

AUDITED

ANNUAL REPORT AND ACCOUNTS

2024/25



Lothian Pension Fund in numbers

56,930



NUMBER OF BENEFIT STATEMENTS DELIVERED LAST YEAR

£10.3 billion +

AMOUNT OF FUNDS MANAGED BY LPF



Shortlisted



2025 PENSION AGE AWARDS:
DEFINED BENEFITS PENSION SCHEME OF THE YEAR

92.1%

member
satisfaction
score



157%



OUR STRONG FUNDING POSITION AT MARCH 2023

PASA Accredited

THE GOLD STANDARD IN PENSIONS ADMINISTRATION

LPF has a direct property
portfolio of approximately

£400m

which we actively
asset manage.

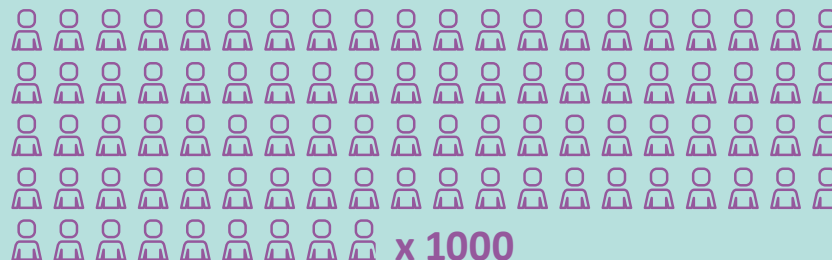


50%

Women in
our top three
leadership
layers

95,430

NUMBER OF MEMBERS WE SERVE



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A MESSAGE FROM THE CONVENOR OF THE PENSIONS COMMITTEE

In last year's Annual Report, I spoke about some of LPF's significant achievements. One year on, it's been another successful year, with all LPF's key performance indicators ending the 2024/25 year on target, demonstrating that LPF has continued to provide a consistent and high-level of service.

LPF's vision is to deliver outstanding pension and investment services for the benefit of our members and employers and this drives everything that LPF does. I'm pleased that LPF's customer satisfaction levels were strong throughout the year and more than 94% of pensions administration work completed within standards. From an operational perspective, we delivered benefit statements two months earlier than statutory deadlines and around a month earlier than last year's performance.

Ensuring that LPF has a workforce with the best skills and tools to deliver its services to its members and employers, now and in the future, is clearly important. It's great that in-house capabilities in the areas of Data, Supplier Management, Procurement and Governance have continued to be strengthened. In June 2024, LPF colleagues relocated to a new office at Haymarket Square which provides a bright, modern and collaborative workspace for colleagues, partners and stakeholders. The year ended with a nomination for 'DB Scheme of the Year' at the prestigious Pension Age Awards held in London in March 2025.

Reflecting on the work of the Pensions Committee this year, we have reviewed LPF's strategic direction and agreed that the overall strategy sets out ambitious objectives focusing on continuous improvement and increasing capabilities to ensure LPF's long-term success. The global climate emergency continues to be a pressing issue. The Committee regularly reviews LPF's responsible investment initiatives and approach, which has moved forward during the year with the introduction of a specific [Climate Change Policy](#). More details about this can be found later in the Report.

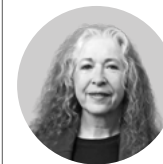
Continuing to develop and improve the governance operating model, frameworks and practices, as well as the risk and control framework, has also been a priority during the year. For example, a new approach to developing the knowledge and expertise of Board and Committee members, and a refreshed Risk Appetite Statement, were both introduced.

Collaboration remains a key strategic aim for LPF. They continued to provide investment services to partner funds via LPFI and held various events, including an annual infrastructure event and training sessions, which were well received by our partners.

Looking ahead, as a committee, we will continue to be aware of the world around us – to explore opportunities and be mindful of challenges ahead, whether in technology advances, financial headwinds, changes in investment

markets, or the potential for structural reform, to name a few.

Lastly, I would like to convey my utmost thanks to the Pensions Committee members, Audit Sub Committee, Pension Board and all colleagues across LPF. I very much appreciate the commitment and determination of colleagues to deliver service excellence in the best interests of our scheme members and employers. Expectations, rightly, remain high and as I look to the year ahead I have every confidence LPF will continue to deliver its strategic aims, building on the successes of this year. In the pages that follow, the team will highlight LPF's progress in more detail. I hope you will find this informative and useful.



Mandy Watt

Convenor of the Pensions Committee
2024/25
Lothian Pension Fund
June 2025

A REVIEW OF 2024/25

The financial year 2024/25 saw political change in the UK and many other countries, ongoing conflict in Ukraine, the Middle East, and parts of Africa, technological advancements like the growing use of Artificial Intelligence, and what seems to be an increasing number of severe weather events and related damage.

Through all of this, I'm pleased that the team at Lothian Pension Fund have remained focused and continued to deliver benefits for our members and employers.

One highlight of the year was our relocation to new premises at Haymarket Square in Edinburgh. We quickly saw the benefits of the new location, with increased collaborative working made possible by spending more time together and being able to host Committee and Board meetings, training events, and seminars in-house.

Delivering for our members and their families

Our core purpose is paying benefits to members and their dependants. During 2024/25, we paid out £253 million in pensions to 36,350 members, £68 million in retirement lump sums, and £8.3 million in death grants. We also welcomed 5,255 new members.

During the year, we retained our Pension Administration Standards Association (PASA) accreditation and maintained

our Customer Service Excellence award with improved scores. We were delighted that our members reported 92.1% overall customer satisfaction in our annual surveys.

The 'McCloud judgment', a court ruling that found the transitional protections for older workers introduced in 2015 were age-discriminatory, required rectifications that came into effect on 1 October 2024.

While the financial impact for individuals is generally small, it was a significant effort to gather and verify a large amount of new employment records, revise benefit calculations, and communicate with members and employers. I'm delighted that, through diligence and hard work, we've ensured members receive the pension they're entitled to.

Continuous improvement

'Continuously improve' is one of our core values, and each of our teams has a list of achievements and improvements for 2024. In July, we delivered 100% of the 56,930 benefit statements three weeks earlier than in 2023, and a full two months ahead of the regulatory deadline.

We continue to invest in our risk management processes, recognising the responsibilities we have and the many financial and operational risks we face. Cyber-attacks are a constant threat and can cause significant damage, so we were pleased to achieve our Cyber Essentials Plus accreditation in March and increase our Microsoft Security Score to an 'Excellent' rating of 81.8%. Both achievements provide confidence in our cyber defences.

In 2024, we restructured and expanded the size of our



Pensions paid: During 2024/25 we paid out

£253m



...and retirement lump sums totalling

£68m

A REVIEW OF 2024/25

investment team, improving resilience, capacity, and accountability for Lothian Pension Fund (LPF) and our partner funds.

Investment Management

Over the year to 31 March 2025, the Fund achieved an overall investment return of +2.4%, with five-year and ten-year annualised returns both at +6.8% p.a. These compare favourably to the benchmark returns of +0.8%, +5.4% p.a. and +6.3% p.a. respectively. The Fund returns were achieved with notably lower levels of volatility than the benchmark. Consistent with strategy, the Fund therefore achieved superior risk-adjusted returns than the benchmark over each of these timeframes.

LPFI continued to provide advisory services to the LGPS of Fife, Falkirk, Borders, and Northern Ireland, as well as managing an increasing amount of assets for Falkirk and Fife. In total, we're advising and managing around £3bn for these partner funds, benefiting both them and LPF through a shared cost model.

Our focus and commitment to being a responsible investor continues. In February of this year, we retained the Financial Reporting Council's Stewardship Code accreditation following the publication of our updated [Stewardship Report](#) in October 2024. This report sets out how we're delivering against the 12 principles set by the Financial Reporting Council and includes case studies of our activities. We continue to publish our ESG

e-zine, [ENGAGE](#), which provides detailed information on LPF's approach to ESG and our responsible investment activities. We also updated our Statement of Responsible Investment Principles and continued to support the Asset Owner Diversity Charter.

Employers

As reported last year, the triennial actuarial valuation of the scheme in 2023 showed a strong funding position of 157% (107% in 2020). This enabled a reduction in employer contribution rates for most of our employers, even after increasing the level of prudence in the valuation basis. The results were welcomed by employers, with the revised contributions coming into effect on 1 April 2024. That said, seven employers exited the scheme during 2024/25. This is part of an ongoing trend across the Scottish LGPS, driven partly by the cost of LGPS benefits, some employers seeking alternative pension arrangements, the ageing of membership within some employers, and changes in the employers' circumstances.

While this is expected to continue, the funding position means that it's now more likely that employers can leave with an exit credit, whereas previously they would have faced an exit deficit. In these circumstances, LPF supports employers in understanding their options, their decision-making, and, where necessary, exit arrangements.



Governance, Management and Colleagues

Effective governance and strong oversight remain essential when we manage over £10bn of assets on behalf of close to 100,000 members of the Fund. I'm therefore pleased that the Pensions Committee supported an internal audit of its effectiveness, and the Boards of LPFE and LPFI have introduced a Chair and Board evaluation process. The Committee and Boards have also supported the introduction of an enhanced skills and competency policy and are undertaking a wider review of governance arrangements.

A REVIEW OF 2024/25

At Lothian Pension Fund (LPF), we're committed to colleague recognition and career progression, so I'm delighted that in addition to 15 new recruits during the financial year 2024/25, 15 colleagues were promoted, seconded, or changed roles. LPF benefits from the combination of a strong culture and expertise that grows with tenure, along with the new skills and insights from those who join us.

Recognition

In addition to retaining the PASA, CSE, and FRC Stewardship accreditations mentioned above, we were delighted to be shortlisted for Pensions Age magazine's Defined Benefit Pension Scheme of the Year. With over 7,200 schemes in the UK, the shortlisting is a testament to the hard work of my team and the results they're delivering.

Independent benchmarking continues to show that we deliver better-than-peer-group administration at a lower cost, as well as stronger risk-adjusted investment returns at a lower cost than our peer group.

This recognition, alongside strong customer feedback and colleague engagement scores, demonstrates that we're achieving our vision to deliver outstanding pension and investment services for the benefit of our members and employers.



WHAT OUR MEMBERS SAY:

"Your service is fantastic and the information you've provided was concise and easy to understand."



Outlook

2025/26 will undoubtedly bring its challenges, but we look forward with positivity. We'll launch an improved pension portal and new online functionality to benefit our members and employers, while also preparing for the triennial valuation due in March 2026. We'll be ready to connect to the Pensions Dashboard in time for the Government's launch, potentially from October 2025.

We're monitoring the UK Government's Pension Review and, in particular, the 'Fit for the Future' consultation of the English and Welsh LGPS arrangements with interest and have responded to HMRC's consultation on pension fund death benefits and inheritance tax. In the latter case, we've highlighted our concerns about the potential delays and hardship the changes could lead to.

Our 2025/26 Strategy and Business Plan is available on our website and gives further details about our plans. I'd encourage interested parties to read it.

As always, I wish to express my gratitude to all my colleagues who work so tirelessly on behalf of our members and employers, and to the members of the Pensions Committee, Pension Board, and boards of LPFE and LPFI who collectively oversee the Fund and its operating entities, while offering me counsel, guidance, and encouragement.



David Vallery
Chief Executive Officer
Lothian Pension Fund
24 September 2025

GOVERNANCE AND RISK

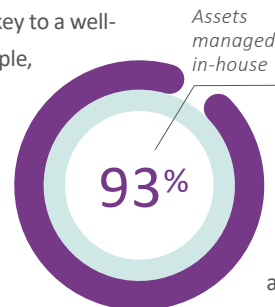
Effective governance and control structures are key to a well-controlled and successful organization. For example, they define roles and responsibilities and set out decision-making processes. They also allow a wide range of risks to be identified, effectively managed and mitigated.

LPF's existing governance and control environment provides a solid foundation, acting to give employers, members and stakeholder confidence. We remain committed, however, to continuous improvement. As such, we have and will continue to make enhancements to LPF's governance and systems of internal controls and risk management.

This section provides an overview of how our governance, control and risk management processes have operated during the reporting period. This section also includes the first Annual Report of the Pension Board as a new addition.

The Annual Governance Statement and Governance Compliance Statements are set out later in this report.

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



The Governance Report

LPF and SHPF are Local Government Pension Schemes. The City of Edinburgh Council (Council) is the Administering Authority, which means that the Council has statutory responsibilities for the administration of the funds. In practice, a Committee and Board structure and delegations' model is in place to support our governance framework.

The Pensions Committee and Pensions Audit Sub-Committee

Initially, subject to matters reserved to the Council, the Council delegates its oversight as Administering Authority of the funds to the Pensions Committee (Committee), supported by the Pensions Audit Sub-Committee (Sub Committee).

Membership and Appointments

The Committee is appointed under Section 57 of the Local Government (Scotland) Act 1973. Under its Terms of Reference, the Committee must be made up of seven members. This includes five elected members of the Council providing proportionate elected representation of political parties and two external members representing the employers and members in the funds.

Members of the Committee are appointed with the final approval of the full Council. The five elected members of the Committee are appointed for an unspecified tenure, with the election cycle of Local Government elections having an impact on the Councillor membership. The membership of the Committee is also reviewed each year by the full Council, which may result in membership changes.

COLLEAGUE PROFILE MARY STRATHEARN, COMPANY SECRETARIAT

Mary joined LPF in July 2024 and along with the rest of the Company Secretariat Team, Mary supports the business to ensure LPF maintains best practice governance standards and complies with all expectations and requirements. This includes coordination of all aspects of the Committee and Board meeting process, together with ensuring that all Committee and Board Members receive appropriate and relevant training to allow them to undertake their duties effectively.

"What immediately struck me from the outset of working at LPF was the welcoming and friendly culture across the whole organisation. I've really enjoyed being involved in projects that involve other teams and departments and feel like I'm learning something new every day, which lends well to LPF's values around continuous learning and development which is very much supported and encouraged."



GOVERNANCE AND RISK

The external members of the Committee are appointed for a specified term following a formal and transparent search process in accordance with LPF's Nominations and Appointments Policy which sets out an appointment process for non-elected Pensions Committee members.

The Sub-Committee is made up of three members of the Committee, two of which must be elected members of the Committee. Members of the Sub Committee are appointed by the Committee.

During the reporting period there were several changes to the membership of the Committee and the Sub Committee. The Committee welcomed Councillors Iain Whyte and Adam Nols-McVey and an external member, Nicola Brennan. These appointments saw Councillors Phil Doggart and Vicky Nicolson and external member, John Anzani, step down from their roles on the Committee and, where applicable, the Sub Committee. As a result, the year also saw Councillor Whyte and Richard Lamont join the Sub Committee, and Councillor Neil Ross be appointed as the Sub Committee's Convener.

During the financial year, the Committee and the Sub Committee each met on four occasions. The table here sets out the members and their attendance for 2024/25.

COMMITTEE MEMBERS FROM 1 APRIL 2024 - 31 MARCH 2025

NAME	MEMBERSHIP			PENSIONS COMMITTEE	PENSIONS AUDIT-SUB COMMITTEE
Councillor Mandy Watt	●			4/4	n/a
John Anzani*	●	●	●	1/1	1/1
Councillor Neil Ross	●	●		4/4	4/4
Councillor Steve Burgess	●			4/4	n/a
Councillor Phil Doggart*	●	●		No meetings were held between 1 April – 9 May 2024.	
Councillor Iain Whyte*	●	●		4/4	1/3
Councillor Vicky Nicolson*	●			No meetings were held between 1 April – 9 May 2024.	
Councillor Adam Nols-McVey*	●			3/4	n/a
Richard Lamont (VisitScotland) *	●	●	●	4/4	3/3
Nicola Brennan * (Midlothian Council)	●	●		2/3	n/a

KEY TO MEMBERSHIP

● Convener, Pensions Committee	● Pensions Audit Sub Committee
● Convener, Pensions Audit Sub Committee	● Member Representative
● Pensions Committee	● Employer Representative

* John Anzani's term ended on 27 June 2024.

* Councillor Phil Doggart stepped down from the Pensions Committee and the Pensions Audit Sub Committee on 9 May 2024.

* Councillor Iain Whyte appointed as a member of the Pensions Committee on 9 May 2024 and the Pensions Audit Sub Committee on 26 June 2024.

* Councillor Vicky Nicolson stepped down from the Pensions Committee on 9 May 2024.

* Councillor Adam Nols-McVey appointed as a member of the Pensions Committee on 9 May 2024. Councillor Nols-McVey was unable to attend the Committee meeting on 25 March 2025 due to a bereavement. Councillor Vicky Nicolson attended that meeting as a substitute for Councillor Nols-McVey.

* Richard Lamont reappointed as a member of the Pensions Committee with effect from 28 June 2024 (and as a member of the Pensions Audit Sub Committee).

* Nicola Brennan appointed with effect from 28 June 2024.

GOVERNANCE AND RISK

Constitution

The Committee and Sub Committee operate in accordance with LPF's Procedural Standing Orders and their respective Terms of Reference. The Standing Orders can be found on our website www.lpf.org.uk and the Terms of Reference at the Council's website www.edinburgh.gov.uk.



Committee Performance

The effectiveness of the Committee and Sub Committee is important. During the year, an Internal Audit of the Committee's governance and operational effectiveness was carried out. Actions for areas of improvement were agreed by the Committee. A flavour of some of the key outputs is below.

