the remittance of income or sale proceeds. As at 31 March 2023, the Fund had no contractual obligation for any further construction costs.

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

| | 2021/22 | 2022/23 |
|----------------------------|----------------|----------------|
| | £000 | £000 |
| Within one year | 19,702 | 20,158 |
| Between one and five years | 65,976 | 67,636 |
| Later than five years | 102,119 | 106,764 |
| | 187,797 | 194,558 |

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's no difference between the carrying value and fair value.

| Classification of financial instruments - parent | 31 March 2022 | | | 31 March 2023 | | |
|--|---|-----------------------|---|---|-----------------------|---|
| | 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 | 1,115,043 | - | - | 1,441,616 | - | - |
| Equities | 5,434,373 | - | - | 5,469,139 | - | - |
| Pooled investments | 1,665,038 | - | - | 1,972,419 | - | - |
| Property leases | - | - | - | - | - | - |
| Derivative contracts | - | - | - | 2,549 | - | - |
| Margin balances | - | - | - | - | - | - |
| Cash | - | 837,138 | - | - | 341,424 | - |
| Other balances | - | 44,555 | - | - | 57,482 | - |
| | 8,214,454 | 881,693 | - | 8,885,723 | 398,906 | - |
| Other assets | | | | | | |
| City of Edinburgh Council | - | 3,870 | - | - | 2,311 | - |
| Cash | - | 68,241 | - | - | 44,224 | - |
| Share Capital | - | 690 | - | - | 690 | - |
| Debtors - current | - | 20,042 | - | - | 21,221 | - |
| Debtors - non-current | - | 13,061 | - | - | 10,688 | - |
| | - | 105,904 | - | - | 79,134 | - |
| Assets total | 8,214,454 | 987,597 | - | 8,885,723 | 478,040 | - |

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

| Classification of financial instruments - parent (cont) | 31 March 2022 | | | 31 March 2023 | | |
|---|---|-----------------------|---|---|-----------------------|---|
| | 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 | £000 | £000 | £000 | £000 | £000 | £000 |
| Investment liabilities | | | | | | |
| Derivative contracts | (2,375) | - | - | - | - | - |
| Other investment balances | - | (674) | - | - | (9,386) | - |
| | (2,375) | (674) | - | - | (9,386) | - |
| Other liabilities | | | | | | |
| Creditors | - | - | (23,738) | - | - | (25,395) |
| Liabilities total | (2,375) | (674) | (23,738) | - | (9,386) | (25,395) |
| Total net assets | 8,212,079 | 986,923 | (23,738) | 8,885,723 | 468,654 | (25,395) |
| Total net financial instruments | | | 9,175,264 | | | 9,328,982 |
| Amounts not classified as financial instruments | | | 432,022 | | | 366,231 |
| Total net assets - parent | | | 9,607,286 | | | 9,695,213 |

ANDY MCKINNEL

"Over the last five years I have provided guidance to the Pensions Committee and Pension Board in the exercise of their duties. The Independent Professional Observer role is an important one for LPF, as it strengthens LPF's oversight and governance arrangements, ensuring that its committee and pension board have access to independent expertise within a complex industry. It has been a pleasure to support both the Pension Committee and Pension Board to ensure that the best interests of LPF's members and employers remain the key driver for all the Fund's decision making. I will leave my role in September 2023 and wish LPF success going forward."



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 2022 | | | 31 March 2023 | | |
|--|---|-----------------------|---|---|-----------------------|---|
| | 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 | - | 857 | - | - | 1,479 | - |
| Share capital | - | (690) | - | - | (690) | - |
| Debtors - current | - | 430 | - | - | 772 | - |
| Debtors - non-current | - | 875 | - | - | - | - |
| Debtors - non-current Retire. benefit obligation | - | - | - | - | 4,866 | - |
| | - | 1,472 | - | - | 6,427 | - |
| Assets total | - | 1,472 | - | - | 6,427 | - |
| -Other liabilities- | | | | | | |
| Retire. benefit obligation | - | - | (3,498) | - | - | - |
| Creditors | - | - | (3) | - | (678) | - |
| Creditors - non current | - | - | (14) | - | (331) | - |
| Liabilities total | - | - | (3,515) | - | (1,009) | - |
| Total net assets | - | 1,472 | (3,515) | - | 5,418 | - |
| Total adjustments to net financial instruments | | | (2,043) | 5,418 | | |
| Total net assets - group | | | 9,605,243 | 9,700,631 | | |

19b Net gains and losses on financial instruments

| | 2021/22 | 2022/23 |
|---|----------------|------------------|
| | £000 | £000 |
| Designated as fair value through Fund Account | 997,105 | (138,466) |
| Loans and receivables | (11,464) | 26,548 |
| Financial liabilities at amortised cost | - | - |
| Total | 985,641 | (111,918) |
| Gains and losses on directly held freehold property | (16,405) | (76,137) |
| Change in market value of investments per fund account | 969,236 | (188,055) |

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 isn't 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 isn't 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 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 2023 | | | |
|--|------------------|-----------|------------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investment assets at fair value through Fund Account | £000 | £000 | £000 | £000 |
| Bonds | - | 1,441,616 | - | 1,441,616 |
| Equities | 5,469,139 | - | - | 5,469,139 |
| Pooled investment vehicles | 27,093 | 189,861 | 1,755,465 | 1,972,419 |
| Derivatives | 2,549 | - | - | 2,549 |
| Cash deposits | 341,424 | - | - | 341,424 |
| Investment income due | 57,482 | - | - | 57,482 |
| Non-financial assets at fair value through profit and loss | | | | |
| Property | - | - | 365,745 | 365,745 |
| Total investment assets | 5,897,687 | - | 2,121,210 | 9,650,374 |
| Investment liabilities at fair value through Fund Account | | | | |
| | (9,386) | - | - | (9,386) |
| Total investment liabilities | (9,386) | - | - | (9,386) |
| Net investment assets | 5,888,301 | - | 2,121,210 | 9,640,988 |

| | 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 |

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're 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 sets out the long-term volatility assumptions used in the Fund’s asset-liability modelling undertaken by Isio investment advisers.

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 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 | 11.2% |
| Index-linked Gilts | 11.8% |
| Infrastructure | 12.0% |
| Property | 13.0% |
| Cash | 1.5% |

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 2023 | % of fund | Potential Change +/- | Value on increase | Value on decrease |
|--------------------------------------|------------------------------|--------------|----------------------------|----------------------|----------------------|
| | £m | % | % | £m | £m |
| Equities - Developed Markets | 4,968 | 51.5 | 20.5% | 5,986.5 | 3,949.6 |
| Equities - Emerging Markets | 516 | 5.3 | 28.0% | 660.0 | 371.3 |
| Private equity | 108 | 1.1 | 26.0% | 136.7 | 80.3 |
| Timber and gold | 111 | 1.2 | 18.0% | 131.0 | 91.1 |
| Secured loan | 420 | 4.4 | 10.5% | 464.3 | 376.1 |
| Fixed interest Gilts | 51 | 0.5 | 11.2% | 57.0 | 45.5 |
| Index-linked Gilts | 1,201 | 12.5 | 11.8% | 1,342.9 | 1,059.5 |
| Infrastructure | 1,324 | 13.7 | 12.0% | 1,482.9 | 1,165.1 |
| Property | 488 | 5.1 | 13.0% | 551.1 | 424.3 |
| Cash and forward foreign exchange | 454 | 4.6 | 1.5% | 460.3 | 446.7 |
| Total [1] | 9,641 | 100.0 | 16.9% | 11,272.8 | 8,009.4 |
| Total [2] | | | 13.0% | 10,897.3 | 8,384.9 |
| Total [3] | | | 14.0% | 10,992.0 | 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 isn't 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 isn't reflected in market prices.

Cash deposits

At 31 March 2023, cash deposits represented £380m, 3.92% of total net assets. This was held with the following institutions:

| | Moody's Credit Rating at 31 March 2023 | Balances at 31 March 2022 | Balances at 31 March 2023 |
|--|--|---------------------------|---------------------------|
| | | £000 | £000 |
| Held for investment purposes | | | |
| Northern Trust Global Investment Limited - liquidity funds | A2 | 9,439 | 9,673 |
| Northern Trust Company - cash deposits | A2 | 494,418 | 54,715 |
| UK Short-Term Bills and Notes | Aa3 | 160,901 | 130,016 |
| The City of Edinburgh Council - treasury management | See below | 162,690 | 139,838 |
| Total investment cash | | 827,448 | 334,242 |
| Held for other purposes | | | |
| The City of Edinburgh Council - treasury management | See below | 68,241 | 44,224 |
| JLL in-house property cash (Barclays) | A1 | 9,688 | 7,182 |
| Total cash - parent | | 895,689 | 378,466 |
| Cash held by LPFE/LPFI Limited | | | |
| Royal Bank of Scotland | A1 | 857 | 1,478 |
| Total cash - group | | 896,546 | 379,944 |

The majority 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.