- A focus on Committee development and training. Enhancements around the management of meetings including time allocation and aspects related to the Standing Orders.
- An emphasis on establishing effective working relationships and encouraging interaction to ensure a focus on collective priorities.

Delivery against some of the actions has progressed during the year and is monitored by the Sub Committee.

Pleasingly, during the year, the Committee also committed to carrying out an annual evaluation process and gave its support to a comprehensive LPF Governance Review being carried out. That review will be a focus for 2025. The Internal Audit exercise and the Governance Review signal an ongoing commitment to high standards of governance.

The Pension Board

The Pension Board (Board) was constituted on 1 April 2015 as set out in the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015. The Board is not a committee or body of the Council. Instead, as a separate statutory body it has the primary function to assist the Administering Authority. The Annual Report of the Board is provided later in this section.

Committee and Board Training and Development

LPF Training and Attendance Policy was in place throughout the period, with a requirement for Committee and Board members to attend no less than 21 hours of training each financial year. A copy of the Policy can be found on our website at www.lpf.org.uk.

On appointment, all new members of the Committee and Board also receive induction training to assist members in being as effective as possible in their new roles.

Quarterly formal training sessions are also built into the annual programme of activity in advance of each Committee meeting covering a range of topics to help support Committee and Board members to fulfill their responsibilities effectively. The detail below illustrates the topics covered at training sessions held in the financial year, as well as some external training events attended by some members of the Committee and the Board.

In addition, a series of joint investment training sessions were provided to the Committee and Board members, alongside partner funds Fife and Falkirk, in 2024.

Training Topics Covered in 2024/25 included:

- Responsible investment and climate change
- Climate scenario analysis on economic models and investment
- Customer experience operational priorities, including McCloud, administration improvements, and Pensions Dashboard
- Conflicts of interest
- LPF's People proposition
- The fiduciary duty in a LGPS
- Broader reforms, such as the UK Government's Budget and Mansion House pension reforms
- The Pension Regulator's Code of Practice
- Risk appetite
- CEM pensions administration and benchmarking
- LPF business planning and budgeting.

GOVERNANCE AND RISK

External Events, 2024/25

- PLSA Local Authority Conference, June 2024
- LGC Investment Seminar Scotland, October 2024
- Local Government Pension Scheme – Good Governance Seminar, February 2025
- PLSA Investment Conference, March 2025
- Webinars provided by the scheme Actuary.

Training hours for Committee and Board members are recorded and tracked throughout the year. All the Committee and Board members achieved the required training hours during 2024/25, except for one member of the Committee and one member of the Board. Collectively, Committee members attended 155, and Board members 240, hours of training as at 31 March 2025. This included participation in the National Knowledge Assessment carried out by Hyman's Robertson at the end of 2024.

Additionally, the approach to the training and development of Committee and Board members (and the Directors of LPFE and LPFI Limited and senior officers of the funds) was redesigned during the reporting period. This resulted in the introduction of a new Knowledge and Development Strategy and revised Training and Attendance Policy.

Both the Committee and Board members embraced the change in approach, adopting the new Framework which took effect from 1 April 2025. In approving the Framework,

members noted the Pension Regulators' high expectations of Committee and Board members' knowledge and understanding requirements. The new Framework is guided by reference to knowledge and skills requirements such as those set down in the CIPFA LGPS Knowledge and Skills Framework 2021 and also implements several other initiatives. These include a greater use of alternative delivery methods, adoption of a LGPS On-Line Learning Academy provided by Hyman's Robertson and the Pension Regulator's recommended training, as well as the development of a three-year training plan informed by the likes of the CIPFA framework and the outputs of the National Knowledge Assessment.

As we look to the future, we'll continue to implement the new Strategy, recognising the importance of skills and knowledge development in securing the appropriate management and oversight of the funds.

Conflicts of Interest

All Committee and Board members have signed LPF's Code of Conduct, which sets out a number of principles for which members are required to comply. The general principles upon which the Code is based are the 'Nolan Principles'.

We have policies and procedures in place to identify, disclose and manage potential and actual conflicts of interest across the various governance forums. On appointment, and on an



ongoing basis, Committee and Board members are required to notify of any conflicts of interest and any changes to the facts that may impact their involvement in their role.

GOVERNANCE AND RISK

Independent Professional Observer (IPO)

An IPO is appointed by the funds to strengthen governance. The IPO provides the Committee, Sub Committee and Board with independent observations. The IPO is invited to attend Committee, Sub Committee and Board meetings, but does not have a vote.

Senior Leadership Team

The Chief Executive Officer of Lothian Pension Fund leads the management and operation of LPF, supported by an experienced Senior Leadership Team (SLT). The reporting period saw a change in the SLT, with the retirement of the Chief Operations Officer, Karlynn Sokoluk.

As at 31 March 2025, the SLT was made up of:

- David Vallery, Chief Executive Officer
- Emmanuel Bocquet, Chief Investment Officer
- Kerry Thirkell, Chief Risk Officer
- Alan Sievwright, Chief Finance Officer
- Helen Honeyman, Chief Operations and People Officer

To support good governance, the SLT meets frequently and in alignment with the cycle of committee and board meetings. Two management level committees are also in place to support the SLT collectively discharge their responsibilities and oversee the delivery of strategic and other business priorities.

The Limited Company Boards

- LPFE and LPFI Limited (the Corporate Boards)

We have two private limited companies as part of LPF's operations: LPFI Limited (LPFI) and LPFE Limited (LPFE). Each is a company limited by shares and has, as their governing bodies, a Board of Directors. The sole shareholder in each case is the City of Edinburgh Council.

Purpose and Constitution

LPFE provides colleagues who support the activities of LPF and LPFI. LPFE therefore, in short deals with people matters which includes, recruitment, performance management and remuneration. The LPFE Board acts as the Remuneration Committee for the group. LPFI is an investment firm, authorised by the Financial Conduct Authority (FCA). It was established to support collaboration with other likeminded local government pension schemes by delivering investment services on a cost-sharing basis. It provides investment advice to our partner funds in Fife and Falkirk and manage equity and bond mandates for those partners.

Each Board of Directors operates in accordance with its governing documents, including Articles of Association, Shareholder Agreement's, and Terms of Reference.



GOVERNANCE AND RISK

Membership and Appointments

As at 31 March 2025, the LPFE Board is made up of six Directors, and the LPFI Board seven Directors. As a change in membership, the LPFI Board welcomed the Council's Service Director of Finance and Procurement, Richard Lloyd-Bithell, as a non-Executive Director during the reporting period. There were no changes to the membership of the LPFE Board during the period.

The table opposite sets out the membership and attendance for the Corporate Boards for 2024/25.

The governing documents for the Corporate Boards set out the terms for the appointment, and removal, of a director. Some of the Directors are appointed due to their broader roles within the Council, or as members of the SLT. The two independent non-Executive Directors were appointed following an openly advertised search process.

The tenure of both Independent non-Executive Directors was due to come to a natural expiry in early 2025. Succession planning was, therefore, a key consideration for each Corporate Board in the year. This resulted in the reappointment of each existing Independent non-Executive Director for specified periods. In addition, a formal, rigorous, and transparent search process commenced during the period to appoint an Independent non-Executive Director to join each Corporate Board. Following this, Denise Le Gal was appointed as a new non-Executive Director (NED) of the LPFE and LPFI Boards on 9 June 2025.

MEMBERSHIP OF LPFI AND LPFE BOARD OF DIRECTORS IN 2023/24

LPFE Ltd	Meeting attendance	LPFI Ltd	Meeting attendance
Dr Deborah Smart Chair, and Executive Director of Corporate Services of City of Edinburgh Council	5/5	Leslie Robb Chair, Independent non-Executive Director	4/4
Andy Marchant Independent non-Executive Director	4/5	Emmanuel Bocquet Executive Director, and Chief Investment Officer	4/4
Leslie Robb Independent non-Executive Director	5/5	Richard Lloyd-Bithell* Non-Executive Director, and Service Director: Finance and Procurement of City of Edinburgh Council	1/2
Nareen Turnbull Non-Executive Director, and Service Director: Human Resources of City of Edinburgh Council	5/5	Andy Marchant Independent non-Executive Director	4/4
David Vallery Executive Director, and LPF Chief Executive Officer	5/5	Kerry Thirkell Executive Director, and Chief Risk Officer	4/4
Councillor Mandy Watt Non-Executive Director, and Convener of the Pensions Committee	5/5	Alan Sievwright Executive Director, and Chief Finance Officer	4/4
		David Vallery Executive Director, and Chief Executive Officer	4/4

* Appointed with effect from 9 September 2024. Richard Lloyd-Bithell also attended two Board meetings during the reporting period in an observer capacity, prior to his appointment.

GOVERNANCE AND RISK

Corporate Board Activity

The LPFI Board met on four occasions and the LPFE Board on five occasions during the year. On each occasion reports are presented to the Corporate Boards on performance against strategic objectives and budgets. The Corporate Boards also met for informal strategy sessions in October 2024 and February 2025. While not intended to represent a complete list, examples of the Corporate Boards activity during 2024/25 are shown in the table.

All directors have access to the advice and services of a Company Secretary in relation to the discharge of their duties on the Corporate Boards, including all matters related to LPF's governance. The Company Secretary is a standing attendee at each of the Board meetings. Members of the SLT also regularly attend meetings, for example the Chief Operating and People Officer is a regular attendee at LPFE Board meetings.

All directors are required to sign LPF's Code of Conduct. Registers of Interest are maintained and directors are required to disclose interests on an ongoing basis. LPF's new Knowledge and Development Framework also applies to the Corporate Boards. Training on Directors Duties is an example of training provided during the year.

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

LPFI Ltd	LPFE Ltd
- Reviewed and approved the Internal Capital Adequacy and Risk Assessment (ICARA) and approved the ICARA Policy - Considered the annual MLRO Report - Met with the Internal Auditor - Considered Client satisfaction - Considered Information Systems and Security - Approved the Capital Liquidity Risk Management Policy	- Reviewed matters related to remuneration - Considered board performance - Considered Supplier Management and Outsourcing - Approved FY25/26 Budget and Business Plan



GOVERNANCE AND RISK

Joint Investment Forum

The Joint Investment Forum (JIF) has operated throughout the reporting period, supported by the external independent advisers, providing strategic advice to Lothian, Falkirk and Fife pension funds. The appointment of External adviser, Kirstie MacGillivray, came to a natural expiry during the year. Following an open search process, a new external independent adviser, Stephen Jones, was appointed in September 2024.



In addition, LPFI advisers continue to work with officers and the external independent advisers between regular meetings by monitoring asset allocations and advising on adjustments to them within the investment strategy boundaries permitted by their respective Pensions Committees. The assets of Lothian Pension Fund, Scottish Homes Pension Fund, Falkirk Council Pension Fund and Fife Council Pension Fund remain separate.

A nominated officer from Lothian Pension Fund, Falkirk Pension Fund and Fife Pension Fund attends each JIF meeting as Client Representative members of the JIF. From 1 April 2024 to 31 March 2025 the JIF met quarterly. The table below sets out the JIF's Membership at the end of the financial year.



Scheme Advisory Board (SAB)

The Scheme Advisory Board (SAB) for the Local Government Pension Scheme in Scotland was set up following the Public Service Pensions Act 2013. The SAB'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 SAB comprises seven representatives each from member and employers with a Joint Secretary to support each group and has included Councillor Mandy Watt

JOINT INVESTMENT FORUM

Emmanuel Bocquet	Chief Investment Officer (LPFI)
Stephen Jones	External Advisor
Stan Pearson	External Advisor
Elaine Muir	Client Representative, Fife Pension Fund
Amanda Templeman	Client Representative, Falkirk Council Pension Fund

since August 2022. Brian Robertson, one of the trade union representatives on the Board, is also a member. There's more information on the SAB at www.lgpsab.scot.



DARREN MAY

"As a Pension Board, we take our role seriously. The focus of the Board has been on ensuring that the governance of the funds complies with all relevant LGPS regulations, best practice guidance, and the requirements of the Pensions Regulator. The Board has been diligent in this role, which can be seen by some of the activity carried out by the Board during the year.

I'm particularly pleased that, with the support of officers of the funds, the Board has been able to spend time considering our own operations, enhancing our Constitution and introducing a Vice-Chair. In addition, as set out in the report, I'm delighted we've been able to fill some long-standing vacancies, welcoming several new members and bringing increased resilience to the Boards membership.

Joining any new board can be daunting and it can take time to get to grips with the complexities of the LGPS regulations and requirements, as well as other areas related to pensions. It's therefore good to see developments in the year related to training and development, with the Board being fully supportive of the introduction of LPF's new Knowledge and Development Framework and a LGPS-specific digital learning platform to complement other training methods.

Looking ahead, the LPF governance review will be a focus for the Board to ensure governance related to the funds continues to be enhanced. We also look forward to the

launch of the Pensions Dashboard later this year, giving increased transparency to all active and deferred pension fund members of expected pension benefits. 2025 will also see the procurement of several of the Fund's critical suppliers, including for actuarial services as the funds progress towards the next triennial valuation in 2026.

As a Board, we'll continue to probe and seek assurance that the funds are meeting objectives in these areas (amongst others) and that good practice is maintained in line with advice and guidance from the Pensions Regulator, other regulators, and legislative requirements.



Recognising the step taken by the Board in 2024 to request a review, this has been an important year for the Board, and I would like to thank my fellow Board members (who voluntarily dedicate time to the Board) for their support and commitment to their roles. Lastly, we look forward to working collaboratively with the Administering Authority, Pensions Committee and other stakeholders in the year ahead.

The following report sets out more details on the work of the Board in relation to its responsibilities, covering the period of 1 April 2024 to 31 March 2025."

Chair of the Pension Board, 2024/25





Function of the Pension Board

The 2015 Regulations set out the primary function of the Board.

In summary, the Board has the responsibility to “assist the Scheme Manager” of the funds (the City of Edinburgh Council) to secure compliance with legislation relating to the governance and administration of the funds. An important aspect of this responsibility is the need to secure compliance with any requirements issued by The Pensions Regulator for Public Service Pension Schemes.

Put simply, while the Board isn’t a decision-making body, it plays an important role through advising, challenging, monitoring and assisting the scheme manager. Helping, therefore, to manage risks to the funds and the scheme manager, in the interests of both the members and employers of the scheme.

The Board has a Constitution. The Constitution was originally agreed in December 2014 just as Pensions Boards were being created through legislative changes. The Constitution was most recently reviewed and revisions agreed on 5 December 2024.

Membership

The 2015 Regulations prescribe the structure of a pension board, requiring an equal number of representatives appointed by scheme employers and relevant trade unions.

Changes in the Board’s membership were seen in and around the relevant period:

- The Chair of the Board is normally rotated on an annual basis between the employer and the employee members. Following the retirement of Jim Anderson from the Board at the end of March 2024, Sharon Dalli was appointed with effect from 1 April 2024 as Chair of the Board for a transitional period, with Darren May taking up the role from September 2024
- Following the review of the Constitution in 2024, the Board introduced a Vice-Chair role, supporting succession planning and bringing additional support to the Chair. In normal circumstances it was agreed that this role shall also be rotated on an annual basis between the representative groups. Tom Howorth was appointed as Vice-Chair on 25 March 2025 for 2025/26
- In addition, after successful appointment processes in accordance with LPF’s Nominations and Appointments Policy, the Board were delighted to welcome two new scheme employer representatives: Jill Brownell (VisitScotland) at the end of March 2024 and Karen Sutton (East Lothian Council) in January 2025.

Accordingly, as at 31 March 2025, there were nine members of the Board. There was one scheme member representative vacancy (Unison) as at the end of the financial year, which has since been filled, taking the Board’s membership to 10. All members of the Board have equal voting rights.

Attendance

The Board typically meets quarterly. It met on four occasions during the financial year, in June, September, December 2024 and March 2025. All meetings were quorate.

The Board also attended all Committee meetings held during the period. In addition, in accordance with the Sub Committee’s Terms of Reference, two members of the Board can attend Sub Committee meetings. While the Pension Board participates in Committee and Sub Committee meetings, its members aren’t entitled to vote in those meetings. The Board can, however, ask the Committee to carry out a review of any decision as part of its remit to assist with appropriate fund governance. An example of this is referred to below.

Overall, Board and Committee meetings are well attended by Board members. There was an average attendance of 83% of members at Board meetings across the reporting period, with input and challenge from Board members on papers provided. The Board has worked well in the year with a collaborative approach between the member and employer representatives to understand and consider issues.

The table on the next page provides a full list of the Board members, showing whether they’re a scheme member representative, or an employer representative, and their attendance.





MEMBER REPRESENTATIVES

		Meeting attendance
Tom Howorth	Unison	4/4
Tony Beecher	Unite	2/4
Thomas Carr Pollock	GMB	4/4
Brian Robertson	Unite	2/4
Kevin McGuire*	Unison	0/1

EMPLOYER REPRESENTATIVES

Darren May (Chair)	Scottish Water	3/4
Sharon Dalli	Police Scotland	3/4
Alan Williamson	Edinburgh College	4/4
Jill Brownell	VisitScotland	4/4
Karen Sutton*	East Lothian Council	1/1

* Karen Sutton was appointed with effect from 28 January 2025.