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 2023 | Balances at 31 March 2022 | Balances at 31 March 2023 |
|---|---|---------------------------------|---------------------------------|
| | | £000 | £000 |
| Money market funds | | | |
| Deutsche Bank AG, London | Aaa-mf | 8,625 | 25,862 |
| Goldman Sachs | Aaa-mf | 6,034 | 859 |
| Aberdeen Standard Sterling Liquidity Fund | Aaa-mf | 18,614 | 6,644 |
| Bank call accounts | | | |
| Bank of Scotland | A1 | 23,016 | 13 |
| Royal Bank of Scotland | A1 | 1,045 | 6,851 |
| Santander UK | A1 | 23 | 24 |
| Barclays Bank | A1 | 12 | 13 |
| Svenska Handelsbanken | | 13 | 8,467 |
| HSBC Bank PLC | A1 | 2,590 | 8 |
| Notice accounts | | | |
| HSBC Bank PLC | A1 | 20,422 | 4 |
| UK Government | | | |
| Gilts & T-Bills and UK Government Debt | Aa3 | 103,035 | 27,636 |
| Supranational Commerical Paper | | | |
| European Investment Bank | Aaa | 17,758 | - |
| UK Pseudo-Sovereign risk instruments | | | |
| Other Local Authorities [1] | Aa3 | 29,744 | 107,681 |
| | | 230,931 | 184,062 |

[1] Very few Local Authorities have their own credit rating, but they're generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2023 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 doesn't 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 in note 17 (p90). The Fund is potentially exposed to credit risk in the event of the borrower of securities defaulting. This 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 2023, the Fund was owed £2,549k 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 isn't bound by any obligation to replenish its investments so isn't exposed to refinancing risk.

Liquidity risk

Liquidity risk reflects the risk that the Fund won't be able to meet its financial obligations as they fall due. The Fund therefore ensures that there's 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 78% (2022 81%)) 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 £6,971m (2022 £10,049m). 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's not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

| | 31 March 2022 | 31 March 2023 |
|------------------------------------|---------------|---------------|
| | % p.a. | % p.a. |
| Inflation / pensions increase rate | 3.2 | 3.0 |
| Salary increase rate | 3.7 | 3.5 |
| Discount rate | 2.7 | 4.8 |

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 10% 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 2022 | | 31 March 2023 | |
|---|---------------|------------|---------------|------------|
| | Male | Female | Male | Female |
| Current pensioners | 20.3 years | 23.1 years | 19.9 years | 22.9 years |
| Future pensioners (assumed to be currently 45) | 21.6 years | 25.0 years | 21.2 years | 24.7 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 2022 | LPF Group 31 March 2022 | LPF Parent 31 March 2023 | LPF Group 31 March 2023 |
|--|--------------------------------|-------------------------------|--------------------------------|-------------------------------|
| | £000 | £000 | £000 | £000 |
| Contributions due - employers' cessation | 13,061 | 13,061 | 10,688 | 10,688 |
| | 13,061 | 13,061 | 10,688 | 10,688 |

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 2022 | LPF Group 31 March 2022 | LPF Parent 31 March 2023 | LPF Group 31 March 2023 |
|---|--------------------------------|-------------------------------|--------------------------------|-------------------------------|
| | £000 | £000 | £000 | £000 |
| Contributions due - employers | 15,222 | 15,222 | 16,211 | 16,211 |
| Contributions due - members | 4,091 | 4,091 | 4,407 | 4,407 |
| Benefits paid in advance or recoverable | 166 | 166 | - | - |
| Sundry debtors | 158 | 628 | 248 | 1,003 |
| Prepayments | 363 | 366 | 253 | 270 |
| LPFE & LPFI Limited Loan facility - see note 28 | 42 | - | 102 | - |
| | 20,042 | 20,473 | 21,221 | 21,891 |

| 25 Creditors | LPF Parent 31 March 2022 | LPF Group 31 March 2022 | LPF Parent 31 March 2023 | LPF Group 31 March 2023 |
|--|--------------------------------|-------------------------------|--------------------------------|-------------------------------|
| | £000 | £000 | £000 | £000 |
| Benefits payable | 9,386 | 9,538 | 10,498 | 10,498 |
| VAT, PAYE and State Scheme premiums | 934 | 1,064 | 906 | 1,575 |
| Contributions in advance | 11,193 | 11,193 | 11,819 | 11,819 |
| Miscellaneous creditors and accrued expenses | 1,679 | 1,763 | 1,850 | 2,014 |
| Office - operating lease | 152 | 152 | 129 | 129 |
| Corporation tax losses utilised from CEC group | - | - | - | 38 |
| Intra group creditor - see note 28 | 394 | - | 193 | - |
| | 23,738 | 23,710 | 25,395 | 26,073 |

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 aren't included in the pension fund financial statements.

| | 2021/22 | 2022/23 |
|---|--------------|--------------|
| Total contributions during year for Lothian Pension fund | £000 | £000 |
| Standard Life | 294 | 254 |
| Prudential* | 1,346 | 2,544 |
| | 1,640 | 2,798 |

| | 31 March 2022 | 31 March 2023 |
|---|---------------|---------------|
| Total value at year end for Lothian Pension Fund | £000 | £000 |
| Standard Life | 4,572 | 3,997 |
| Prudential* | 9,674 | 10,383 |
| | 14,246 | 14,380 |

**Figures provided are unaudited*

Prudential has been unable to supply contributions received data to the Fund for 2022/23, therefore total Prudential contributions shown above reflect the monthly contribution information provided by the Fund employers.

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's 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 2022 | 31 March 2023 |
|-------------------------------------|---------------|---------------|
| | £000 | £000 |
| Year-end balance of holding account | 3,870 | 2,311 |
| | 3,870 | 2,311 |

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 2023, the fund had an average investment balance of £197.9m (2021/22 £222.9m). Interest earned was £3,857k (2021/22 £253k).

Year end balance on treasury management account

| | 31 March 2022 | 31 March 2023 |
|------------------------------|----------------|----------------|
| | £000 | £000 |
| Held for investment purposes | 162,691 | 139,838 |
| Held for other purposes | 68,241 | 44,224 |
| | 230,932 | 184,062 |

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 120. The employer contributions for the ten largest scheme employers are as follows:

| | 31 March 2022 | 31 March 2023 |
|-----------------------------|---------------|---------------|
| | £000 | £000 |
| City of Edinburgh Council | 71,515 | 75,947 |
| West Lothian Council | 29,898 | 32,549 |
| East Lothian Council | 18,253 | 20,607 |
| Midlothian Council | 16,441 | 18,027 |
| Scottish Water | 10,543 | 11,419 |
| Scottish Police Authority | 6,781 | 7,010 |
| Edinburgh Napier University | 6,080 | 6,650 |
| Heriot-Watt University | 3,402 | 3,720 |
| Audit Scotland | 2,792 | 2,886 |
| Edinburgh College | 2,748 | 2,877 |
| Weslo Housing Management | 5,405 | - |
| Hanover Housing Association | 2,868 | - |

Governance

As at 31 March 2023, 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 2022 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 2022 | 31 March 2023 |
|--|---------------|---------------|
| | £000 | £000 |
| Short-term employee benefits | 909 | 1,281 |
| Post-employment benefits - employer pension contributions | 111 | 119 |

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

27 Related parties (cont)

Key management personnel employed by LPFE had accrued pensions totalling £148,034 (1 April 2022: £134,724) and lump sums totalling £147,429 (1 April 2022: £131,304) at the end of the period. Further details on senior management remuneration can be found within the remuneration report on page 174.

Remuneration of key management personnel employed by the City of Edinburgh Council is disclosed separately in the Financial Statements of the 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 administrating 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 £3,313 of which £1,872 was due at the year end and for LPFI Limited their interest payable for the year was £1,913 of which £1,442 was due at the year end. At 31 March 2023, there was a zero balance on the loan facilities for LPFE Limited, and a £100,000 balance on the loan facilities for LPFI 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 2023, the Fund was invoiced £6,076k (2022 £5,003k) 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 2021/22 | LPF Group 2022/23 |
|---------------------------------|----------------------|----------------------|
| | £000 | £000 |
| Opening balance | 1,047 | 875 |
| Credit for year to Fund Account | (172) | (1,088) |
| Closing balance | 875 | (213) |

Elements of closing deferred tax asset

| | LPF Group 31 March 2022 | LPF Group 31 March 2023 |
|-------------------|-------------------------------|-------------------------------|
| | £000 | £000 |
| Pension liability | 875 | (213) |
| | 875 | (213) |

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

| | 31 March 2022 | 31 March 2023 |
|---|------------------|------------------|
| | £ | £ |
| 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 | 690,378 | 690,378 |
| | 690,379 | 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.

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 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:

| Asset | | Fair value at 31 March 2022 | % of total 31 March 2022 | Fair value at 31 March 2023 | % of total 31 March 2023 |
|--------------------------------------|------------------------|--------------------------------------|--------------------------------|--------------------------------------|--------------------------------|
| | | £000 | % | £000 | % |
| Equity securities: | Consumer | 2,016 | 12.0 | 2,195 | 12.0 |
| | Manufacturing | 2,168 | 13.0 | 2,468 | 14.0 |
| | Energy and utilities | 905 | 6.0 | 1,080 | 6.0 |
| | Financial institutions | 944 | 6.0 | 1,077 | 6.0 |
| | Health and care | 1,135 | 7.0 | 1,315 | 7.0 |
| | Information technology | 744 | 5.0 | 744 | 4.0 |
| | Other | 1,221 | 7.0 | 1,223 | 7.0 |
| Debt securities: | Corporate Bonds | 308 | 2.0 | 279 | 2.0 |
| | UK Government | 1,433 | 9.0 | 2,076 | 12.0 |
| | Other | - | 0.0 | 374 | 2.0 |
| Private equity: | All | 77 | 0.0 | 70 | 0.0 |
| Real property: | UK property | 866 | 5.0 | 806 | 5.0 |
| | Overseas property | 5 | 0.0 | 29 | 0.0 |
| Investment funds and unit trusts: | Equities | 294 | 2.0 | 252 | 1.0 |
| | Bonds | 767 | 5.0 | 518 | 3.0 |
| | Infrastructure | 1,661 | 10.0 | 2,552 | 14.0 |
| Derivatives: | Foreign Exchange | 1 | 0.0 | 1 | 0.0 |
| Cash and cash equivalents | All | 1,841 | 11.0 | 845 | 5.0 |
| | | 16,385 | 100.0 | 17,904 | 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 2022 | LPF Group 31 March 2023 |
|-----------------------------------|-------------------------------|-------------------------------|
| | £000 | £000 |
| Fair value of Fund assets | 16,385 | 17,904 |
| Present value of Fund liabilities | (19,883) | (13,038) |
| | (3,498) | 4,866 |

Movement in the defined benefit obligation during the period

| | LPF Group 2021/22 | LPF Group 2022/23 |
|--|----------------------|----------------------|
| | £000 | £000 |
| Brought forward | 19,361 | 19,883 |
| Current service cost | 1,813 | 1,930 |
| Past service cost | 59 | - |
| Interest cost on obligation | 418 | 576 |
| Fund participants contributions | 279 | 343 |
| Benefits paid | (67) | (124) |
| Actuarial losses arising from changes in financial assumptions | (1,894) | (10,309) |
| Actuarial losses arising from changes in demographic assumptions | (119) | (119) |
| Other actuarial losses | 33 | 858 |
| Balance at year end | 19,883 | 13,038 |

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 2021/22 | LPF Group 2022/23 |
|---|----------------------|----------------------|
| | £000 | £000 |
| Brought forward | 13,848 | 16,385 |
| Benefits paid | (67) | (124) |
| Interest income on Fund assets | 293 | 464 |
| Contributions by employer | 716 | 814 |
| Contributions by member | 279 | 343 |
| Other gains / (losses) | - | - |
| Return on assets excluding amounts included in net interest | 1,316 | 22 |
| Balance at year end | 16,385 | 17,904 |

Amounts recognised in the Fund Account

| | LPF Group 2021/22 | LPF Group 2022/23 |
|---|----------------------|----------------------|
| | £000 | £000 |
| Interest received on Fund assets | (293) | (464) |
| Interest cost on Fund liabilities | 418 | 576 |
| Current service costs | 1,813 | 1,930 |
| Past service costs | 59 | - |
| Employer contributions | (716) | (814) |
| Actuarial gain/(loss) due to re-measurement of defined benefit obligation | (1,980) | (9,570) |
| Return on Fund assets (excluding interest above) | (1,316) | (22) |
| Net cost recognised in Fund Account | (2,015) | (8,364) |

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

29 Retirement benefits obligation - group (cont)

Principal actuarial assumptions used in this valuation

| | 31 March 2022 | 31 March 2023 |
|------------------------------------|---------------|---------------|
| | % p.a. | % p.a. |
| Inflation / pensions increase rate | 3.2 | 3.0 |
| Salary increase rate | 3.7 | 3.5 |
| Discount rate | 2.8 | 4.8 |

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's 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's 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 10% 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 2022 | | 31 March 2023 | |
|--------------------|---------------|------------|---------------|------------|
| | Male | Female | Male | Female |
| Current pensioners | 20.3 years | 23.1 years | 19.9 years | 22.9 years |
| Future pensioners | 21.6 years | 25.0 years | 21.2 years | 24.7 years |

Expected employer contributions to the defined benefit plan for the year ended 31 March 2024 are £814k, based on a pensionable payroll cost of £4,499k.

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, 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 2022 | 31 March 2023 |
|-----------------------------------|---------------|---------------|
| | £000 | £000 |
| Outstanding investment commitment | 262,578 | 294,486 |
| | 262,578 | 294,486 |

Office accommodation - 144 Morrison Street, Edinburgh

The Fund is committed to making the following future payments.

| | 31 March 2022 | 31 March 2023 |
|--|---------------|---------------|
| | £000 | £000 |
| Within one year | 118 | 118 |
| Between one and five years | 355 | 355 |
| After five years | 311 | 193 |
| | 784 | 666 |
| Recognised as an expense during the year | 95 | 95 |

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

31 Contingent assets and liabilities

Contribution refunds

At 31st March 2023, Lothian Pension Fund had £1,878k (2022: £1,659k) in unclaimed refunds due to members.

Co-investment deal abort costs

At 31 March 2023 the Fund had entered into negotiations for a private debt investment which it is exposed to the potential risk of investment abort costs. Lothian Pension Fund's exposure to this is approximately £2k.

Employer cessations

As stated in note 23, "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 2023, such contingent assets of the Fund totalled £3,622k and the fund has secured first ranking security over two employer property assets and second ranking security over a further 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 £4.9m related to Manufactured Overseas Dividends have been removed from the outstanding claims. The remaining claims relate to "Fokus Bank". 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 £5.4m. 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 2022/23 year, payment two for the 2021/22 year and payment three for the 2020/21 year were made in January 2023. A liability has been raised at 31 March 2023 for the two months of service for the second and third instalment of 2022/23 and third instalment of 2021/22 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 2022 remain in the company's employment there's a contingent liability of £511,423 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'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 the consultation

It's anticipated that rectification regulations should come into force from the start of October 2023.

The Fund's IAS26 reporting from its actuary, as disclosed in Note 22, 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 between 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 don't require a top-up, but it's not obvious within the judgement that there's to be any blanket exception on the application of this ruling to public sector schemes.

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

Contingent Value Right (CVR)

Following the take-over and delisting of one of the Fund's holdings in Abiomed by Johnson & Johnson in 2022 the Fund received a cash payment and one CVR with the entitlement of up to \$35 per share if certain commercial and clinical milestones are achieved in the future. The CVR is unlisted and non-tradeable.

The CVR is held at a valuation of zero within the portfolio and the Fund would receive £166.7k if the milestones are achieved.

32 Impairment losses

| | 2021/22 | 2022/23 |
|--------------------|---------|---------|
| | £000 | £000 |
| Bad Debt provision | 370 | 361 |

During the year the Fund recognised impairment losses in respect of cessation contributions for a specific employer (Freespace).