* Kevin McGuire was appointed to the Board with effect from 11

April 2024, stepping down on 23 July 2024, due to unforeseen circumstances, leaving a vacancy for a Unison member representative position. This vacancy has been filled since the end of the reporting period.

Board Activity

The purpose of the Board's activity is to gain assurance about the effective and efficient administration of the funds. The agenda for a Board meeting typically therefore includes items such as:

- **Consideration of reports prepared, for example, by fund officers for the Committee, and discussion on key matters raised at Sub Committee meetings.**

These reports provide information on a broad range of topics relevant to the operation of the funds. As well as enhancing the knowledge and understanding of Board members, these reports serve to prompt discussion by the Board about how the funds are being managed. Helping, in turn, for the Board to assist the scheme manager secure effective governance and administration.

A large number of reports on different areas were made available and examined by the Board in the financial year, with the Board raising questions during Committee and Sub Committee meetings. To give only a few examples, during the reporting period there were Committee reports and updates related to: management of risk and internal controls, business planning, pensions administration strategy, cost benchmarking, projects such as McCloud remedy and Pension Dashboard implementation, supplier management, investment strategies and responsible investment, and matters related to the employers participating in the funds.

- **Governance of the Board and the Fund more broadly.** The Pension Regulator's new General Code of Practice came into force on 28 March 2024 (Code), some of the requirements of which are mandatory to the operation of the funds whilst some aspects are best practice only.



The Code consolidates several previous codes with the aim of providing one set of clear expectations on scheme governance and administration. While the funds already have high standards, during the year, fund officers assessed practices and processes against the Code. The Board had sight of a report providing an assessment on certain aspects of the Code and took time to consider any implications of the Code on the Board's own operations. As referred to in The Pension Regulator's Code, the Board maintains a Register of Interests and all members are required to notify the funds of any potential conflict of interest. In support, all meetings of the Board include a standing item for 'Declarations of Interest' where declarations related to the items on the agenda should be made.

In last year's Annual Report, the then Chair of the Board highlighted the step taken by the Board to request that the Committee review its decision in relation to 'Project Forth'. The review by the Committee continued into the reporting period, with a decision taken by the Committee in June 2024. The review, therefore, remained a focus for the Board in the year.

- **Training and development.** Detail related to training and development requirements is set out earlier in the Governance and Risk section. During the year, Board members took part in a range of training activity, including attending external events such as the Good Governance Seminar for LGPS Pension Board members in February 2025 delivered by the Scottish SAB.

GOVERNANCE AND RISK

Risk Management

LPF has a risk management framework in place across its business functions and group entities that brings together individual risk arrangements, governance and operations, including a toolkit and methodology for identifying, assessing, evaluating, monitoring and reporting risks and controls. It's part of the broader governance landscape and describes the arrangements, governance and operations through principles, policies and processes that help drive risk based decision-making and effective risk management. This helps to ensure the group is 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. A refreshed risk appetite statement was approved during the period, aligning to LPF's strategy, vision and values, defining the degree of risk that LPF is willing to accept to achieve its business and strategic objectives.

The Pensions Committee and the corporate boards delegate day to day management of the Fund to officers and senior managers of the LPF group and the Risk Management Committee has been established to help oversee this. A high level LPF group risk register is maintained which describes and evaluates all key risks that LPF are exposed to and what controls and mitigating actions are in place to manage them. Our risk register is formally



considered by the Risk Management Committee quarterly but it's also updated on an ad hoc basis where required. The Risk Management Committee oversees the implementation and ongoing effectiveness of LPF's risk management framework, and comprises the SLT and other stakeholders.

An overview of monitoring and assurance activities undertaken within LPF is provided to the Pensions Audit Sub-Committee on a quarterly basis, with a summary also provided to the Pensions Committee. In addition, an outline of the key risks that LPF is exposed to is reported to the Audit Sub-Committee each quarter, with a summary of the LPF risk register included in papers for both the Pensions Committee and Audit Sub-Committee.

3 Lines of Defence

Our 3 Lines of Defence model underpins the integrity of our risk management framework:

Line 1

Business management is responsible for identifying and managing risk and making sure our activities comply with legal, regulatory and organisational requirements

Line 2

The Risk and Compliance function supports the business in managing risks and meeting compliance needs. It monitors

risk and compliance levels and reports on these matters to management and governance forums

Line 3

Audit provides independent assurance on our risk management systems and how effectively they're implemented.

The most significant risks reported during the period are noted below, together with the key controls and mitigants managing those risks:

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. The regulatory landscape is under constant review, as it adapts to geopolitical, economic, social and technological influences and there are several stakeholders across the organisation that work collaboratively in identifying, analysing and planning for changes, and subsequently implementing required operational or governance changes within the business.

GOVERNANCE AND RISK

Whilst the LGPS reform agenda currently taking place in England and Wales doesn't directly impact Scotland, the outcomes potentially influence direction of travel for similar reform north of the border, and we continue to keep close to these developments.

Information Security and Data Governance Risk

The risk of inadequate cyber and data security arrangements to protect LPF from information security threats and cyber-attacks, or mis-management or poor maintenance and protection of data is managed through a comprehensive suite of technical security controls, phishing and penetration tests, and complimented by an ongoing programme of training and communications, policies and standards. During the period, LPF has been running a series of initiatives to ensure we embed the correct culture, governance and architecture around our data.

Governance

The risk that the group structure and governance arrangements aren't operating compliantly or effectively and with proper authority is managed through good governance business practice and secretarial activities. These include meeting and training scheduling for board and committee members, a governance portal providing access to relevant material, provision of

training to relevant stakeholders, appointment of Non-Executive Directors on corporate boards, and documented delegations, and appointment of an Independent Professional Observer to the Pensions Committee. During the period a comprehensive Training & Development Strategy has been developed.

Third-Party Suppliers

LPF engages with a number of third-party suppliers to support its business functions. These range from ad-hoc arrangements to reliance on larger, more complex service providers. The risk that sub-optimal service delivery, management and oversight of third party suppliers leads to disruptions or errors is managed through a supplier management framework and procurement processes. The framework has been improved during the period and we expect further operational enhancements during the forthcoming year.

Resource

The risk that staff resources are insufficient to carry out core tasks is managed through regular review of headcount, structure and resource, with review and approval of organisational plans, succession plans and recruitment. An increase in headcount and restructure within the Investments function and creation of the LPF Pensions Training Academy to facilitate a pipeline of resource into the Pensions Operations

area and allow LPF to develop junior colleagues through a detailed programme, has contributed to the effective management of this risk.

Climate Change

LPF recognises climate change as a material risk to the Fund. It has the potential to significantly disrupt financial markets and economic systems, and affect the life expectancy of the Fund's members.

Climate change presents risks to the funding strategy:

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



GOVERNANCE AND RISK

At the 2023 valuation, three climate scenarios were stress tested against the results of the core valuation modelling (referred to as the 'Base' scenario). Each scenario assumed a period of disruption linked either to the impact of measures to combat climate change (transition risks) or to the fallout from it (physical risks), with the disruption leading to high volatility in financial markets and economic variables such as inflation over our standard planning horizon of 20 years. Whilst the results differ across scenarios, the differences weren't sufficiently material to suggest that the Fund's strategy isn't resilient to climate change risk. However, there's no guarantee that the traditional relationships between economic variables will hold under extreme climate change. The methodology used in the valuation considers expected returns and volatilities of asset classes in future but can't directly model the impacts of climate risk at asset class or geographic level. Work is ongoing to develop more realistic and useful climate scenarios ahead of the 2026 valuation.

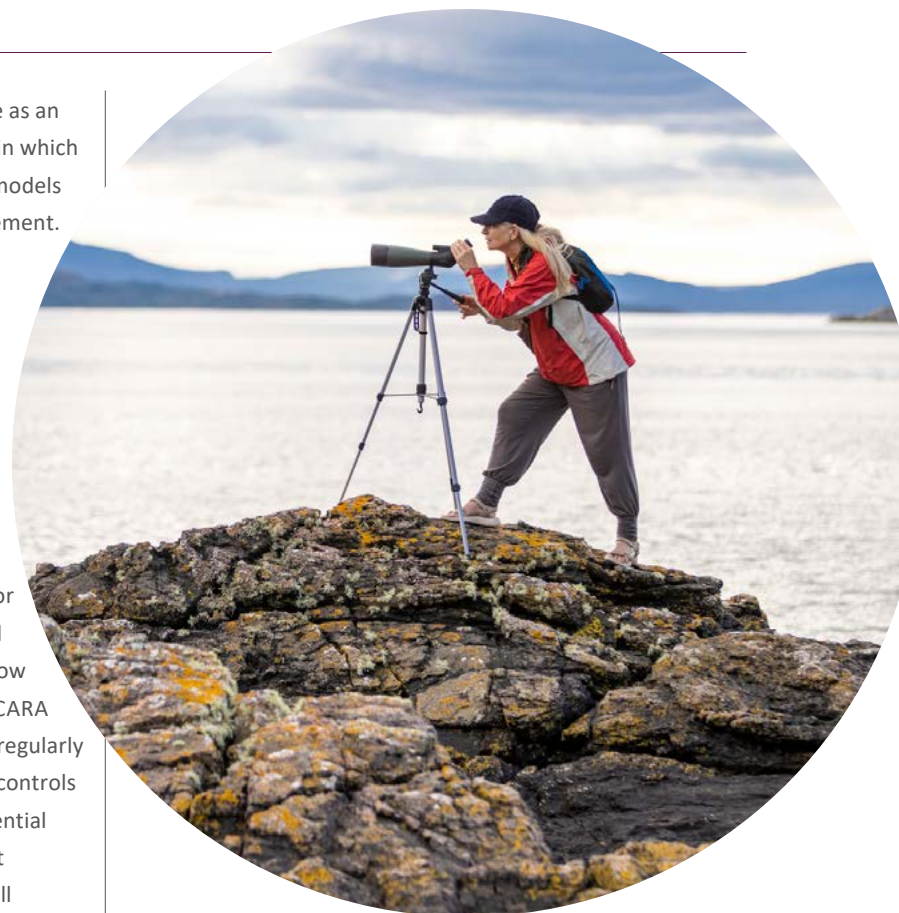
We use various monitoring tools with the aim of mitigating risk to fund assets from trends towards net-zero carbon and, more broadly, from climate change. The internal investment management team uses data services and analytical tools to monitor climate risk at as granular a level as possible. We also identify opportunities to invest in climate solutions which are detailed more fully in the Responsible

Investment section. However, we consider our key role as an institutional investor is to engage with the companies in which we invest to encourage companies to adopt business models and strategies that support the aims of the Paris Agreement. You can read more about this on p28.

Investment Firm Prudential Regime

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 to avoid causing harm to clients or the wider market. This means holding a minimum level of financial resources and regularly assessing how much should be held. To facilitate this, an ICARA process is required to be undertaken and regularly reviewed to ensure internal systems and controls are operating to monitor and reduce potential harm. 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.

During the period, the number of mandates managed by LPFI has increased, with a related increase in assets under



management (AUM). This increased the value of the technical indicators of risks which has contributed to a higher internal assessment of capital required to address potential harms.

The LPFI board has oversight of the ICARA process.





*We've improved the carbon
efficiency of our equity
portfolio by*

 **55%**

over the past 7 years.

*Our combined equities and
corporate bond portfolio
emissions have reduced by*

 **45%**

over the past 4 years.

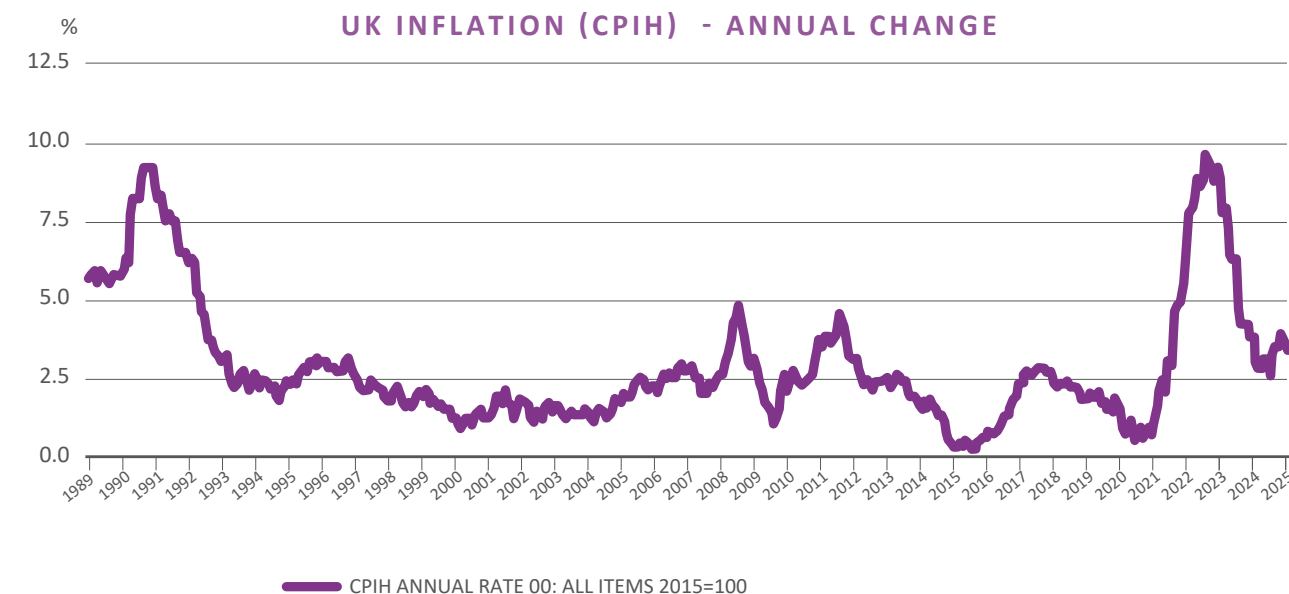
INVESTMENT

Investment commentary

Over the 12 months up to 31 March 2025, global equities, as measured by the MSCI ACWI Index, returned 4.9% in sterling terms (source: MSCI). The period was marked by bouts of heightened market volatility.

In early August, equities fell after the Bank of Japan unexpectedly raised interest rates, with the Japanese index dropping by 20% in just a few days. Markets later recovered and performed strongly through to the end of the year, particularly after Donald Trump was elected President of the United States in early November. Equity markets remained buoyant into February 2025, before concerns over US trade policy and the potential for stagflation—rising inflation alongside weak economic growth—led to noticeable declines, particularly among technology stocks that had benefited from optimism around Artificial Intelligence (AI).

2024 was also a busy year for elections, with plenty of focus on political developments. In early June, the surprise announcement of a French general election unsettled European markets, amid concerns about possible gains by some of the country's more extreme political factions. A disruption to the status quo also emerged in the US, as Donald Trump became the Republican nominee and subsequently won the presidential election. In the UK, the near certainty of the outcome made the general election campaign a relatively quiet event for UK markets, although the Autumn Budget was less well received.



The timing and pace of anticipated interest rate cuts also remained a focus, with most major central banks, other than the Bank of Japan, cutting rates during the year.

Government bond prices fell over the year to 31 March 2025 as interest rates rose. UK inflation remained within a narrower range compared to recent history but stayed above



the Bank of England's 2% target. The 10-year gilt yield rose from 3.9% to 4.7%, exceeding the 4.5%+ levels seen during the UK's mini-budget crisis of 2022. The FTSE Gilts All Stocks Index returned -1.2% for the year, as coupon income wasn't enough to offset the impact of rising yields.

Corporate bond credit spreads (the difference in yields between bonds of different credit quality) ended the period slightly

INVESTMENT

narrower. Spreads had tightened to historic lows in the second half of 2024 before widening again during the increased volatility in early 2025, with UK investment grade credit (iBoxx Sterling Non-Gilts) returning 2.4% over the year (source: Bloomberg).

Meanwhile, valuations for unlisted infrastructure and commercial real estate were stable to slightly negative, with positive total returns of 3–5% over the year, mainly driven by income yields.

Looking ahead, investor attention remains firmly focused on US policy. The ongoing back-and-forth over tariffs has led to increased uncertainty and weaker consumer and business sentiment. The US dollar has fallen sharply since trade tensions escalated, with its status as a global reserve currency coming under scrutiny. Oil prices have also weakened.

Unsurprisingly, the risk of a global recession seems to have increased. However, the potential for higher inflation from

tariffs means that the likelihood of a lower interest rate environment in the near term remains uncertain. At the same time, US discussions with Ukraine and Russia offer some small encouragement that the long-running conflict might eventually be resolved. As always, market participants continue to face macroeconomic and geopolitical challenges.

LESLIE ROBB

"Now in my last year as Chair and non-Executive Director of LPFI, I look back with pride as LPFI has continued to support LPF's collaborative, shared service initiatives and provide strategic advice and portfolio management to our LGPS clients."

Continuing to build on the good progress made in 2023-24, LPFI has delivered another strong year, with assets under management growing to more than £2billion at the end of the financial year and LPFI's assets rising by around 40% since the start of 2024. The year has also seen a clear focus for the Board on LPFI's risk framework, with a refreshed Risk Appetite at a fund level, and capital adequacy in line with FCA regulations. Collaboration opportunities remain a key stated objective for the funds and LPFI and, as such, the Board shall continue to keep a close eye on the management of risks as LPFI grows in size and complexity."