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, however a balance of £315,000 remains unpaid as the company entered liquidation on 22 October 2020.

The Fund submitted a claim to the liquidators (SKSi Limited) and adjudication on claims submitted by creditors was confirmed on 11 April 2023. Dividends to unsecured creditors (including the Fund) were calculated as 19.2p in the pound and therefore the Fund expects to receive £60.4k.

LOTHIAN PENSION FUND (“THE FUND”) ACTUARIAL STATEMENT FOR 2022/23

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; and
- 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 2022/23

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 continued to be disrupted by the ongoing war in Ukraine and inflationary pressures, impacting on investment returns achieved by the Fund's assets. High levels of inflation in the UK (compared to recent experience) have resulted in a higher than expected LGPS benefit increase of 10.1% in April 2023. Despite this, the funding level of the Fund is likely to be higher than reported at the previous formal valuation at 31 March 2020 due to the significant rise in interest rates which reduces the value placed on the Fund's liabilities.

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
2 May 2023

LOTHIAN PENSION FUND

LIST OF ACTIVE EMPLOYERS AT 31 MARCH 2023

| 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 | Lothian Buses |
| Bellrock Property and Facilities Management | LPFE Limited |
| Canongate Youth Project | Melville Housing Association |
| Capital City Partnership | Mitie PFI |
| CGI UK Ltd | Morrison Facilities Services Ltd |
| Children's Hearing Scotland | Museums Galleries Scotland |
| Children's Hospice Association Scotland | Newbattle Abbey College |
| Citadel Youth Centre | North Edinburgh Dementia Care |
| Compass Chartwell | NSL Services Ltd |

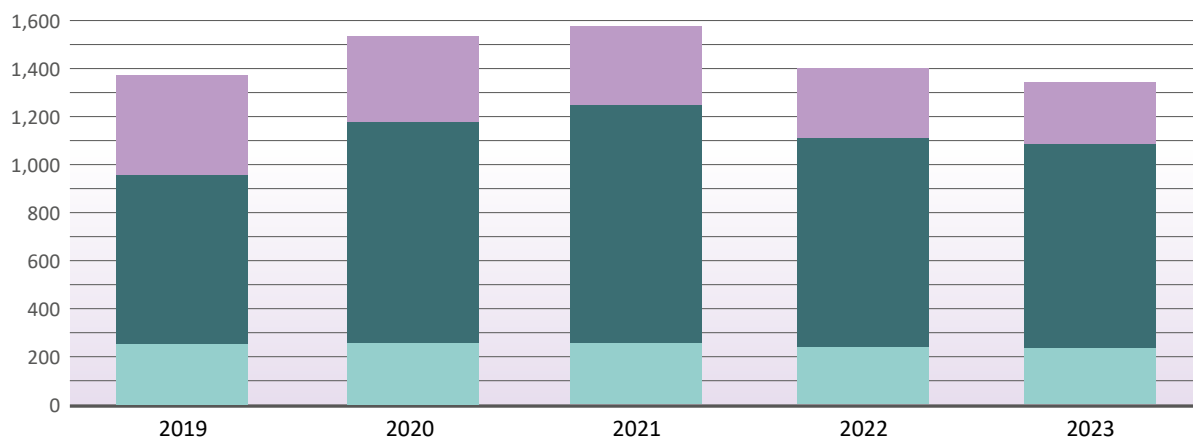
LOTHIAN PENSION FUND

LIST OF ACTIVE EMPLOYERS AT 31 MARCH 2023

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

SCOTTISH HOMES PENSION FUND INVESTMENT STRATEGY

SCOTTISH HOMES PENSION FUND MEMBERSHIP DATA



| | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------------|------|------|------|------|------|
| Active | - | - | - | - | - |
| Deferred | 404 | 360 | 320 | 295 | 262 |
| Pensioner | 906 | 911 | 898 | 870 | 861 |
| Dependant | 263 | 262 | 252 | 238 | 228 |

Investment strategy

The Fund's last triennial actuarial valuation was dated 31 March 2020, at which point the actuary estimated Scottish Homes Pension Fund's funding level to be 117.7%, whilst the Fund's actuary, Hymans Robertson, reported a funding level of 118% in their funding update at 31 March. The Fund continues to have achieved its full funding objective ahead of the timeline originally agreed by the Scottish Government and the City of Edinburgh Council.

As the Fund is closed to new entrants and relatively mature, its objective is to minimise investment shortfall risk of assets relative to liabilities, in line with Scottish Government guidance. The Pensions Committee reaffirmed the following investment objective in June 2021: "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 2023, 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 2022 and 2023 financial years are shown in the table above.

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're 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. The higher allocation to cash is due to the fully funded status of the Fund. As bonds redeem, the cash is reinvested in short-dated bonds, so that this has no impact on the duration matching with the liabilities.

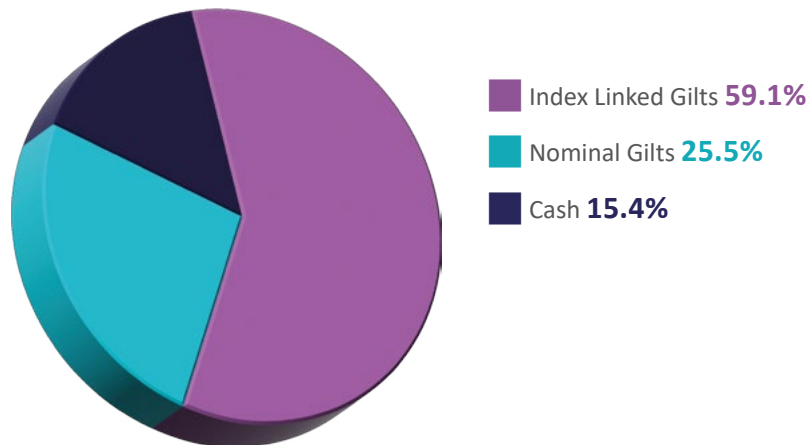
SCOTTISH HOMES PENSION FUND INVESTMENT STRATEGY

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. Hymans Robertson, the Fund's actuary, have stated that the funding level at end March 2023 (the next triennial valuation) is "likely to be fairly similar to that reported at the previous formal valuation".

Following the confirmation of the March 2023 valuation results, the portfolio holdings will be reviewed and rebalanced as required to ensure that they continue to cash flow and duration match the expected liabilities.

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

ACTUAL ASSET ALLOCATION 31 MARCH 2023



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 at end March 2023 was equivalent to slightly more than two and a half years' pension payments, an increase on the prior year due to the run-off of maturing bonds.

The fund's assets have declined in value over the year, from £152.0 to £124.6m, due to higher discount rates as the BOE raised rates significantly to address high inflation. Secondly, £7.2m was paid out in pensions over the year. Adjusted for cash flow movements, the underlying assets decreased in value by -13.8% over the year.

As gilts are generally held to maturity and matched with liability payments, short term fluctuations in asset values don't impact the overall strategy. Liability values rise and fall, as they did this year, with asset values.

SCOTTISH HOMES PENSION FUND ACCOUNT FOR YEAR ENDED 31 MARCH 2023

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 as well as the cost of providing benefits and administration of the Fund.

| 2021/22 | | | 2022/23 |
|----------------|--|----------|-----------------|
| £000 | | Note | £000 |
| | Income | | - |
| - | Contributions from the Scottish Government | 3 | - |
| - | Transfers from other schemes | | - |
| - | | | |
| | Less: expenditure | | |
| 6,360 | Pension payments including increases | | 6,258 |
| 506 | Lump sum retirement payments | | 769 |
| 8 | Lump sum death benefits | | 14 |
| - | Transfers to other schemes | | 17 |
| (38) | Administrative expenses | 4b | (35) |
| 6,836 | | | 7,023 |
| (6,836) | Net withdrawals from dealing with members | | (7,023) |
| | Returns on investments | | |
| 1,923 | Investment income | 5 | 1,981 |
| 1,683 | Change in market value of investments | 6, 9b | (22,640) |
| (98) | Investment management expenses | 4c | (88) |
| 3,508 | Net returns on investments | | (20,747) |
| (3,328) | Net increase/(decrease) in the Fund during the year | | (27,770) |
| 157,542 | Net assets of the Fund at 1 April 2022 | | 154,214 |
| 154,214 | Net assets of the Fund at 31 March 2023 | 9 | 126,444 |

SCOTTISH HOMES PENSION FUND

NET ASSETS STATEMENT AS AT 31 MARCH 2023

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

| 31 March 2022 | | Note | 31 March 2023 |
|-------------------------------|-------------------------------|----------|------------------|
| £000 | | | £000 |
| Investment Assets | | | |
| 139,732 | Bonds - UK | | 104,882 |
| 12,291 | Cash Deposits | | 19,273 |
| 471 | Other investment assets | | 447 |
| 152,494 | | | 124,602 |
| Investment Liabilities | | | |
| - | Other investment liabilities | | - |
| - | | | - |
| 152,494 | Net investment assets | 7 | 124,602 |
| Current assets | | | |
| 183 | The City of Edinburgh Council | 17 | 265 |
| 1,551 | Cash balances | 10,15 | 1,597 |
| 1 | Debtors | 13 | 7 |
| 1,735 | | | 1,869 |
| Current liabilities | | | |
| (15) | Creditors | 14 | (27) |
| (15) | | | (27) |
| 1,720 | Net current assets | | 1,842 |
| 154,214 | Net assets of the Fund | 9 | 126,444 |

The unaudited accounts were issued on 21 June 2023.

Hugh Dunn

Service Director: Finance and Procurement

The City of Edinburgh Council

21 June 2023

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 don't 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 all Funds can be found on page 147.

2 Events after the reporting date

There have been no events since 31 March 2023, 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 isn't 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 for years 31 March 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

| | 2021/22 | 2022/23 |
|--------------------------------|-----------|-----------|
| | £000 | £000 |
| Administrative costs | (45) | (48) |
| Investment management expenses | 48 | 47 |
| Oversight and governance costs | 59 | 54 |
| | 62 | 53 |

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 c and splits out the costs to include a third heading covering oversight and governance expenditure.

4b Administrative expenses

| | 2021/22 | 2022/23 |
|---------------------------------|-------------|-------------|
| | £000 | £000 |
| Employee costs | 29 | 29 |
| System costs | 11 | 12 |
| Actuarial fees | 1 | 3 |
| External audit fees | 1 | 1 |
| Printing and postage | 3 | 2 |
| Depreciation | 1 | 2 |
| Office costs | 1 | 1 |
| Sundry costs less sundry income | 5 | 5 |
| | 52 | 55 |
| Administration fee received | (90) | (90) |
| | (38) | (35) |

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 | 2021/22 | 2022/23 |
|-----------------------------------|-----------|-----------|
| | £000 | £000 |
| Transaction costs | - | - |
| Employee costs | 47 | 49 |
| Custody fees | 4 | 5 |
| Engagement and voting fees | 2 | 1 |
| Performance measurement fees | - | - |
| Consultancy fees | 10 | 1 |
| System costs | 13 | 15 |
| Legal fees | 2 | 2 |
| Office costs | 2 | 2 |
| Sundry costs less sundry income | 18 | 13 |
| | 98 | 88 |

The Fund has not incurred any performance-related investment management fees in 2022/23 or 2021/22.

5 Investment income

| | 2021/22 | 2022/23 |
|--|--------------|--------------|
| | £000 | £000 |
| Income from fixed interest securities | 1,921 | 1,919 |
| Interest on cash deposits and sundries | 2 | 62 |
| | 1,923 | 1,981 |
| Irrecoverable withholding tax | - | - |
| | 1,923 | 1,981 |

SCOTTISH HOMES PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS

6 Reconciliation of movement in investments

| | Market value at 31 March 2022 | Purchases at cost | Sales & proceeds | Change in market value | Market value at 31 March 2023 |
|---|-------------------------------|-------------------|------------------|------------------------|-------------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Bonds | 139,732 | 27,913 | (39,979) | (22,784) | 104,882 |
| | 139,732 | 27,913 | (39,979) | (22,784) | 104,882 |
| Other financial assets / (liabilities) | | | | | |
| Cash deposits* | 12,291 | | | 144 | 19,273 |
| Investment income due/amounts payable* | 471 | | | - | 477 |
| | 12,762 | | | 144 | 19,720 |
| Net financial assets | 152,494 | | | (22,640) | 124,602 |

* 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 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

SCOTTISH HOMES PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS

7 Investment managers and mandates

| | | Market value at 31 March 2022 | % of total 31 March 2022 | Market value at 31 March 2023 | % of total 31 March 2023 |
|--|-----------------------|-------------------------------------|--------------------------------|-------------------------------------|--------------------------------|
| Manager | Mandate | £000 | % | £000 | % |
| In-house | Ex-Equity | 12 | 0.01 | 12 | 0.01 |
| Total ex-equities | | 12 | 0.01 | 12 | 0.01 |
| In-house | UK Index Linked Gilts | 152,482 | 99.99 | 124,567 | 99.97 |
| Total fixed interest and inflation linked bonds | | 152,482 | 99.99 | 124,567 | 99.97 |
| In-house | Cash | - | - | 23 | 0.02 |
| Total cash | | - | - | 23 | 0.02 |
| Net financial assets | | 152,494 | 100.0 | 124,602 | 100.0 |

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

| | Market value at 31 March 2022 | % of total 31 March 2022 | Market value at 31 March 2023 | % of total 31 March 2023 |
|-------------------------------------|-------------------------------------|--------------------------------|-------------------------------------|--------------------------------|
| | £000 | % | £000 | % |
| UK Gov 0% T-BILL 26/06/2023 | - | N/A | 9,903 | 7.8 |
| UK Gov 2.5% Index Linked 17/07/24 | 9,253 | 6.0 | 9,284 | 7.3 |
| UK Gov 1.25% Index Linked 22/11/27 | 9,501 | 6.2 | 9,024 | 7.1 |
| UK Gov 4.125% Index Linked 22/07/30 | 9,338 | 6.1 | 8,456 | 6.7 |
| UK Gov 4.25% 07/06/32 | 8,535 | 5.5 | 7,309 | 5.8 |
| UK Gov 0% T-BILL 11/09/2023 | - | N/A | 6,867 | 5.4 |
| UK Gov 0.625% Index Linked 22/11/42 | 8,336 | 5.4 | 5,886 | 4.7 |
| UK Gov 1.875% Index Linked 22/11/21 | 8,470 | 5.5 | - | N/A |

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's no difference between the carrying value and fair value.

| | 31 March 2022 | | | 31 March 2023 | | |
|--|---|-----------------------|---|---|-----------------------|---|
| | 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 assets | £000 | £000 | £000 | £000 | £000 | £000 |
| Investment assets | | | | | | |
| Bonds | 139,732 | - | - | 104,882 | - | - |
| Cash | - | 12,291 | - | - | 19,273 | - |
| Other balances | - | 471 | - | - | 447 | - |
| | 139,732 | 12,762 | - | 104,882 | 19,720 | - |
| Other assets | | | | | | |
| City of Edinburgh Council | - | 183 | - | - | 265 | - |
| Cash | - | 1,551 | - | - | 1,597 | - |
| Debtors | - | 1 | - | - | 7 | - |
| | - | 1,735 | - | - | 1,869 | - |
| Assets total | 139,732 | 14,497 | - | 104,882 | 21,589 | - |
| Financial liabilities | | | | | | |
| Other liabilities | | | | | | |
| Creditors | - | - | (15) | - | - | (27) |
| Liabilities total | - | - | (15) | - | - | (27) |
| Total net assets | 139,732 | 14,497 | (15) | 104,882 | 21,589 | (27) |
| Total net financial instruments | | | 154,214 | | | 126,444 |

SCOTTISH HOMES PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS

9b Net gains and losses on financial instruments

| | 2021/22 | 2022/23 |
|---|--------------|-----------------|
| | £000 | £000 |
| Designated as fair value through Fund Account | 1,679 | (22,784) |
| Loans and receivables | 4 | 144 |
| Financial liabilities at amortised cost | - | - |
| Total | 1,683 | (22,640) |

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 isn't 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

9c Valuation of financial instruments carried at fair value cont

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 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 2023 | | | |
|---------------------------------------|---------------|----------------|----------|----------------|
| | Level 1 | Level 2 | Level 3 | Total |
| | £000 | £000 | £000 | £000 |
| Investment assets | | | | |
| Bonds | - | 104,882 | - | 104,882 |
| Cash deposits | 19,273 | - | - | 19,273 |
| Investment income due/amounts payable | 447 | - | - | 447 |
| Total financial assets | 19,720 | 104,882 | - | 124,602 |
| Investment liabilities | | | | |
| Payable for investment purchases | - | - | - | - |
| Total investment liabilities | - | - | - | - |
| Net investment assets | 19,720 | 104,882 | - | 124,602 |

| | 31 March 2022 | | | |
|---------------------------------------|---------------|----------------|----------|----------------|
| | Level 1 | Level 2 | Level 3 | Total |
| | £000 | £000 | £000 | £000 |
| Investment assets | | | | |
| 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 |

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 dependents 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. 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. 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. Following the results of the 31 March 2023 triennial valuation, rebalancing is scheduled to take place early in the new financial year.