Enhancements to governance have also been seen in the year, with the Board carrying out a skills analysis and an assessment of its own performance and giving consideration to matters related to Board succession. This led to the launch of a search process in the year to appoint a new Independent non-Executive Director to the Board in readiness for my own appointment coming to an end in February 2026. The Board were also pleased to welcome Richard Lloyd-Bithell as a non-Executive Director in September 2024.

I would like to thank all our LPF colleagues who are committed to continue to deliver an excellent service to all our stakeholders."

Chair of LPFI and Independent Non-Executive Director Commentary





A stewardship initiative for
human rights and social issues

RESPONSIBLE INVESTMENT

*'We're a proud endorser
of 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 aspect of our investment approach, 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 way, taking environmental, social and governance (ESG) factors into account where they present a financial risk.

As a public sector asset owner, we aim for high standards of transparency, while respecting commercial sensitivities, and we're understandably subject to close scrutiny. To help our many stakeholders understand the thinking behind our approach to responsible investment, we publish our [Statement of Responsible Investment Principles \(SRIP\)](#). This document is reviewed and updated regularly and sets out how we invest responsibly, broken down by asset class, to achieve our stewardship goals.

Responsible investment (RI) and stewardship reporting

We publish an annual [Stewardship Report](#) that gives detailed examples of how we put our responsible investment policies into practice. Our most recent report covers the period from 1 April 2023 to 31 March 2024. It was assessed by the Financial Reporting Council, confirming our continued status as a signatory to the UK Stewardship Code.



The report outlines the key actions we take, both as a fund and in collaboration with like-minded organisations. These include voting on company resolutions and engaging with a high percentage of companies we invest in, often through our engagement partners, to encourage better corporate behaviour and reduce investment risk. We currently work with EOS at Federated Hermes as our engagement partner and also collaborate with groups such as the Local Authority Pension

Fund Forum (LAPFF), Climate Action 100+ and the Principles for Responsible Investment (PRI).

As a provider of responsible capital, we believe LPF should be an agent for positive change. Our ENGAGE e-zine offers insight into our investment activity; from showing where ESG factors have influenced decisions, to highlighting award-winning environmental initiatives.

FUTURE ASSET

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

The Paris Agreement was adopted on 12 December 2015. As of March 2025, 195 members of the United Nations Framework Convention on Climate Change are parties to the agreement. In January 2025, the United States withdrew from the Paris Agreement, a process that takes a year to come into effect.

The Paris Agreement has three main goals:

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

Separately, but as part of a wider shift in global attitudes to greenhouse gas emissions, the Financial Stability Board (FSB) of the Bank of England launched the Taskforce on Climate-related Financial Disclosures (TCFD) in 2015. The 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 details can be found at www.fsb-tcfd.org.



The TCFD provides guidance for investors and asset owners on how to report their approach to climate-related risks and opportunities. These recommendations are grouped into four key areas:

- Governance relates to how an organisation manages climate-related risks and opportunities
- Strategy covers the actual and potential impacts of climate-related risks and opportunities on business operations, strategy and financial planning
- Risk management describes the processes used to identify, assess and manage climate-related risks
- Metrics and targets refers to the data used to assess and manage relevant climate-related risks and opportunities.

As an asset owner, we work with peer organisations to promote the aims of the TCFD. We also engage with companies in our portfolio to encourage better disclosure, helping us integrate climate change risks and opportunities into our investment risk management, governance and strategy. Over recent years, we've done substantial work in this area, as detailed in our Stewardship Report, and in March 2025 we adopted a new [Climate Change Policy](#) to enhance and expand our approach.



RESPONSIBLE INVESTMENT

Climate change - governance

The Pensions Committee's approach to climate change risks is set out in our Statement of Responsible Investment Principles and our Climate Change Policy.

The Committee and Board consider climate-related issues as part of their regular 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 to officers, while taking advice from the Joint Investment Forum and working with investment managers.



Climate-related risk management is reviewed through the ongoing monitoring of all investment mandates, including scrutiny of how ESG analysis is integrated into investment decisions.

COUNCILLOR NEIL ROSS



"As noted in the Governance and Risk report, the past year has brought with it a number of changes at a Pensions Audit Sub Committee level. In 2024, the then Convener, John Anzani (Member Representative) stepped down, as did Councillor Phil Daggart, both having been on the Sub Committee since 2022. Taking on the role of Convener has been a privilege and, together with my new Sub Committee colleagues, Councillor Iain Whyte and Richard Lamont (Employer Representative), the Sub Committee has continued to support the Pensions Committee in providing oversight of the Funds audit, risk and compliance monitoring. Gaining assurance that robust controls and measures are in place is a key priority, and throughout the year we have received a

number of reports from the internal auditor, external auditor (Azets) and senior officers of the Fund. These included the internal audit plan, the results of internal audit reviews, and corporate risk reports (one of which, in the year, included a refresh of the Risk Appetite Statement for the funds). Looking to the year ahead, with the input of the IPO and Pension Board representatives, we will continue to support the Committee to ensure the long-term and high-level performance we expect of LPF."



Convener of the Audit Sub Committee

RESPONSIBLE INVESTMENT

Climate change - strategy and risk management

We recognise the significant impact that certain sectors and industrial activities have on climate change due to the magnitude of their greenhouse gas emissions.

However, we also recognise that even companies operating in carbon-intensive industries can have strategies that align (or have the potential to align) with the goal of transitioning to net zero. We don't assume these companies are "bad" simply because of their carbon-intensive histories. Within every sector, some companies will outperform while others may face challenges, which is why we consider divesting from or excluding entire sectors as inappropriate.

We see major opportunities in the broader economic transition. We aim to help reduce exposure to climate risk through our stewardship practices, including engagement and voting. We acknowledge that transitions are complex, requiring capital and time to implement and show progress. Through our influence, we aim to support and encourage corporate leaders to improve business practices, align with the Paris Agreement goals, and increase transparency on how they manage climate-related risks and opportunities, benefiting both their companies and wider society.

We expect our investment managers to analyse both physical

and transition risks from climate change when assessing companies and investment opportunities. We also engage directly with companies to encourage alignment between their business strategies and the goals of the Paris Agreement. Where climate risk analysis (or any other risk) points to likely poor financial outcomes, we expect divestment. Our selection and monitoring of external managers

includes evaluating how well they incorporate climate risks, along with other ESG risks, into their ownership practices.

Our approach to engagement is supported by our voting and engagement partner, EOS at Federated Hermes (EOS). EOS engages with companies on a range of issues, including climate change. Our internal team also engages directly with company management through meetings and investment conferences. Additionally, we're a member of the Institutional Investors Group on Climate Change and the Climate Action 100+ investor initiative. We actively co-lead engagement with one of the 169 focus companies on the initiative's list of systemically important carbon emitters. More detail on our engagement and voting

activity is available in our annual Stewardship Report.

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

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

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



RESPONSIBLE INVESTMENT

Climate change - monitoring and metrics

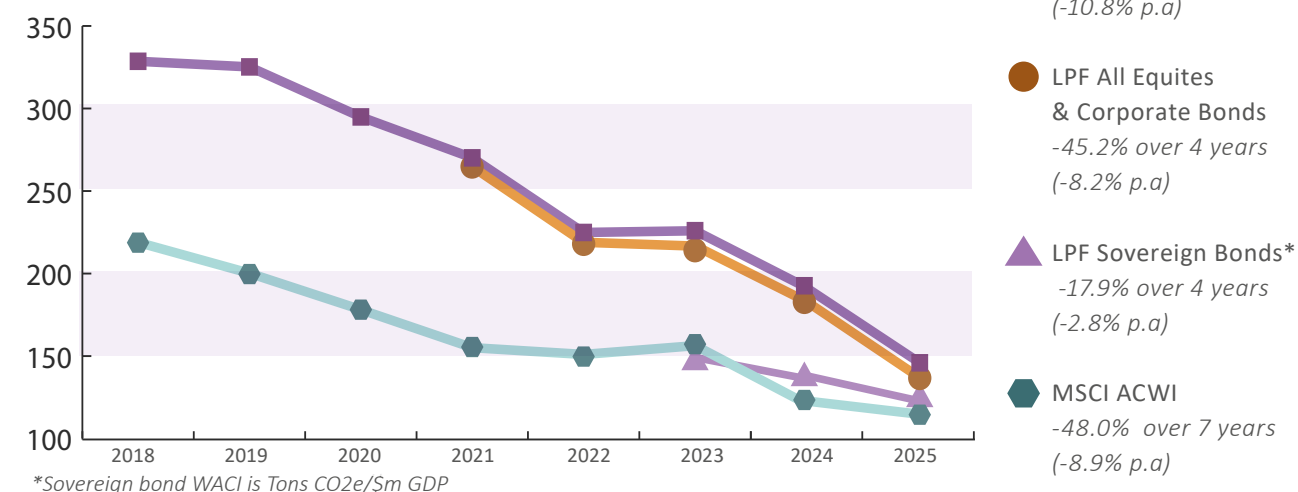
The Pensions Committee and Pension Board regularly review LPF's approach to responsible investment, including climate-related issues, as part of their oversight of the stewardship of Fund assets. Officers and the Joint Investment Forum of advisers monitor the implementation of LPF's responsible investment approach within investment mandates at least quarterly.

We allocate a dedicated research budget to ESG data services and use a variety of data sources to identify asset-specific climate-related risks and opportunities. This includes assessing how well the companies we invest in align with net zero goals. We focus on identifying climate leaders and laggards, recognising that available tools and data continue to evolve rapidly.

Carbon footprint

Each year, we produce a carbon footprint covering our listed equity, corporate bond and sovereign bond investments. Since 2018, we've used the Weighted Average Carbon Intensity (WACI) metric to measure and report on the carbon intensity of the overall portfolio. WACI is expressed in tonnes of carbon dioxide equivalent emissions per million US dollars of company revenue (tCO₂e/\$M sales). This metric allows us to evaluate how effectively a company manages its emissions on a relative basis, rather than focusing solely on its absolute emissions.

WACI IN TONS CO₂E/\$M *Source: MSCI*



By comparing companies with similar business activities, we can use this metric to distinguish those with better environmental practices from those with weaker ones. This analysis informs our engagement priorities and our forward-looking assessment of the risks to the Fund's invested capital from the low-carbon transition. However, we recognise that a single carbon metric doesn't tell the full story. Our investment managers use a range of data points and insights when assessing individual companies.

The chart above illustrates how we use the WACI metric to track changes in the carbon intensity of our portfolio over time. We

calculate the portfolio WACI by weighting the carbon intensities of investee companies (based on their Scope 1 and Scope 2 emissions*) according to the size of each portfolio position and then summing these weighted figures to determine the overall portfolio intensity.

The carbon intensity of our equity holdings has fallen by more than half since we began reporting this data. Over the past seven years, the average annual reduction has been 11 percent, which exceeds the 9 percent annual decline observed in the benchmark index.

* The Greenhouse Gas (GHG) Protocol defines three categories of emissions: Scope 1 emissions are direct GHG emissions that are controlled or owned by an organisation; Scope 2 emissions are indirect GHG emissions resulting from the consumption of purchased energy, such as electricity, steam, heating, or cooling; Scope 3 emissions include all other indirect emissions, such as from the production of purchased materials and fuels, transport-related activities within the supply chain, outsourced operations, waste disposal, and emissions generated by customers when using or accessing the organisation's products or services.

RESPONSIBLE INVESTMENT

Advances in data and methodology, particularly through the adoption of a standardised emissions accounting approach developed by the Partnership for Carbon Accounting Financials (PCAF), have enabled us to present combined emissions data for our equity and corporate bond holdings since 2021. Since 2023, we've also been able to calculate the Weighted Average Carbon Intensity (WACI) for our sovereign bond investments. However, because sovereign bond WACI is calculated differently, it's not meaningful to aggregate it with the corporate WACI used for our equity and corporate bond holdings.

We're committed to expanding the coverage of our emissions reporting across all asset classes as data becomes available, with the support of our external managers and the use of estimates where necessary.

While we expect the average carbon intensity of our investments to decrease over the long term as the global economy decarbonises, annual results may be volatile. This is due to the evolving availability of emissions data and the performance of particular sectors that can influence the annual snapshot.

At present, carbon intensity figures are treated as outputs of the investment process rather than as targets. This is because these metrics can be easily manipulated. For example, we could lower our reported carbon intensity simply by selling

holdings in carbon-intensive companies and replacing them with lower-emitting ones. However, this wouldn't reduce real-world emissions, as the companies would continue to operate in the same way regardless of our investment decisions.

We firmly believe that global decarbonisation will benefit both society and the environment. As such, we support real-world emissions reductions by engaging directly, or in collaboration with other investors, with companies and policymakers to encourage a shift toward a lower-carbon future.

Paris Alignment

As data from the Transition Pathway Initiative (TPI) has grown in scope and depth, it's become an increasingly important input into our investment process. The TPI provides forward-looking indicators that help us identify sector leaders and laggards and assess their alignment with the goals of the Paris Agreement.

Our involvement in Climate Action 100+ reflects our belief that supporting companies to transform their business models is a more responsible approach than simply divesting from or excluding entire sectors. We'll continue to engage with companies in our portfolio rather than set specific carbon intensity targets at the portfolio level.

Our ambition is to increase the alignment of our investee companies with a low-carbon future by the end of 2029. This will focus on companies in sectors that are currently significant contributors to global greenhouse gas emissions, where successful transition is critical to achieving net zero. Further detail can be found in our Climate Change Policy.

We also engage with our external managers to understand how they're aligning investments with a lower-carbon economy and to encourage improved reporting of emissions and other sustainability metrics.

In our infrastructure and real estate investments, we use Global Real Estate Sustainability Benchmark (GRESB) data to inform reporting and monitor sustainability performance in these asset classes.



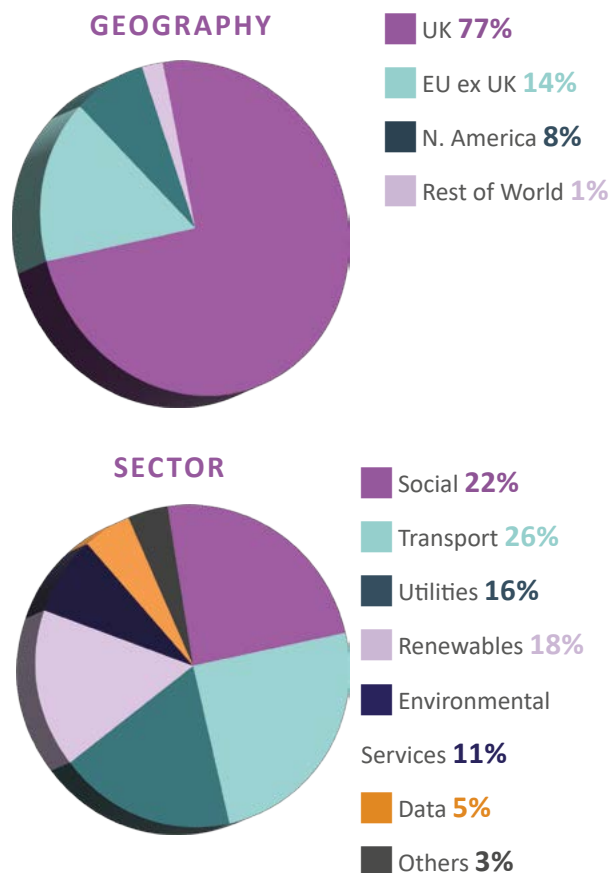
RESPONSIBLE INVESTMENT

Climate solutions

We actively monitor our investments in climate solutions, which include companies and assets that contribute to the global effort to achieve net zero emissions. The most direct examples of these investments are found in our infrastructure portfolio. Although the portfolio is diversified, it includes targeted investments in renewable energy and energy transition assets, such as electricity transmission infrastructure (within the utility sector), electric trains (transport sector), and energy-from-waste facilities (environmental services).

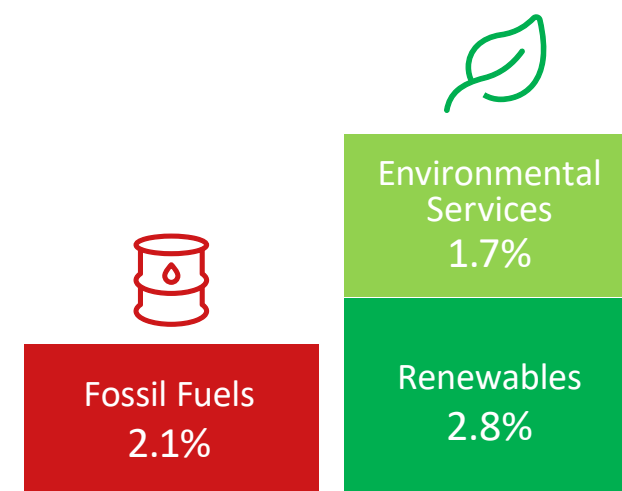
As at 31 March 2025, infrastructure investments represented 16% of Lothian Pension Fund's total assets, one of the largest allocations to infrastructure among UK Local Government Pension Scheme (LGPS) funds. Within this infrastructure portfolio, the majority of assets are based in the UK, and over one-quarter is invested in renewable energy (wind, solar and hydro) and environmental services.