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 below sets out the long-term volatility assumptions used by the Fund's investment adviser Isio:

| Asset type | Potential price movement (+ or -) |
|----------------------|-----------------------------------|
| Index-Linked Gilts | 11.8% |
| Fixed Interest Gilts | 11.2% |
| Cash | 1.5% |

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's less risk of assets losing value at the same time. The overall Fund benefits from "diversification" because it invests in numerous 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 2023 | % of fund | Potential Change +/- | Value on increase | Value on decrease |
|----------------------|---------------------------|--------------|----------------------------|----------------------|----------------------|
| | £m | % | % | £m | £m |
| Index-Linked Gilts | 73 | 58.4 | 11.8% | 82 | 64 |
| Fixed Interest Gilts | 32 | 25.6 | 11.2% | 36 | 28 |
| Cash | 20 | 16.0 | 1.5% | 20 | 20 |
| Total [1] | 125 | 100.0 | 12.5% | 138 | 112 |
| Total [2] | | | 9.1% | 136 | 114 |
| Total [3] | | | 1.7% | 127 | 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 isn't 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 isn't reflected in market prices.

Cash deposits

At 31 March 2023, cash deposits represented £20.9m, 16.5% of total net assets. This was held with the following institutions:

| | Moody's Credit Rating at 31 March 2023 | Balances at 31 March 2022 | Balances at 31 March 2023 |
|---|---|---------------------------------|---------------------------------|
| Held for investment purposes | | £000 | £000 |
| Northern Trust Company - cash deposits | A2 | 8,935 | 16,771 |
| UK Short-Term Bills and Notes | Aa3 | 3,356 | 2,502 |
| | | 12,291 | 19,273 |
| Held for other purposes | | | |
| The City of Edinburgh Council - treasury management | See below | 1,551 | 1,597 |
| Total cash | | 13,842 | 20,870 |

SCOTTISH HOMES PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS

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

The majority 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 2023 | Balances at 31 March 2022 | Balances at 31 March 2023 |
|---|---|---------------------------------|---------------------------------|
| | £000 | £000 | £000 |
| Money market funds | | | |
| Deutsche Bank AG, London | Aaa-mf | 58 | 224 |
| Goldman Sachs | Aaa-mf | 41 | 7 |
| Aberdeen Standard Sterling Liquidity Fund | Aaa-mf | 125 | 58 |
| Bank call accounts | | | |
| Bank of Scotland | A1 | 155 | 1 |
| Royal Bank of Scotland | A1 | 7 | 59 |
| Svenska Handelsbanken | A1 | - | 73 |
| Notice accounts | | | |
| HSBC Bank PLC | A1 | 155 | 1 |
| UK Government | | | |
| Gilts & T-Bills and UK Government Debt | Aa3 | 691 | 240 |
| Supranational Commercial Paper | | | |
| European Investment Bank | Aaa | 119 | - |
| UK Pseudo-Sovereign risk instruments | | | |
| Other Local Authorities [1] | Aa3 | 200 | 934 |
| | | 1,551 | 1,597 |

[1] Very few Local Authorities have their own credit rating but they're generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2023 was 'Aa3').

No breaches of the Council's counterparty criteria occurred during the reporting period and the Fund doesn't 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)

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 isn't bound by any obligation to replenish its investments and hence isn't exposed to refinancing risk.

Liquidity risk

Liquidity risk reflects the risk that the Fund won't be able to meet its financial obligations as they fall due. The Fund therefore ensures that there's 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 £95m (2022 £116m). 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's not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

| | 31 March 2022 | 31 March 2023 |
|----------------------------------|---------------|---------------|
| | % p.a. | % p.a. |
| Inflation/pensions increase rate | 3.20% | 2.95% |
| Discount rate | 2.70% | 4.75% |

Longevity assumptions

The longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 10% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.5% 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 summarised below:

| | 31 March 2022 | | 31 March 2023 | |
|---|---------------|------------|---------------|------------|
| | Male | Female | Male | Female |
| Current pensioners | 20.3 years | 23.1 years | 20.4 years | 23.1 years |
| Future pensioners (assumed to be currently 45) | 21.6 years | 25.0 years | 20.4 years | 25.8 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 2022 | 31 March 2023 |
|----------------|---------------|---------------|
| | £000 | £000 |
| Sundry debtors | 1 | 7 |
| | 1 | 7 |

14 Creditors

| | 31 March 2022 | 31 March 2023 |
|--|---------------|---------------|
| | £000 | £000 |
| Benefits payable | 15 | 25 |
| Miscellaneous creditors and accrued expenses | 0 | 2 |
| | 15 | 27 |

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's 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 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 2022 | 31 March 2023 |
|-------------------------------------|---------------|---------------|
| | £000 | £000 |
| Year end balance of holding account | 183 | 265 |
| | 183 | 265 |

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 2023, the fund had an average investment balance of £1.4m (2022 £1.7m). Interest earned was £31k (2022 £2k).

SCOTTISH HOMES PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS

15 Related party transactions cont

| | 31 March 2022 | 31 March 2023 |
|--|---------------|---------------|
| Year end balance on treasury management account | £000 | £000 |
| Held for investment purposes | - | - |
| Held for other purposes | 1,551 | 1,597 |
| | 1,551 | 1,597 |

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 126) 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 2023, the Fund was recharged £78k (2022 £76k) for the services of LPFE Limited staff.

Governance

As at 31 March 2023, 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

15 Related party transactions cont

During the period from 1 April 2022 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 2022 | 31 March 2023 |
|---|---------------|---------------|
| | £000 | £000 |
| Short-term employee benefits | 909 | 1,281 |
| Post-employment benefits - employer pension contributions | 111 | 119 |

Key management personnel employed by LPFE had accrued pensions totalling £148,034 (1 April 2022: £134,724) and lump sums totalling £147,429 (1 April 2022: £131,304) at the end of the period. Further details on senior management remuneration can be found within the remuneration report on page 174.

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'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 hadn't 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 hasn't yet published its formal response to its consultation.

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

It's anticipated that rectification regulations should come into force from the start of October 2023.

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 2022 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 don't require a top-up, but it isn't obvious within the judgement that there's to be any blanket exception on the application of this ruling to public sector schemes.

It isn't 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.

SCOTTISH HOMES PENSION FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2022/23

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 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 deficit recovery period is 8 years.

The Fund's assets are invested wholly in index-linked gilts.



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 2022/23

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 2022/23

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 risen, reducing the value of the liabilities and the assets held by the Fund. As a result, the funding level of the Fund as at 31 March 2023 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 2023

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 2022/23 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 2022/23 financial year and report on the net assets available to pay pension benefits as at 31 March 2023. 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 Fund's Investment Valuation Policy. The Policy is designed to provide a framework for LPF's investment valuation process as determined by the Investment Valuation Group, which has been given delegated authority from the Chief Executive Officer of the Fund.

The Fund's Investment Valuation Group reviews the valuation process for all investments on an annual basis, including the application of appropriate valuation standards, based on the input of LPF's Investment Management team. Group members consist of the Fund's Portfolio Managers, Finance Managers, and Risk Managers.

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.



OUTSTANDING SERVICE

'I was nervous about deferring my pension, but everyone I spoke to was very patient and understanding and talked me through the process. Thank you for your support.'

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 - | 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 / | 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 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. | Not required |
| 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 in consultation 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 2023.

| Lothian Pension Fund | Assessed Valuation range (+ or -) | Value at 31 March 2023 | Value on increase | Value on decrease |
|-----------------------|-----------------------------------|------------------------|-------------------|-------------------|
| Unquoted | | £m | £m | £m |
| Private Equity | 26.0% | 108 | 137 | 80 |
| Infrastructure | 12.0% | 1,324 | 1,483 | 1,165 |
| Timber | 18.0% | 111 | 131 | 91 |
| Private Secured Loans | 10.5% | 420 | 464 | 376 |
| Property | 13.0% | 488 | 551 | 424 |
| | | 2,451 | 2,766 | 2,136 |

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 aren't 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 isn't 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 aren't 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 2023 and there is therefore no impact on the 2022/23 financial statements.

- IAS 8 Definition of Accounting Estimates
- IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies
- IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- IFRS 13 Reference to the Conceptual Framework

The amendments are generally minor or principally providing clarification. Overall, these new or amended standards aren't 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 2023 was £1,712m (2022 £1,344m).

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 2023 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 2023 | Approx Increase in liabilities % | Approx monetary amount £m |
|---|--|---------------------------------|
| 0.1% p.a. decrease in the Discount Rate | 2% | 131 |
| 1 year increase in member life expectancy | 4% | 279 |
| 0.1% p.a. increase in Salary Increase Rate | 0% | 13 |
| 0.1% p.a. increase in Pensions Increase Rate (CPI) | 2% | 120 |

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 2023 | Approx Increase in liabilities % | Approx monetary amount £m |
|---|--|---------------------------------|
| 0.1% p.a. decrease in the Discount Rate | 1% | 1 |
| 1 year increase in member life expectancy | 4% | 4 |
| 0.1% p.a. increase in Pensions Increase Rate (CPI) | 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 won't 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 21 June 2023.

Hugh Dunn

Service Director: Finance and Procurement

The City of Edinburgh Council

21 June 2023



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 2022/23 (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 2023.

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 2023 and the transactions of the Pension Fund for year ended 31 March 2023.

Hugh Dunn

Service Director: Finance and Procurement
The City of Edinburgh Council
21 June 2023

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 focussed 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 effectiveness

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 oversight and assurance arrangements, which also includes work undertaken by LPF's Risk & Compliance team as well as other external assurance providers to support and complement existing internal activities. These assurance activities cover oversight of the group's systems and controls, including FCA regulated compliance and other regulatory frameworks. 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 2023 for the Fund.

These forms of monitoring and oversight 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 these activities have identified any weaknesses and enhancements, appropriate action plans have been agreed to make improvements where required.



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 2022 to 31 March 2023 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:

- **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 achieved Cyber Essentials and Cyber Essentials+ accreditation in April 2023. 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.

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.

ANNUAL GOVERNANCE STATEMENT

David Vallery
Chief Executive Officer
Lothian Pension Fund
21 June 2023



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 2023 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. | ✓ | <p>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:</p> <ul style="list-style-type: none"> • 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. <p><i>*with the exception of consideration of a proposed merger with LPF and Falkirk Council Pension Fund.</i></p> |
| | 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. | ✓ | <p>The Pensions Committee includes two external places for pension fund stakeholders i.e. one each from the employer and member representatives.</p> <p>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.</p> <p>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.</p> <p>Two members of the Pension Board are invited to attend the Pensions Audit Sub-Committee.</p> |

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. | ✓ | <p>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.</p> <p>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.</p> <p>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.</p> <p>The Pensions Committee receives annual updates from LPFE and LPFI.</p> |
| Representation | That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. | ✓ | <p>The Pension Board consists of a mix of representatives:</p> <ul style="list-style-type: none"> • 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). | ✓ | <p>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.</p> |

GOVERNANCE COMPLIANCE STATEMENT

| Principle | | Full Compliance | Comments |
|-----------------------------------|--|-----------------|---|
| Representation | Where appropriate, independent professional observers, and expert advisers (on an ad-hoc basis). | ✓ | <p>As mentioned previously, external investment advisers sit on the Joint Investment Strategy Panel.</p> <p>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.</p> <p>A non-executive director was appointed to the board of LPFI on February 2017 and LPFE on March 2018, being reappointed in January 2021, with a further two-year reappointment being approved in March 2023 to both LPFE and LPFI Boards.</p> <p>A further non-executive director was appointed to the board of LPFI on January 2021 and LPFE on February 2021 with a two-year reappointment being approved in March 2023 to both LPFE and LPFI Boards.</p> <p>An external compliance consultant supports the LPF Group on its ongoing compliance with the Financial Conduct Authority rules, regulations and guidance.</p> |
| | 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. | ✓ | <p>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.</p> <p>The Pensions Committee takes account of the views of the Pension Board when making decisions.</p> |
| 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. | ✓ | <p>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.</p> <p>The elected members are required to read, sign and abide by the Councillors' Code of Conduct.</p> <p>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.</p> |

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. | ✓ | <p>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.</p> <p>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.</p> |
| 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. | ✓ | <p>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.</p> <p>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.</p> <p>LPFI and LPFE board members conduct meetings and other matters in accordance with their respective articles of association and shareholders' agreements.</p> |
| 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. | ✓ | <p>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.</p> <p>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.</p> |
| | 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. | ✓ | <p>The Training and Attendance Policy applies to both the Pensions Committee and the Pension Board. Advisers have their own professional development obligations.</p> |

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. |
| | 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. | ✓ | <p>The Pensions Audit Sub-Committee is held before the Pensions Committee at least three times a year with further meetings held if necessary.</p> <p>The Joint Investment Strategy Panel meets quarterly or more frequently as required.</p> <p>The Pension Board attends all the Pensions Committee meetings and separately meets in advance of such meetings. Further meetings are held if necessary.</p> <p>From 2023 the LPFE and LPFI boards meet at least four times a year (in February, June, September and December).</p> |
| | 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. | ✓ | <p>Pensions Committee papers and minutes are publicly available. From June 2023 the papers and minutes will be available on the Council's website via a link to the LPF website.</p> <p>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.</p> |

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. | ✓ | <p>The Pensions Committee deals with all matters relating to both the administration and investment of the Fund and the LPF Group.</p> <p>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.</p> |
| 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. | ✓ | <p>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.</p> |

David Vallery
Chief Executive Officer
Lothian Pension Fund
21 June 2023

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 2023 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 2023 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 | 2021/22 | 2022/23 | Remuneration Bands | 2021/22 | 2022/23 |
|---------------------|---------|---------|-------------------------------|-----------|-----------|
| £50,000 - £54,999 | 1 | 3 | £140,000 - £144,999 | 2 | - |
| £55,000 - £59,999 | - | 4 | £145,000 - £149,999 | 1 | - |
| £60,000 - £64,999 | 1 | 1 | £150,000 - £154,999 | - | 2 |
| £65,000 - £69,999 | 2 | 4 | £155,000 - £159,999 | - | 2 |
| £70,000 - £74,999 | - | - | £160,000 - £164,999 | 3 | 1 |
| £75,000 - £79,999 | 2 | 1 | £165,000 - £169,999 | - | 3 |
| £80,000 - £84,999 | 1 | 2 | £170,000 - £174,999 | - | - |
| £85,000 - £89,999 | - | - | £175,000 - £179,000 | 1 | - |
| £90,000 - £94,999 | - | 1 | £180,000 - £184,999 | - | - |
| £95,000 - £99,999 | - | - | £185,000 - £189,999 | - | - |
| £100,000 - £104,999 | 1 | 1 | £190,000 - £194,999 | - | - |
| £105,000 - £109,999 | - | 1 | £195,000 - £199,999 | - | - |
| £110,000 - £114,999 | 2 | - | £200,000 - £204,999 | - | - |
| £115,000 - £119,999 | 1 | 1 | £205,000 - £209,999 | - | - |
| £120,000 - £124,999 | - | - | £210,000 - £214,999 | - | 1 |
| £125,000 - £129,999 | - | - | £215,000 - £219,999 | - | - |
| £130,000 - £134,999 | 1 | - | £220,000 - £224,999 | - | - |
| £135,000 - £139,999 | 2 | - | £225,000 - £229,000 | - | 1 |
| | | | Total No. of Employees | 21 | 29 |

REMUNERATION REPORT

EMPLOYEES REMUNERATION

The remuneration paid to LPF's senior employees is as follows:

| | Total Remuneration 2021/22 | Salary, Fees and Allowances | Variable Remuneration | Total Remuneration 2022/23 |
|---|----------------------------------|-----------------------------------|--------------------------|----------------------------------|
| Name and Post Title | £000 | £000 | £000 | £000 |
| David Vallery, Chief Executive Officer (from June 2021) | 114 | 181 | 47 | 228 |
| Bruce Miller, Chief Investment Officer | 176 | 154 | 60 | 214 |
| Struan Fairbairn, Chief Risk Officer (to September 2022) | 138 | 57 | - | 57 |
| Kerry Thirkell, Chief Risk Officer (from August 2022) | - | 91 | 13 | 104 |
| John Burns, Chief Finance Officer (resigned May 2023) | 132 | 117 | 45 | 162 |
| Karlynn Sokoluk, Chief Operating Officer (from November 2022)* | - | 106 | 9 | 115 |
| Helen Honeyman, Chief People Officer | 112 | 114 | 44 | 158 |
| Total | 719 | 820 | 218 | 1,038 |