LPF INFRASTRUCTURE PORTFOLIO



Over the year to 31 March 2025, we invested a further £100m in renewable energy and environmental services assets. In addition, as of 31 March 2025, LPF held over £100 million in forestry investments. While these holdings are primarily in commercial forestry, all are certified as sustainable under recognised forestry standards.

Our ambition is to position the Fund to benefit from the global energy transition by having greater exposure to climate solutions than to companies whose primary business involves fossil fuels. As at 31 March 2025, our exposure to climate solutions was approximately 2.1 times greater than our exposure to fossil fuel holdings.





*Infrastructure investments
represented*

 **16%**
(£1,650m)

*of the value of LPF assets
at 31 March 2025, one
of the largest allocations
among UK LGPS funds.*

*77% of infrastructure assets
are located in the UK of which
16% are located in Scotland.*

FINANCIAL PERFORMANCE

Administration expenses

A summary of the Fund's administrative expenditure for 2024/25, against the budget approved by the Pensions Committee, is shown in the table below.

The budget is split into controllable costs and uncontrollable investment management expenses. It 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 controllable costs outturn was £13,890k against the budget of £15,790k representing an underspend of £1,900k (12.0%) for the Fund.

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

- **Investment managers' fees** – Invoiced – £1,565k underspend. Invoicing for externally managed mandates are based on the market value of assets managed. The Fund brought the externally managed Nordea equity mandate into in-house management during the year, contributing to a majority of the underspend
- **Supplies and Services** – £579k underspend. Various contributing factors to underspend including lower than budgeted systems costs across various business areas
- **Employees** – £915k underspend. Various recruitments

were completed later in the year than was budgeted for, contributing to a lower-than-expected employee spend

- **Transport and Premises** – £897k overspend. Costs associated with the new Haymarket office building along with the provision for the remainder of the Atria office lease has resulted in an overspend for the premises
- **Income** – £327k under-recovery. Income in relation to collaborative partners is based on a cost sharing mechanism. The lower than forecast income was due to underspends against budget and delays in the roll out of additional collaborative investments.

As part of the budgeting process, estimates are made on the expected uncontrollable investment management expenses for the year. These estimates are based on previous years costs and expected movements in assets under management. The spend for the 2024/25 financial year is £10,320k lower than estimated. There was a number of contributing factors to this including lower than estimated investment property management costs and some of our private market investments reaching the end of their investment cycle (meaning management fees are no longer chargeable).



FINANCIAL PERFORMANCE

	2024/25 Approved budget	2024/25 Actual outturn	2024/25 Variance
	£000	£000	£000
Employees	9,586	8,671	(915)
Transport and premises	781	1,678	897
Supplies and services	2,900	2,321	(579)
Investment managers fees - invoiced	2,700	1,135	(1,565)
Other third-party payments	1,619	1,635	16
Capital funding - depreciation	248	213	(35)
Direct Expenditure	17,834	15,653	(2,181)
Support costs	768	722	(46)
Income	(2,812)	(2,485)	327
Total net controllable cost to LPF	15,790	13,890	(1,900)
Uncontrollable Costs			
Investment managers fees - Uninvoiced Base Fees	24,025	21,192	(2,833)
Investment managers fees - Uninvoiced Performance Related	9,000	3,413	(5,587)
Total net cost to LPF	48,815	38,495	(10,320)

2024/25 Reconciliation to total costs	2024/25 Actual outturn
	£000
Actual outturn on budgeted items above	38,495
IAS19 LPFE retirement benefits	-
LPFE deferred tax on retirement benefits	-
Corporation tax	57
Total cost to LPF (inclusive of full cost investment management fees)	38,552
Per Fund Accounts	
Lothian Pension Fund Group	38,497
Scottish Homes Pension Fund	55
Total	38,552

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, such as ours, 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. This will be compounded by the reduction, at a fund level, of contributions expected from employers.

The tables below show the projected cash flow, as reported to Pensions Committee on 26 March 2025, 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.

	2024/25 Projected	2024/25 Accruals basis	2024/25 Cash Basis
Income	£000	£000	£000
Contributions from employers	175,000	174,811	178,541
Contributions from employees	64,000	64,354	64,194
Transfers from other schemes	18,000	16,183	16,183
	257,000	255,348	258,918
Expenditure			
Pension payments	(250,000)	(253,226)	(253,226)
Lump sum retirement payments	(70,000)	(75,808)	(77,792)
Refunds to members leaving service	(1,000)	(1,356)	(1,356)
Transfers to other schemes	(75,000)	(77,164)	(77,164)
Administrative expenses	(4,000)	(4,095)	(4,095)
	(400,000)	(411,649)	(413,633)
Net additions/(deductions) from dealings with members	(143,000)	(156,301)	(154,715)

FINANCIAL PERFORMANCE

Cashflow (cont.)

Lothian Pension Fund	Actual	Cash flow forecast									
	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 /2033 £m	2033 /2034 £m	2034 /2035 £m
Pensions income	255.4	257.5	269.4	281.8	294.8	308.4	322.7	337.7	353.4	369.8	387.1
Pensions expenditure	(411.6)	(357.1)	(371.1)	(385.8)	(401.3)	(417.5)	(434.5)	(452.4)	(471.2)	(490.9)	(511.6)
Net pensions cash flow	(156.3)	(99.6)	(101.7)	(104.0)	(106.5)	(109.1)	(111.8)	(114.7)	(117.8)	(121.1)	(124.5)
Net investment income	327.9	341.0	354.6	368.8	383.6	389.9	414.9	431.5	448.8	466.8	485.5

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 2024/25 actual cash flows (included for comparison) adjusted for revised contribution rates as a result of the 2023 Actuarial Valuation and known changes in outflows.

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 ongoing pensioner payments.

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 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.

SCOTTISH HOMES PENSION FUND

	2024/25 Projected	2024/25 Accruals basis	2024/25 Cash Basis
Income	£000	£000	£000
Administration charge	90	90	90
Expenditure			
Pension payments	(6,500)	(6,654)	(6,654)
Lump sum retirement payments	(400)	(331)	(354)
Transfers to other schemes	(100)	-	-
Administrative expenses	(90)	(55)	(55)
	(7,090)	(7,040)	(7,063)
Net additions/(deductions) from dealings with members	(7,000)	(6,950)	(6,973)

FINANCIAL PERFORMANCE

Cashflow (cont.)

Scottish Homes Pension Fund	Actual	Cash flow forecast									
	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 /2033 £m	2033 /2034 £m	2034 /2035 £m
Pensions income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pensions expenditure	(6.9)	(6.9)	(6.8)	(6.7)	(6.6)	(6.5)	(6.4)	(6.3)	(6.2)	(6.1)	(6.0)
Net pensions cash flow	(6.9)	(6.9)	(6.8)	(6.7)	(6.6)	(6.5)	(6.4)	(6.3)	(6.2)	(6.1)	(6.0)
Net investment income	1.8	1.8	1.7	1.7	1.7	1.6	1.6	1.6	1.5	1.5	1.5

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, the all gilt investment strategy incorporates these cash flow requirements, with redemption dates of gilts tying into the Fund's liquidity needs.

WHAT OUR MEMBERS SAY:

“Every time I have contacted you, you have gone above and beyond to help me. Thank you.”



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 Chartered Institute of Public Finance and Accountancy (CIPFA) published this guidance in July 2014, which promoted greater transparency of investment management fees. 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 wouldn't be disclosed with just the fees from the 'fund of funds' manager stated.

In the preparation of the Fund's Annual Report 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. The Fund agreed with its auditors that to facilitate full cost transparency, it would continue to disclose these costs above the required CIPFA standard, but that these costs would be shown separately to aid the reconciliation and comparability of the investment management expenses of the Fund to other LGPS.

Utilising its internal investment management expertise, the investment strategy of Lothian Pension Fund has evolved to move away from more complex 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.

COLLEAGUE PROFILE VIKRANT DATAR, INVESTMENTS

Vikrant joined in September 2024 as a Research Analyst and became part of the Investment team. He provides support in managing our fixed income portfolios and our partner funds, monitoring existing assets and undertaking research to assist in investment decision making.

“What I really value about working at LPF is the collaborative environment where everyone's working toward the same objective. There's a genuine sense of synergy across the teams. It's the kind of place where curiosity is encouraged, ideas are shared freely, and challenges are tackled together. There's always something new to learn every day and plenty of brilliant minds around to support me.”



FINANCIAL PERFORMANCE

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 funding additional direct investments. 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.

The effect of this additional disclosure is shown below:

	Lothian Pension Fund		Scottish Homes Pension Fund	
	2023/24	2024/25	2023/24	2024/25
	£000	£000	£000	£000
Investment management expenses in compliance with CIPFA guidance	36,965	34,071	88	90
Investment management expenses per financial statements	37,569	34,753	88	90
Disclosure of management expenses in excess of CIPFA guidance	604	682	-	-

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. CEM's 2023/24 database

includes 295 funds with £9tn of assets in aggregate. 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 2024,

showed that LPF's investment costs of 0.24% of average assets were significantly lower than CEM's benchmark cost of 0.49%, an equivalent annual saving of approximately £22m. This saving largely reflects the fact that the Fund manages a relatively high percentage of assets internally compared with other similar pension funds and that it has low exposure to 'fund of fund' investment vehicles.

COLLEAGUE PROFILE KENNETH MACMILLAN, INVESTMENTS

Kenneth joined in November 2024 as a portfolio manager in the Real Assets team. The Real Assets team invest in assets such as infrastructure and real estate which aim to generate long-term returns and provide diversification benefits from other areas of the Investment Portfolio.

"When joining LPF, I was attracted by the open and collaborative culture, clear strategy, and singular focus on delivering for LPF's members and employers. Since joining, I've enjoyed learning about our current investment portfolio as well as getting to know a highly capable team who work hard to provide benefits for LPF's members over the long-term."



2023 ACTUARIAL VALUATIONS

The most recent triennial assessment of the funding position was undertaken by LPF's Actuary as at 31 March 2023. The valuation set employer contribution rates for the three-year period from 1 April 2024. The Funding Strategy Statement was reviewed and amended following consultation with employers.

For Lothian Pension Fund, the funding level increased from 106% at 31 March 2020 to 157% at this valuation. The surplus of £408 million at 31 March 2020 increased to £3,525 million at 31 March 2023.



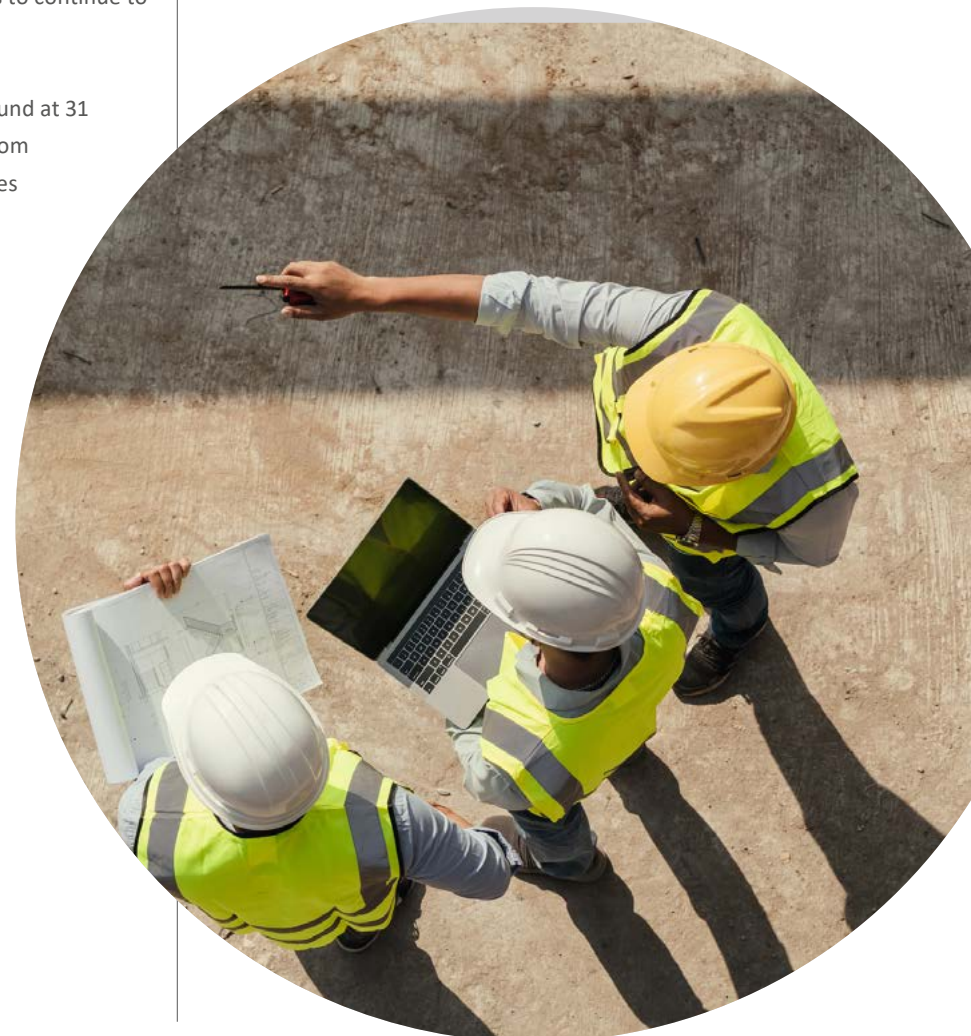
The positive valuation results allowed the Fund to build in additional prudence when setting employer contributions, including a minor change to investment strategy (reducing exposure to equities), building in allowance for a fall in investment markets and increasing the target likelihood of success of achieving full funding over the time horizon relevant to that employer. Even after building in these additional prudent measures, the Fund was able to reduce or freeze employer contribution rates for the three-year period from 1 April 2024.

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 funding level for Scottish Homes Pension Fund at 31 March 2023 was 127%, increased from 118% from the 2020 actuarial valuation. The Scottish Homes Pension Fund is a closed fund administered by Lothian Pension Fund on behalf of the Scottish Government and is fully invested in index-linked gilts to reduce volatility in funding levels.

The next triennial valuation for both funds will be undertaken as at 31 March 2026.



PERFORMANCE AND ADMINISTRATION

Key performance indicators 2023/24

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.

2023/24		Target	2024/25
Retained	Maintain Customer Service Excellence Standard (CSE) (Annual assessment)	Retain	Retained
Unqualified opinion	Audit of Annual Report and Accounts	Unqualified opinion	
100%	Proportion of members receiving a benefit statement by August	100%	100%
92.7%	Overall satisfaction of employers, active members and pensioners measured by surveys	90%	92.1%
99.91%	Percentage by value of pension contributions received within 19 days of end of month to which they relate	99%	99.97%
Met	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
2.58%	Level of sickness absence	4.0%	1.57%
100%	All colleagues complete at least two days training per year	100%	100%
79%	Colleague engagement index	Greater than 70%	74%



 **18%**
(£290m)

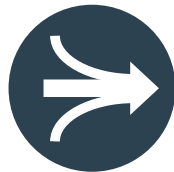
*of our infrastructure
portfolio is invested
in renewables
(wind, solar and hydro).*

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 pensions administration benchmarking exercises. The purpose of this is to help identify the areas where we can make improvements to deliver better value for money. Benchmarking allows:

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

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

We participate in the pension administration survey carried

out by CEM which provides further insight into both pension administration costs and quality of service.

In addition to other local authority pension funds, the CEM peer group also includes UK private sector schemes. Participating funds from both private and public sectors are of a significantly larger size than LPF. CEM's benchmarking results categorised our pension administration service as "low cost; high service standard".

Results (for year ending 31 March 2024) show that cost per member of £33.35 is lower than the adjusted average of £38.96, and a service score of 69 out of 100, which is higher

than the peer median of 58. Reasons for the higher score compared to the peer group include:

- Our members are able to retire using our online portal
- Paying retirement lump sums more quickly (for both active and deferred members)
- A higher proportion of members in all customer groups (active, deferred and pensioner members) are registered for and use our secure online member portal compared to our peer group
- Our telephone service has a lower wait time and lower rate of abandoned calls than our peer group.

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

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 2025 remains above the 90% target at 92.1%.

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 into those about the service we provide and those about how Scheme Regulations are applied.

We carried out 15,202 processes in 2024/25 and there were 31 complaints made; less than 0.25%. Complaints covered a broad range of issues including: dissatisfaction with customer service; delays when disinvesting AVC funds when retiring; and combining earlier periods of local government membership.

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 2024/25, there were three Stage 1 disputes for investigation of which two were against not being eligible for a cohabiting partner's pension. Following a review of the original decision, these two cases were resolved internally. If a member remains dissatisfied with the Stage 1 decision, they have six months to take their appeal to Stage 2.

In 2024/25 there were two ongoing Stage 2 disputes. These disputes are included in the statistics below.

Reason for dispute	Stage 1 outcome	Stage 2 outcome	On-going
Pension entitlements less than expected	1 dismissed	2 dismissed	1

If a pension scheme member is dissatisfied with the outcome of the IDRP two-stage process, they can take their case to the Pensions Ombudsman. We're waiting for two outcomes from the Pensions Ombudsman.

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 two months ahead of the statutory deadline of 31 August.

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 use a business intelligence tool, procured from our administration software supplier, to analyse our data and determine the scores for our common and conditional data.

The Pensions Regulator specifies that

we should hold both common data such as name, date of birth and national insurance number so that a member can be uniquely identified, as

well as conditional or scheme specific data which is required to operate each individual scheme such as member status.