*Karlynn Sokoluk was employed as Head of Services from April 2022 to November 2022

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 2022/23 along with the Senior Management variable remuneration for 2022/23 and vested payment for the previous two assessment years. This is split as follows:

| Name and Post Title | Company Variable Remuneration 2022/23 £000 | Senior Management Variable Remuneration | | | Total Variable Remuneration 2022/23 £000 |
|---|---|---|------------------------|------------------------|---|
| | | 2021 Payment 3 £000 | 2022 Payment 2 £000 | 2023 Payment 1 £000 | |
| David Vallery, Chief Executive Officer | 15 | - | 11 | 21 | 47 |
| Bruce Miller, Chief Investment Officer | 13 | 14 | 16 | 17 | 60 |
| Kerry Thirkell, Chief Risk Officer (from August 2022) | 5 | - | - | 8 | 13 |
| John Burns, Chief Finance Officer (resigned May 2023) | 8 | 11 | 12 | 14 | 45 |
| Karlynn Sokoluk, Chief Operating Officer (from November 2022) | 8 | - | - | 1 | 9 |
| Helen Honeyman, Chief People Officer | 10 | 9 | 11 | 14 | 44 |
| Total | 59 | 34 | 50 | 75 | 218 |

The remuneration paid to our employees whose remuneration during the year exceeded £150,000 is as follows:

| Name and Post Title | Total Remuneration 2021/22 £000 | Salary, Fees and Allowances £000 | Variable Remuneration £000 | Total Remuneration 2022/23 £000 |
|---------------------------------------|------------------------------------|-------------------------------------|-------------------------------|------------------------------------|
| Andrew Imrie, Portfolio Manager | 164 | 116 | 51 | 167 |
| Stewart Piotrowicz, Portfolio Manager | 162 | 114 | 52 | 166 |
| Ian Wagstaff, Portfolio Manager | 164 | 116 | 51 | 167 |
| Albert Chen, Portfolio Manager | 143 | 106 | 47 | 153 |
| Ross Crawford, Portfolio Manager | 145 | 104 | 47 | 151 |
| Nicola Barrett, Portfolio Manager | 150 | 107 | 51 | 158 |
| Total | 928 | 663 | 299 | 962 |

REMUNERATION REPORT

The variable remuneration shown on the previous page includes the Company variable remuneration for 2022/23 along with the Portfolio Manager variable remuneration for 2022/23 and vested payment for the previous two assessment years. This is split as follows:

| Name and Post Title | Company Variable Remuneration 2022/23 £000 | Portfolio Manager Variable Remuneration | | | Total Variable Remuneration 2022/23 £000 |
|---------------------------------------|---|---|------------------------|------------------------|---|
| | | 2021 Payment 3 £000 | 2022 Payment 2 £000 | 2023 Payment 1 £000 | |
| Andrew Imrie, Portfolio Manager | 9 | 13 | 15 | 14 | 51 |
| Stewart Piotrowicz, Portfolio Manager | 9 | 13 | 15 | 15 | 52 |
| Ian Wagstaff, Portfolio Manager | 9 | 13 | 15 | 14 | 51 |
| Albert Chen, Portfolio Manager | 10 | 11 | 13 | 13 | 47 |
| Ross Crawford, Portfolio Manager | 10 | 11 | 13 | 13 | 47 |
| Nicola Barrett, Portfolio Manager | 11 | 12 | 14 | 14 | 51 |
| Total | 58 | 73 | 85 | 83 | 299 |

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 2023 remain in the company's employment is as follows:

| | Payable January 2024 | | Payable January 2025 |
|--|------------------------|------------------------|------------------------|
| | 2022 Payment 3 £000 | 2023 Payment 2 £000 | 2023 Payment 3 £000 |
| Senior Employee Variable Remuneration | 46 | 71 | 71 |
| Portfolio Manager Variable Remuneration | 104 | 112 | 112 |
| Employer National Insurance Contribution | 21 | 25 | 25 |
| Total | 171 | 208 | 208 |

The amounts payable for senior employee variable remuneration over the next two years exclude amounts previously calculated for Struan Fairbairn in respect of performance in 2020/21 and 2021/22 following his resignation from LPFE in March 2022, and 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 2022/23 were as follows:

| Pensionable Pay (2022/23) | Rate (%) |
|--|----------|
| On earnings up to and including £23,000 (2021/2022 £22,300) | 5.5% |
| On earnings above £23,001 and up to £28,100 (2021/2022 £22,300 to £27,300) | 7.25% |
| On earnings above £28,101 and up to £38,600 (2021/2022 £27,300 to £37,400) | 8.5% |
| On earnings above £38,601 and up to £51,400 (2021/2022 £37,400 to £49,900) | 9.5% |
| On earnings of £51,401 and above (2021/2022 £49,900) | 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 | |
|---|-------------------------------|------------|----------|--------------------------|-----------------------------|
| | 2021/22 | 2022/23 | | As at 31 March 2023 | Increase from 31 March 2022 |
| Name and Post Title | £000 | £000 | | £000 | £000 |
| David Vallery, Chief Executive Officer (from June 2021) | 12 | 14 | Pension | - | - |
| | | | Lump Sum | - | - |
| Bruce Miller, Chief Investment Officer | 24 | 4 | Pension | 38 | 1 |
| | | | Lump Sum | 33 | - |
| Struan Fairbairn, Chief Risk Officer (to September 2022) | 19 | 10 | Pension | 18 | 2 |
| | | | Lump Sum | - | - |
| Kerry Thirkell, Chief Risk Officer (from August 2022) | - | 16 | Pension | - | - |
| | | | Lump Sum | - | - |
| John Burns, Chief Finance Officer (resigned May 2023) | 18 | 15 | Pension | 58 | 11 |
| | | | Lump Sum | 99 | 15 |
| Karlynn Sokoluk, Chief Operating Officer (from November 2022) | - | 21 | Pension | - | - |
| | | | Lump Sum | - | - |
| Helen Honeyman, Chief People Officer | 16 | 22 | Pension | 7 | 3 |
| | | | Lump Sum | - | - |
| Total | 89 | 102 | | 253 | 32 |

REMUNERATION REPORT

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 | |
|---------------------------------------|-------------------------------|------------|----------|--------------------------|-----------------------------|
| | 2021/22 | 2022/23 | | As at 31 March 2023 | Increase from 31 March 2022 |
| Name and Post Title | £000 | £000 | | £000 | £000 |
| Andrew Imrie, Portfolio Manager | 22 | 23 | Pension | 36 | 6 |
| | | | Lump Sum | 17 | - |
| Stewart Piotrowicz, Portfolio Manager | 22 | 23 | Pension | 29 | 5 |
| | | | Lump Sum | - | - |
| Ian Wagstaff, Portfolio Manager | 22 | 23 | Pension | 27 | 4 |
| | | | Lump Sum | - | - |
| Albert Chen, Portfolio Manager | 20 | 21 | Pension | 13 | 3 |
| | | | | - | - |
| Ross Crawford, Portfolio Manager | 20 | 21 | Pension | 11 | 3 |
| | | | | - | - |
| Nicola Barrett, Portfolio Manager | 21 | 22 | Pension | 9 | 3 |
| | | | | - | - |
| Total | 127 | 133 | | 142 | 24 |

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 2022/23 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 | - Communications Strategy |
| - Pension Board constitution | - Funding Strategy Statement |
| - Annual Report and Accounts | - Strategy and Business Plan 2022/23 |
| - Statement of Investment Principles | - Training and Attendance policy |
| - Statement of Responsible Investment Principles | |



Fund advisers

| | |
|--|--|
| Actuaries: | Hymans Robertson LLP, Exchange Place 1, Semple Street, Edinburgh, EH3 8BL |
| Auditors | Azets, Exchange Place 3, 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 audio CD, in Braille and large print if you ask us. Please contact Interpretation and Translation Service (ITS) on its@edinburgh.gov.uk and quote reference number XXXX. 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.





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