Both types of data are equally important.

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 2024 annual scheme return. Lothian Pension Fund and Scottish Homes Pension Fund scored 98.5% and 98.3% respectively for common data (2023 scores were 98.5% and 97.7% respectively) and 99.5% and 100% for conditional data (2023 scores were 99.5% and 100% respectively). The quality of data continues 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 17 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 1 October 2023, amendment regulations came into force to apply the McCloud remedy. Further amendment regulations were laid in 2024 and 2025 to clarify how pensions and other benefits already in payment should be recalculated, including the calculation of any interest payable. As anticipated, a comparison is to 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 (the 'guarantee amount'). This protection will apply automatically and members who meet the qualifying criteria won't need to take any action.



Remedial work is well underway with key events as follows:

- Recalculation of benefits and payment of additional monies for pensioner members subject to an underpin has been completed
- Work is ongoing with our system provider to update the system to cut down on the need for manual calculations and we expect all system calculations to be available by 2027
- Other transactions, such as transfers in and out, will be revisited to check for any additional payments due. Numbers impacted should be minimal. This work will be carried out in the second half of 2025. Recalculation of benefits and payment of additional monies for pensioner members subject to an underpin has been completed
- Work is under way to ensure McCloud information is contained within Annual Benefit Statements.

PERFORMANCE AND ADMINISTRATION

Member service

Our in-house Member Services team provides a dedicated administration service for our members. We monitor the time taken to complete key tasks, which include the processing of retirement and dependents' benefits, providing scheme information for new members, transfers and early leaver calculations.

The team has responded well to the challenges of last year and a combination of strong recruitment and continued training and development has driven consistent improvement in performance during the year. We've maintained our approach to colleague development, ensuring that colleagues progress in a controlled, measured way and we now have a robust team with good cover across all key procedures.

Following the introduction of Member Services coaches last year, we've continued to build on our commitment to supporting the learning and development of our Member Administrators. Our coaches have successfully achieved the Level 3 Certificate in Effective Coaching and Mentoring, equipping them with the skills to deliver meaningful support, structured feedback and personalised coaching.

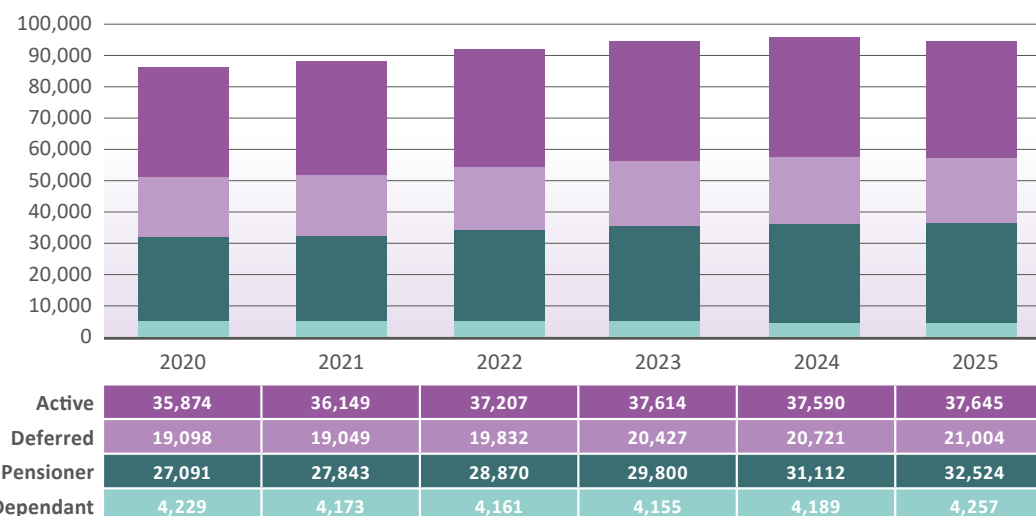
We've partnered with Elephants Don't Forget to introduce

Clever Nelly, an AI-powered platform that delivers regular, bite-sized questions based on an individual's training history. Clever Nelly helps to identify knowledge gaps, reinforces learning and ensures information stays fresh and up to date with the latest regulations.

In addition, colleagues also completed Difficult Conversation training delivered by St Andrews Management Centre. This training gave team members the tools and confidence to handle challenging interactions and resolve conflict effectively.

The team achieved our key performance measure in 2024/25, completing 94.7% of key tasks within target. Additionally, the team has continued to work on the backlog of non-key work, particularly aggregations and retirement recalculations, completing over 2,500 of these cases during the year and reducing the backlog of aggregation cases by almost 40%. They've also provided first point of contact service to our members, handling over 37,000 incoming telephone calls and emails from our members.

LOTHIAN PENSION FUND MEMBERSHIP DATA



PERFORMANCE AND ADMINISTRATION

The table below shows performance across key procedures in 2024/25.

2023/24		Target	2024/25
89.4%	Proportion of pensions administration work completed within standards – individual performance within this indicator is shown below	Greater than 92%	94.7%
64.6%	Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request	91%	84.0%
97.5%	Acknowledgement of the notification of the death of a member to next of kin within five working days	96%	99.9%
83.7%	Pay lump sum retirement grant within seven working days of receiving all the information we need from the member	96%	96.4%
86.7%	Notify early leavers entitled to deferred benefits of their rights and options within 10 days of being informed of end of pensionable service	91%	91.3%
100.0%	Respond in writing within 20 working days to formal complaints that have escalated from frontline resolution, or recorded directly as an investigation	96%	100.0%
24.9%	Notification of dependant's benefits within ten working days of receiving all necessary paperwork	96%	78.7%
83.5%	Payment of CETV within 20 working days of receiving all completed transfer-out forms	96%	99.3%
98.9%	Provide new members with scheme information within 20 working days of receiving notification from the employer	96%	99.6%
52.9%	Provide a transfer-in quote within 10 working days of receiving the CETV from member's previous pension provider	96%	79.6%
84.0%	Pay a refund of contributions within seven working days of receiving the completed declaration and bank detail form	91%	84.7%
86.7%	Notify members holding more than three months, but less than two years' service, of their options at leaving. As there's a one month and a day lying period, the target is within 10 days of the end of the lying period or after the employer providing full leaving information if later	85%	94.0%
82.7%	Produce estimate requested by employer of retirement benefits within 10 working days	91%	93.9%
78.8%	Pay any lump sum death grant within seven working days of receipt of the appropriate documentation	96%	80.2%

PERFORMANCE AND ADMINISTRATION

New Telephony Platform

We launched a new telephony platform which included straight forward options for customers to choose from. Dedicated, fully trained staff can assist customers with any enquiry at the first point of contact.

The new platform allows us to quickly add staff to any call group which prevents call queues during busy periods.



The platform provides invaluable insight into each customer's journey. We can see detailed information on a targeted and informed basis, the number of calls we receive, which option the caller chose and what their enquiry was about. This allows us to update our website and improve communications on a targeted and informed basis.



PERFORMANCE AND ADMINISTRATION

Member Tracing and Mortality Screening

We continue to improve the accuracy of member records in accordance with the Pensions Regulator's legislation on record keeping. In addition to improving our records, regular member tracing and mortality screening will improve the effectiveness of the communication between Lothian Pension Fund and our members. Up to date record keeping allows us to alert members timeously with information about elections or choices they're required to make in relation to their benefits that may affect their rights under the scheme.

We regularly conduct UK and overseas address tracing for members we've lost contact with as well as mortality screening, which allow us to update member records

with their correct address and to check the existence of members. This avoids overpayment of benefits where pensioner members are deceased as well as alerting the Fund where deferred beneficiaries have died, and a benefit may be payable.

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 LPF 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 LPF 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 resolving queries and pursuing late information.

COLLEAGUE PROFILE MATTHEW PAUL, MEMBER SERVICES

Matthew joined us in July 2022 as a Trainee Pension Administrator and became fully qualified as a Member Administrator after completing the final Certificate in Pensions Calculations exams in September 2024. Matthew works closely with our members via our phone lines and email, answering entitlement queries and making sure that members' benefits are calculated correctly and paid out within the relevant timescales.

"Being part of the Member Services team at LPF has been an amazing experience. Our team is full of friendly faces who are happy to support in whatever tasks are required of them or any situations that arise. The part of my role that I especially love is speaking to our members. Assisting them with life events such as their retirement, brings purpose to the role and hearing our members talk about the great customer service they receive from LPF and what taking their benefits means for them, is always a delight."



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 2024/25, our officers took a variety of approaches to improve employer performance, including:

- Providing training to payroll/HR colleagues in person and via Microsoft Teams
- Presenting performance updates at virtual meetings
- Escalating to senior officers at quarterly employer meetings
- Monitoring with employers where performance has been particularly poor
- Publishing a guide for employers to help them complete our processes within agreed timescales

- Hosting monthly meetings with the four councils where performance is discussed.

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.



		2023/24			2024/25		
Case type	Target (working days)	Number received	Number within target	% within target	Number received	Number within target	% within target
New members	20	6,672	6,295	94%	5,464	5,168	95%
Leavers	20	4,180	2,479	59%	2,769	1,718	62%
Retirements	20	1,667	694	42%	1,732	861	50%
Deaths in Service	10	46	30	65%	31	24	77%

PERFORMANCE AND ADMINISTRATION

All employers submit new starters through i-Connect, which has improved performance again this year. Only exceptional cases aren’t met within target.

Whilst the provision of leaver information has improved, a high percentage are still being received out of target. We amended the process for employers submitting early leavers with post 2015 service only. These members are now submitted along with the monthly i-Connect submission and no form is required. However, due to the timing of the submission and the date that some members leave, a number of cases are being received between 21 and 35 days after the date of leaving. As this is now out with the employers’ control, we’ve amended the Pensions Administration Strategy standards from 20 to 35 days, starting in April 2025. This will allow employers more time to submit these leaver cases within target, through i-Connect submissions.

Retirement information should be provided by employers 20 working days before the retirement date, but half of the cases received were provided later than this, most of which were received just out with the standard. However, this year we’ve introduced a new process for reporting retirement cases directly through i-Connect and forms are no longer needed. This means less work for employers, as well as an increase in standard with information being provided 15 working days before the member’s retirement date.

With these changes, we expect to see a significant improvement in employer performance over the coming year.

Contributions by value paid on time



Contributions by value paid on time

99.6% of contributions by value were paid on time. Of the 697 payments made, nine were paid late and these are shown in the table below. The option to levy interest on overdue contributions wasn’t exercised in 2024/25 as late contributions weren't received significantly later than the 19th day of the following month.

Employer	Number of late payments	Employer	Number of late payments
Children’s Hospice Association Scotland	2	Edinburgh Leisure	2
BEAR	2	Lothian Buses	1
COSLA	1	Heriot Watt Student Association	1
TOTAL			9

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:

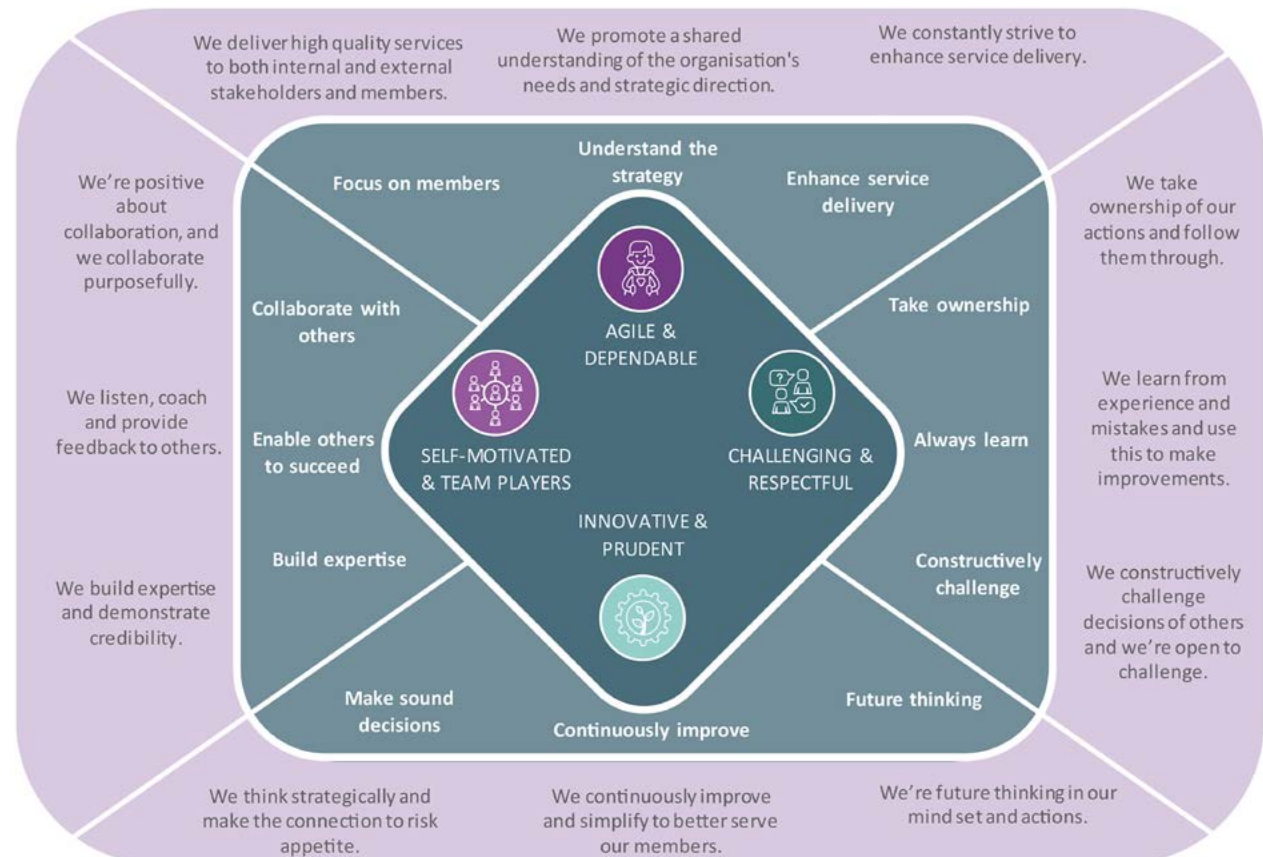
- Agile and dependable**
 We approach work with an open and flexible attitude and take responsibility to manage our work effectively and efficiently. We also embrace new processes in a consistent and reliable way
- Self-motivated and team players**
 We actively participate as individuals, taking pride 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 the 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 2025 our permanent headcount was 58% female and 42% 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:

- We're accredited with Disability Confident and more importantly, committed to review and improve everything we do with respect to recruitment and employment

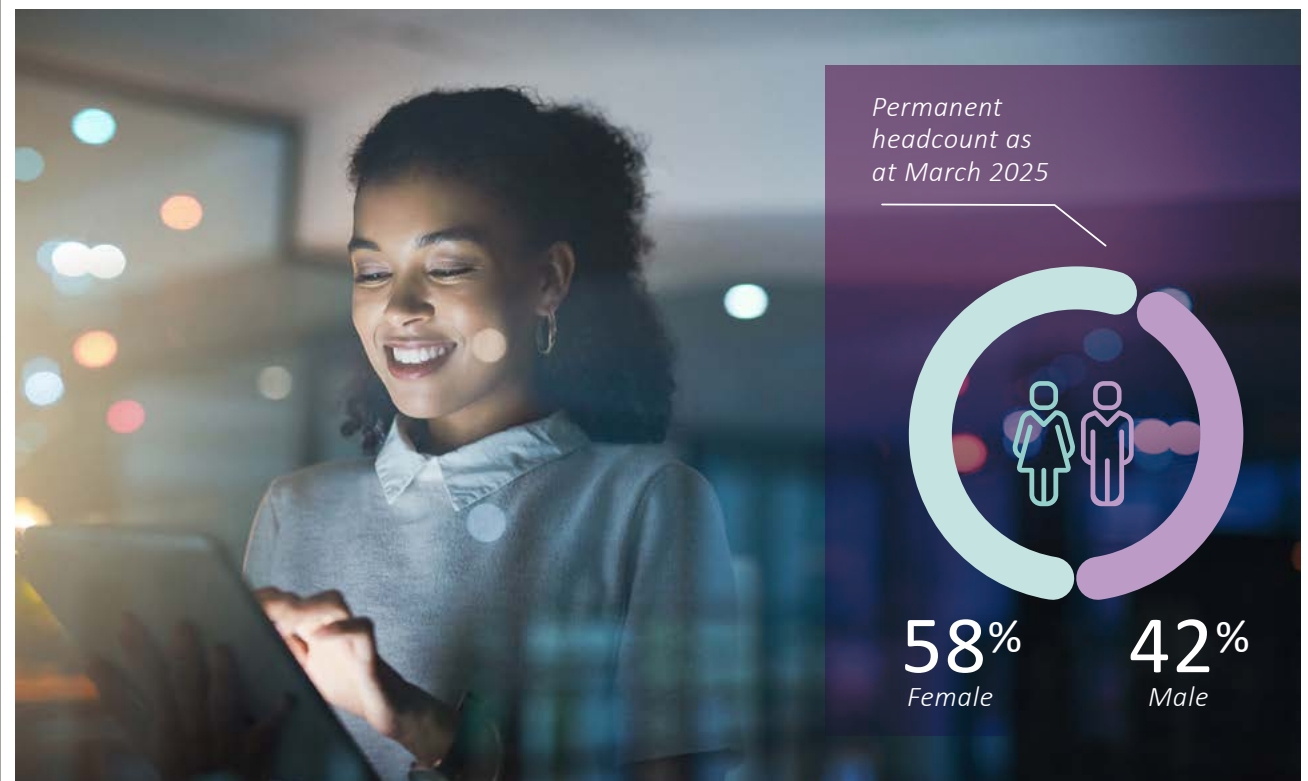


- Through Disability Confident, we'll work to ensure that disabled people and those with long term health conditions can fulfil their potential and realise their aspirations with us as an employer

- We're proud to be one of the first firms in Scotland to partner with Future Asset and during 2024 four colleagues

**FUTURE
ASSET**

volunteered to support and coach students in the Growing Future Assets Investment Competition. 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.





*Our direct property
portfolio is fully
concentrated in the
UK, with*

 **19%**
*of properties
located in Scotland.*

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 2025, on aggregate, 50% of our top three leadership layers are women and across the whole company, 58% of our workforce are women
- Our mean gender pay gap is 27.2%
- Our positive action approach for gender, which is benchmarked externally, is helping to ensure that our people policies and processes are inclusive and accessible, from how we attract and recruit, to how we reward and engage our colleagues
- In 2024/25 we recruited 15 colleagues; 11 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

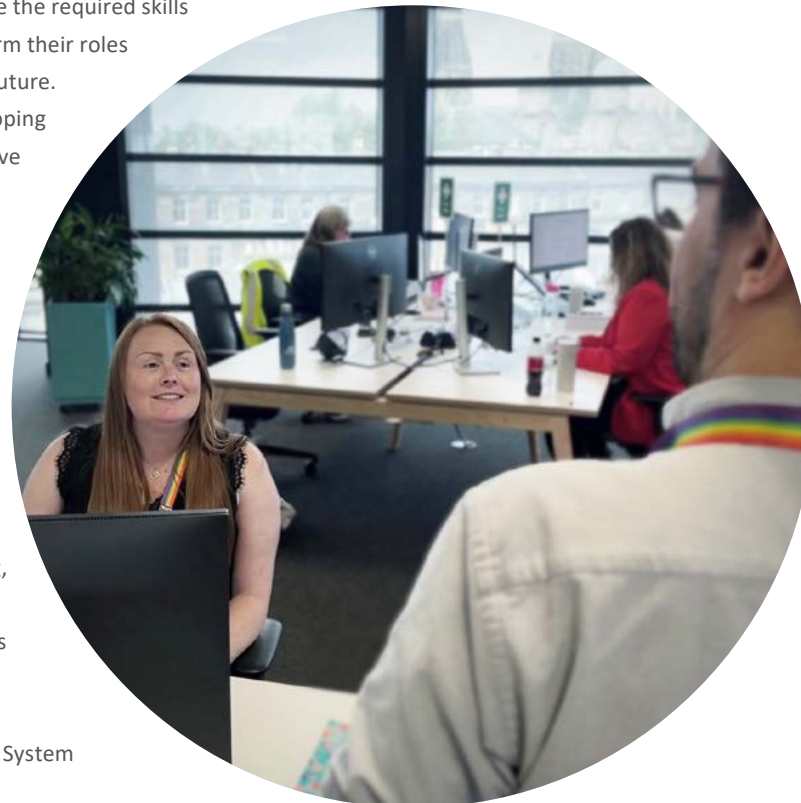
through monthly all colleague calls and biannual events. More information on our remuneration policies can be found later in this document.

Developing skills and capabilities culturally

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

Our Learning Management System

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 of 31 March 2025, 98% of our colleagues had completed their 20 hours of annual CPD.



OUR COLLEAGUES

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 at helping 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 website www.lpf.org.uk.

Throughout 2024 we held various sessions focusing on wellbeing. We recognised Time to Talk Day by hosting the charity, Health in Mind, giving colleagues the opportunity to hear more about the services they offer. We also provided colleagues with resources to promote positive mental health.

On World Mental Health Day, we invited six therapy dogs from Therapets to our office to support the theme of workplace mental health.



Charity days

During 2024, several teams across the organisation completed various charity days to help support our local communities. The teams carried out a variety of activities including gardening and maintenance to support the local community.



Management commentary approved by:



Paul Lawrence
Chief Executive Officer
The City of Edinburgh Council
24 September 2025



David Vallery
Chief Executive Officer
Lothian Pension Fund
24 September 2025



Deborah Smart
Executive Director
of Corporate Services
of City of Edinburgh Council
24 September 2025

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Investment strategy

The Fund's investment strategy for financial year 2025 was approved by the Pensions Committee in March 2024 following the completion of the 2023 actuarial valuation and subsequent strategy review. Given the improvement in funding level from the previous valuation, the revised investment strategy has a modestly reduced allocation to equities and increased allocation to sovereigns versus the previous strategy. It also has a 2% allocation to cash, from zero previously, to reflect the fact that the Fund will always operate with a modest level of cash for operational purposes.

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, or reducing, employer contribution rates.

The Fund's investment strategy reflects the target asset allocation expected to generate sufficient investment returns, alongside contributions, to pay pension liabilities in the future. For most employers, these liabilities stretch out for decades. 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 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 in recent years, supports the emphasis on real assets that have a history of providing some protection to investment returns against inflation.

As part of the investment strategy review, two policy groups were renamed. The previous "Non-Gilt Debt" policy group is now "Credit", and the previous "LDI (gilts)" policy group is now "Sovereigns".

There were modest changes to Fund strategy over the year to end March 2025, with the revised strategy taking effect from 1 April 2024. In terms of the Main Strategy, which represents the vast majority of employers and assets, the allocation to equities reduced to 55% (from 60%), the allocation to sovereigns increased to 15% (from 10%) and cash increased to 2% (from 0%) with a corresponding reduction to credit (from 10% to 8%). The Buses Strategy moved to a 50/50 split between the Main and Mature Employer Strategies, having been 55/45 previously. The Total Fund Strategy percentages shown below are a weighted average of the employer strategies.



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.

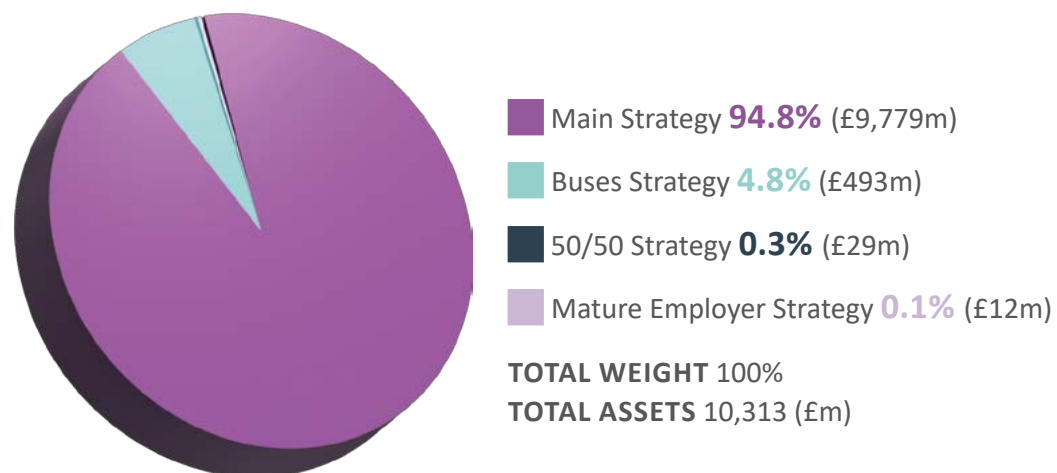
Most employer liabilities are funded under the Main Strategy, which adopts a long-term investment strategy, aiming to generate an investment return that will minimise the cost to the employer within reasonable and considered risk parameters. The Main Strategy maintains significant exposure to assets 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 0.1% of total assets.

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 0.3% of total assets.

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 now a 50/50 mix of the Main Strategy and the Mature Employer Strategy following the recent strategy review (having been 55/45 previously). At 31 March 2025, the Buses strategy represented approximately 4.8% of total assets.

EMPLOYER GROUP STRATEGIES 31 MARCH 2025



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, Credit, Sovereigns and Cash. Although individual investments within each group will have different risk and return characteristics, each policy group has an expected 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 2025 along with the Total Fund Strategy, which is the weighted average of the four employer strategies.

The Sovereigns policy group comprises index-linked gilts, nominal gilts and US Treasury inflation protected securities. This is the lowest risk, lowest expected return policy group outside cash 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 are expected to generate higher returns over the long term (the Actuary models 20 years into the future). These higher expected returns come with higher risk (also called 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 2025 is presented in the pie chart below (these figures relate to investment assets only and therefore exclude the c£40m of non-investment cash that forms part of the overall Fund assets). The largest deviation from strategy is the underweight position in Credit (-4.6%) as credit spreads are deemed broadly unattractive at current levels given the associated risks. The Fund's exposure to the Equity (-0.5%) and Real Assets (+2.9%) policy groups, which should help protect against inflation, is modestly above target in aggregate. Exposure to both Cash and Sovereigns is modestly above target at +1.3% and +0.9% respectively. The Fund has operated comfortably within the prescribed ranges over the year.

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 focuses on lower risk securities and has a lower exposure to higher risk securities, meaning that its portfolio is lower risk than the standard global equity benchmark. It's understood that this may mean giving up some of the upside when markets are very strong but providing relative protection when markets are weak. Another benefit of this approach is that it helps to maintain a low cost of implementation as turnover is generally quite low. Further contributing to a low cost of implementation is the internal management of over 95% of Equity assets.

LOTHIAN PENSION FUND 31 March 2025	Main strategy	Mature Employer Strategy	50/50 strategy	Buses strategy	Total Fund Strategy
Equities	55.0%	0.0%	27.5%	27.5%	53.5%
Real Assets	20.0%	0.0%	10.0%	10.0%	19.5%
Credit	8.0%	0.0%	4.0%	4.0%	7.8%
Sovereigns	15.0%	100.0%	57.5%	57.5%	17.2%
Cash	2.0%	0.0%	1.0%	1.0%	1.9%
Total	100%	100%	100%	100%	100%

Note: Numbers may not sum due to rounding

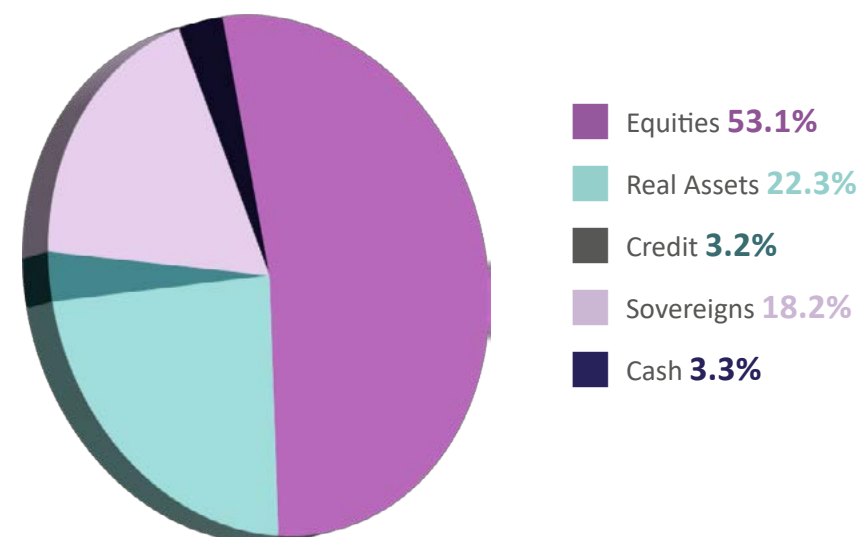
LOTHIAN PENSION FUND INVESTMENT STRATEGY

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's a wide range of expected risk and return 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 benefit.

The Credit policy group comprises investments in various non-sovereign debt securities. However, as its purpose in the Fund is to diversify equity risk, it avoids most high yield debt instruments, which are riskier and strongly correlated with equities.

The Sovereigns policy group comprises index-linked gilts, nominal gilts and overseas sovereign bonds (US Treasury inflation-protected securities, 'TIPS'). This is typically the lowest risk, lowest expected return policy group outside Cash. These can be thought of as matching assets, where the cash flows of gilts can broadly match the profile of future expected pension payments. In that sense, increased exposure to Sovereigns can be expected to reduce funding level risk.

ACTUAL ASSET ALLOCATION TOTAL FUND 31 MARCH 2025



LOTHIAN PENSION FUND INVESTMENT STRATEGY

Investment portfolio changes

The table below shows the changes to asset allocation over the year. These reflect both market movements and investment activity.

The Equity allocation has reduced over the last twelve months, consistent with the directional change in the strategic allocation. While underlying returns have been strong, the Fund has continued to sweep dividend income from the three large internally managed global equity portfolios alongside

specific reductions in private equity, the internally managed US and UK Mid Cap portfolios and a complete exit from the Nordea Global equity mandate. This has helped to fund the increased exposure to Sovereigns.

The Real Assets allocation increased during the year, primarily due to net new investment activity, offsetting. Distributions of income and capital for existing private market investments. This resulted in the Fund being overweight versus the target Real Asset allocation at 31 March 2025.

The allocation to Credit fell modestly over the year. This was primarily due to the renaming of two of the policy groups as the exposure to US TIPS, but was moved to Sovereigns during the year. Correspondingly, this partially contributed to the increased exposure to Sovereigns, again consistent with the directional change in the strategic allocation. The Fund also added to both nominal and index-linked gilts during the year, partly in relation to the increased strategic allocation, but also to take advantage of more attractive yields. The Fund has a modest overweight position in Sovereigns at period end.

The net result of these changes was a modest increase in cash.

POLICY GROUP	Actual Allocation 31 March 2024	Actual Allocation 31 March 2025	Change %
Equities	56.4%	53.1%	-3.3%
Real Assets	21.3%	22.3%	+1.0%
Credit	5.7%	3.2%	-2.5%
Sovereigns	14.0%	18.2%	+4.2%
Cash	2.8%	3.3%	+0.5%
Total	100%	100%	

Note: Numbers may not sum due to rounding

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Investment performance

The investment objective of the Fund is to achieve a return sufficient to meet the funding objectives over the long term as outlined in the Funding Strategy Statement. 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 isn't 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.

Annualised returns to 31 March 2025 (% per year)	1 yr	5 yrs	10 yrs
Lothian Pension Fund	2.4	6.8	6.8
Benchmark*	0.8	5.4	6.3
Average Weekly Earnings (AWE)	5.4	6.4	4.2
Consumer Price Index (CPIH All Items)	3.4	4.6	3.2

**Comprises equity, Sonia, and gilts indices*

Fund returns may deviate from benchmark returns, particularly over shorter timeframes. There are two main reasons why this may occur: most underlying portfolios aren't constructed to track listed market benchmarks, and private market benchmarks may not be well suited to short-term comparisons against the relevant private market assets.

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 linked to inflation. Both had grown at low and relatively stable rates for many years until more recently.

COLLEAGUE PROFILE CORINNA FINDLAY, EMPLOYER SERVICES

Corinna joined in November 2002 and became a fully qualified pension administrator in July 2007. She is now a Data Analyst, testing developments and fixes for our Member Service's team systems and collaborating with others in exploring system developments to improve our processes.

"LPF is a welcoming and encouraging environment with friendly and approachable people who make it a great place to work. I appreciate how colleagues inspire one another to grow and develop. Having worked here for a while, I've gained a wealth of knowledge and experience, and I enjoy continuing to learn as our systems and processes evolve to provide excellent service to our members."



LOTHIAN PENSION FUND INVESTMENT STRATEGY

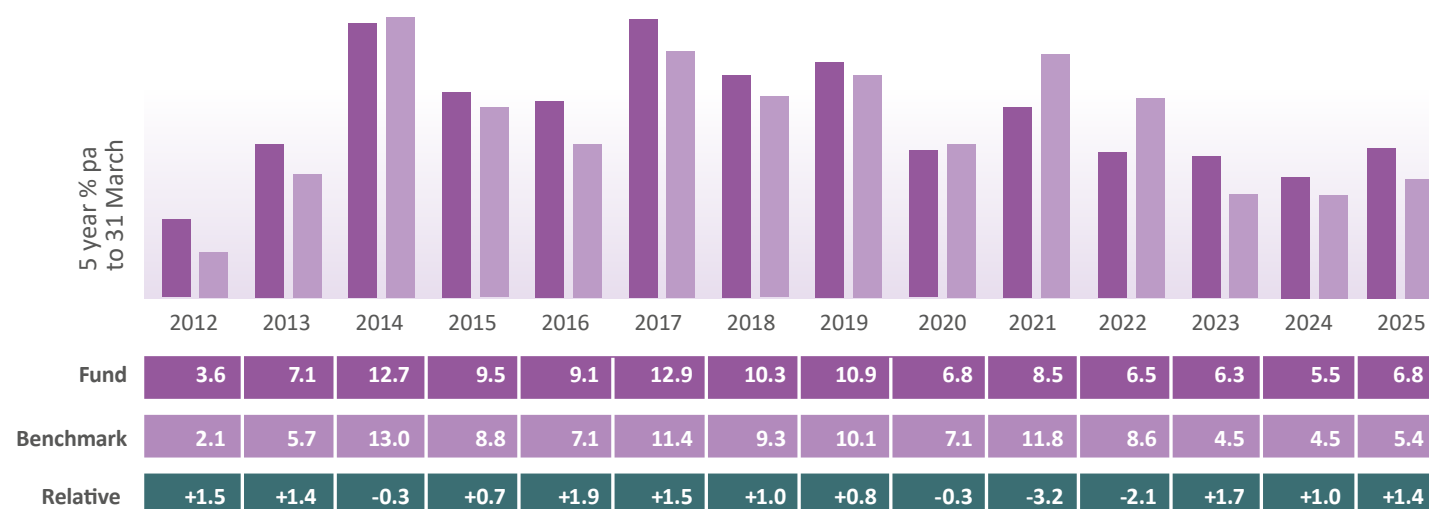
The bar chart below presents the performance data in a long-term context. It shows rolling 5-year returns for the Fund, its asset-based benchmark, and the relative return. The historical record highlights that these numbers fluctuate meaningfully over time, and so caution is required when interpreting individual data points. It's 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 opposite adds the perspective of the risk taken to achieve those returns.

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.

TO END MARCH 2025

POLICY GROUP	1 year (%)		5 year (% pa)		10 year (% pa)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equities	7.0	4.4	11.9	13.7	8.7	10.1
Real Assets	4.2	3.7	5.9	-6.7	7.7	0.8
Credit	3.6	2.6	1.5	0.0	3.4	2.0
Sovereigns	-13.3	-15.3	-12.8	-13.3	-3.3	-3.7
Total Fund Return	2.4	0.8	6.8	5.4	6.8	6.3
Total Fund Risk*			6.1	10.9	6.7	9.6

**source: Northern Trust – Risk figures shown are standard deviation of monthly returns*



LOTHIAN PENSION FUND INVESTMENT STRATEGY

The Fund produced an absolute return of +2.4% over the twelve months to end March 2025, ahead of the benchmark return of +0.8%. This return was achieved with notably lower than benchmark risk.

Good absolute returns were achieved within Equities and, to a lesser extent, Real Assets and Credit. The Fund's equities gained 7.0% (in GBP) over the year, 2.6% ahead of the benchmark (0.9x MSCI ACWI, a commonly used global equity index). Equity returns over 5 and 10 years have lagged the benchmark, which has seen very strong absolute returns over an extended period, predominantly driven by a small number of stocks.

Within the Real Assets category, the return of +4.2% was led by strength in property (+4.7%) and unlisted infrastructure (+5.1%). This helped to offset weakness in timber and agriculture (-9.7%) investments, which are a much smaller proportion of assets. The longer-term benchmark returns for Real Assets shown include a mix of equity and gilts indices so caution is required in terms of drawing any meaningful conclusions from these.

There were modest gains within the Credit policy group (+3.6%) and further disappointing returns for Sovereigns (-13.3%). The Fund had been under weight versus strategic target in Sovereigns for some time, but with real yields on offer now significantly more attractive than they've been for many years,

it has gradually moved to a modest overweight position.

Five-year Fund returns were above benchmark at +6.8% p.a. vs +5.4% p.a. and over ten years the comparison was +6.8% p.a. vs +6.3% p.a. Fund returns have been above benchmark over both of these longer time periods, but these returns should be viewed in context of the risk taken to achieve them.

From a risk perspective, the Fund has achieved its returns with notably lower levels of volatility than its benchmark (less than 60% of benchmark risk over five years and less than 70% over ten years). The Fund therefore achieved better risk-adjusted returns than benchmark over these longer timeframes, consistent with expectations. Separate analysis by CEM, an independent benchmarking provider, shows that Lothian Pension Fund achieved the highest risk-adjusted return (Sharpe ratio) over the 10 years to 31 March 2024 of the 28 LGPS funds in its universe.



+2.4%



ABSOLUTE RETURN
PRODUCED BY THE FUND
OVER THE 12-MONTHS
TO END MARCH 2025
(BENCHMARK +0.8%)



*Lothian Pension Fund
had over
£100m
invested in
forestry assets
at 31 March 2025,
which all has sustainable
forestry certification.*

LOTHIAN PENSION FUND FINANCIAL STATEMENTS

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 Account for year ended 31 March 2025					
Parent	Group			Parent	Group
2023/24	2023/24			2024/25	2024/25
£000	£000		Note	£000	£000
Income					
218,550	218,550	Contributions from employers	4	174,811	174,811
61,769	61,769	Contributions from members	5	64,354	64,354
14,219	14,219	Transfers from other schemes	6	16,183	16,183
294,538	294,538			255,348	255,348
Less: expenditure					
229,799	229,799	Pension payments including increases	7	253,226	253,226
57,838	57,838	Lump sum retirement payments	8	67,551	67,551
9,254	9,254	Lump sum death benefits	9	8,257	8,257
1,007	1,007	Refunds to members leaving service		1,356	1,356
-	-	Premiums to State Scheme		-	-
13,294	13,294	Transfers to other schemes	10	77,164	77,164
3,865	5,205	Administrative expenses	11a	4,095	4,526
315,057	316,397			411,649	412,080
(20,519)	(21,859)	Net (withdrawals)/additions from dealing with members		(156,301)	(156,732)
Returns on investments					
316,787	316,787	Investment income	12	328,209	328,209
288,912	288,912	Change in market value of investments	14,19b	(58,972)	(58,972)
(37,569)	(40,651)	Investment management expenses	11b	(34,753)	(33,971)
568,130	565,048	Net returns on investments		234,484	235,266
547,611	543,189	Net increase in the fund during the year		78,183	78,534
9,695,213	9,700,631	Net assets of the fund at 1 April 2024		10,242,824	10,243,820
10,242,824	10,243,820	Net assets of the fund at 31 March 2025		10,321,007	10,322,354

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

Lothian Pension Fund Net Assets Statement as at 31 March 2025					
Parent	Group			Parent	Group
31 March 2024	31 March 2024 Restated			31 March 2025	31 March 2025
£000	£000		Note	£000	£000
Investments					
10,269,942	10,269,942	Assets		10,290,125	10,290,125
(79,523)	(79,523)	Liabilities		(15,038)	(15,038)
10,190,419	10,190,419	Net investment assets	13	10,275,087	10,275,087
Non current assets					
9,701	9,701	Debtors	23	9,060	9,060
734	734	Computer systems		1,090	1,090
1,690	-	Share Capital	28b	1,690	-
-	-	Retirement benefit obligation	29	-	-
-	-	Deferred tax	28a	-	-
12,125	10,435			11,840	10,150
Current assets					
2,825	2,825	The City of Edinburgh Council	27	5,787	5,787
39,683	42,762	Cash balances	20, 27	39,756	42,390
22,465	22,982	Debtors	24	19,905	20,666
64,973	68,569			65,448	68,843
Non current liabilities					
-	-	Deferred tax	28a	-	-
-	(12)	Creditors		-	(10)
-	(12)			-	(10)
Current liabilities					
-	-	Provision for onerous contract	30	(465)	(465)
(112)	(112)	Provision for onerous lease	30	(468)	(468)
(24,581)	(25,479)	Creditors	25	(30,435)	(30,783)
(24,693)	(25,591)			(31,368)	(31,716)
10,242,824	10,243,820	Net assets of the fund		10,321,007	10,322,354

LOTHIAN PENSION FUND ACCOUNTS

The unaudited accounts were issued on 25 June 2025 and the audited accounts were authorised for issue on 24 September 2025.

Alan Sievwright

Alan Sievwright

Chief Finance Officer
Lothian Pension Fund
24 September 2025

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 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.



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 131.

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's a difference between the parent and group figures they're identified as either "Parent" or "Group".

The consolidation of the group accounts was prepared using the audited financial statements of LPFE Limited and LPFI Limited for 2024/25.

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 Group. 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 Companies held by the Fund.
29	Retirement benefits obligation - group Provides the information on the retirement benefits obligation of the Group as required under IAS19 - Employee Benefits. See 2 q) ii) in the Statement of Accounting Policies and General notes for more information.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

3 Events after the reporting date

There have been no events since 31 March 2025, and up to the date when these Financial Statements were authorised, that require any adjustments or disclosures 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:

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's a surplus, there may be a contribution reduction; if there's a deficit there may be a contribution increase.

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.

	2023/24	2024/25
By category	£000	£000
Primary Contribution (future service)	212,763	183,303
Secondary Contribution (past service deficit)	5,593	167
Strain costs	1,589	2,004
Cessation Contributions	(1,395)	(10,663)
	218,550	174,811

	2023/24	2024/25
By employer type	£000	£000
Administering Authority	83,865	69,164
Other Scheduled Bodies	109,930	93,418
Community Admission Bodies	23,587	11,478
Transferee Admission Bodies	1,168	751
	218,550	174,811

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

5 Contributions from members

	2023/24	2024/25
By employer type	£000	£000
Administering Authority	22,199	23,365
Other Scheduled Bodies	30,573	31,749
Community Admission Bodies	8,438	8,615
Transferee Admission Bodies	559	625
	61,769	64,354

6 Transfers in from other pension schemes

	2023/24	2024/25
	£000	£000
Group transfers	-	-
Individual transfers	14,219	16,183
	14,219	16,183

7 Pensions payable

	2023/24	2024/25
By employer type	£000	£000
Administering Authority	96,493	105,467
Other Scheduled Bodies	96,927	107,763
Community Admission Bodies	35,601	39,094
Transferee Admission Bodies	778	902
	229,799	253,226

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.

As "unfunded payments" are discretionary benefits, they're 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.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

8 Lump sum retirement benefits payable

	2023/24	2024/25
By employer type	£000	£000
Administering Authority	21,699	23,251
Other Scheduled Bodies	27,577	34,535
Community Admission Bodies	7,960	9,586
Transferee Admission Bodies	602	179
	57,838	67,551

9 Lump sum death benefits payable

	2023/24	2024/25
By employer type	£000	£000
Administering Authority	3,118	3,379
Other Scheduled Bodies	4,936	3,852
Community Admission Bodies	1,143	1,003
Transferee Admission Bodies	57	23
	9,254	8,257

10 Transfers out to other pension schemes

	2023/24	2024/25
	£000	£000
Group transfers	-	61,653
Individual transfers	13,294	15,511
	13,294	77,164

11a Administrative expenses

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.

	LPF Parent 2023/24	LPF Group 2023/24	LPF Parent 2024/25	LPF Group 2024/25
	£000	£000	£000	£000
Employee costs	2,413	2,369	2,326	2,679
System costs	582	592	631	641
Actuarial fees	250	250	50	50
External/internal audit fees	82	84	90	92
Legal fees	8	24	12	38
Printing and postage	148	148	94	94
Depreciation	101	101	85	85
Office costs	193	193	637	648
Sundry costs less sundry income	88	109	170	196
IAS19 retirement benefit adjustments - see note 29	-	1,416	-	-
Deferred tax on retirement benefit obligation - see note 28	-	(61)	-	-
Corporation tax	-	(20)	-	3
	3,865	5,205	4,095	4,526

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

11b Investment management expenses

	LPF Parent 2023/24	LPF Group 2023/24	LPF Parent 2024/25	LPF Group 2024/25
	£000	£000	£000	£000
External management fees:				
invoiced	2,371	2,371	1,135	1,135
deducted from capital (direct investment)	22,864	22,864	20,903	20,903
deducted from capital (indirect investment)	604	604	682	682
Securities lending fees	98	98	79	79
Transaction costs - Equities	3,010	3,010	2,136	2,136
Property operational costs	571	571	805	805
Third party - Invest property service charge expense	10,415	10,415	12,973	12,973
Third party - Invest property service charge income	(10,415)	(10,415)	(12,973)	(12,973)
Employee costs	4,471	5,744	5,283	5,904
Custody fees	409	409	387	387
Engagement and voting fees	88	88	88	88
Performance measurement fees	79	79	64	64
Consultancy fees	159	159	95	95
Research fees	401	401	358	358
System costs	1,320	1,374	1,250	1,307
Legal fees	222	513	101	350
Depreciation	104	104	125	125
Office costs	326	326	956	1,019
Sundry costs less sundry income	472	(1,344)	306	(1,520)
IAS19 retirement benefit adjustments - see note 29	-	3,450	-	-
Deferred tax on retirement benefit obligation - see note 28	-	(152)	-	-
Corporation tax	-	-	-	54
Corporation tax gains utilised by CEC group	-	(18)	-	-
	37,569	40,651	34,753	33,971

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

11b Investment management expenses (cont.)

	Total	Management /Expense fees	Performance related fee	Transaction costs
2024/25	£000	£000	£000	£000
Bonds	24	24	-	-
Equities	3,540	1,404	-	2,136
Pooled investment vehicles	21,345	17,932	3,413	-
Property	805	805	-	-
Cash and FX contracts	26	26	-	-

	Total	Management /Expense fees	Performance related fee	Transaction costs
2023/24	£000	£000	£000	£000
Bonds	92	92	-	-
Equities	5,299	2,295	(6)	3,010
Pooled investment vehicles	23,512	13,884	9,018	610
Property	571	571	-	-
Cash and FX contracts	44	44	-	-

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 £3.4m (£3.4m direct) in respect of performance-related fees compared to £9m in 2023/24 (£9m direct).

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 £0.7m in costs (2024 £0.6m).

11c Total management expenses

In accordance with CIPFA guidance, the analysis below considers the combined administration

and investment management expenses in note 11b and splits out the costs to include a third category covering oversight and governance expenditure.

	LPF Parent 2023/24	LPF Group 2023/24	LPF Parent 2024/25	LPF Group 2024/25
	£000	£000	£000	£000
Administrative costs	3,083	3,948	3,267	3,380
Investment management expenses	33,097	36,426	29,400	28,535
Oversight and governance costs	5,254	5,482	6,181	6,582
	41,434	45,856	38,848	38,497

DR DEBORAH SMART



"LPFE employs and manages colleagues for LPF and LPFI, with a particular focus on the investment and pensions sector and the aim to deliver the LPF business plan. Colleagues, therefore, remain the foundation of LPF's success for serving both our members and employers. It's great that we've been able to build on, and continue to develop, the team in the last year, with new colleagues, and having supported several internal development movements and secondments. The Board were pleased to also see the launch of the Trainee Member Administrator Academy to train a cohort on all areas of pension administration and receive a Pension Management Institute qualification. The ability to attract and retain a talented and skilled workforce is clearly critical to our aim to provide outstanding pensions and investment services for the benefit of members and

employers. As a Board, we have, therefore, met during the year to consider remuneration policies and practices and welcomed the introduction of a personalised Total Reward Statement for all colleagues. Also, whilst pay is a consideration, culture and opportunities for learning is also important. As a Board, we have also observed the results of "Your Voice" surveys in 2024/25, which have pleasingly continued to show strong levels of participation and positive staff engagement. Lastly, I would like to express my thanks to the LPFE Board and all colleagues for their hard work over the last year."



**LPFE Board (Chair), Executive Director of
Corporate Services of City of Edinburgh Council**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

12 Investment income

	2023/24	2024/25
	£000	£000
Income from bonds	10,045	15,774
Dividends from equities	194,364	188,984
Unquoted private equity and infrastructure	76,465	87,354
Income from pooled investment vehicles	3,484	5,743
Gross rents from properties	26,151	25,010
Interest on cash deposits	12,603	12,299
Stock lending and sundries	491	457
	323,603	335,621
Irrecoverable withholding tax	(6,816)	(7,412)
	316,787	328,209

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 2024/25 £6,549k of the stated income relates to tax yet to be received. At 31 March 2025 £37,015k (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 2024	31 March 2025
Investment assets	£000	£000
Bonds		
Public sector fixed interest	330,587	261,923
Public sector index linked gilts quoted	1,369,898	1,698,021
	1,700,485	1,959,944
Equities		
Quoted	5,610,224	5,345,024
	5,610,224	5,345,024
Pooled investment vehicles		
Private equity, infrastructure, private debt & timber	1,946,321	1,948,126
Property	124,575	124,915
Other	181,203	167,667
	2,252,099	2,240,707
Properties		
Direct property	363,614	381,255
	363,614	381,255
Derivatives		
Derivatives - forward foreign exchange	509	1,990
	509	1,990
Cash deposits		
Deposits	279,426	291,767
	279,426	291,767
Other investment assets		
Due from broker	1,712	542
Dividends and other income due	61,873	68,896
	63,585	69,438
Total investment assets	10,269,942	10,290,125

	31 March 2024	31 March 2025
Investment liabilities	£000	£000
Derivatives		
Derivatives - forward foreign exchange	-	-
	-	-
Other financial liabilities		
Amounts payable for investment purchasing commitments	(61,139)	(14,692)
Due to broker	(18,384)	(346)
	(79,523)	(15,038)
Total investment liabilities	(79,523)	(15,038)
Net investment assets	10,190,419	10,275,087



LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

14a Reconciliation of movement in investments and derivatives

	Market value at 31 March 2024	Purchase at cost & derivative payments	Sale & derivative receipts	Change in market value	Market value at 31 March 2025
	£000	£000	£000	£000	£000
Bonds	1,700,485	980,037	(462,109)	(258,469)	1,959,945
Equities	5,610,224	1,223,955	(1,666,582)	177,427	5,345,024
Pooled investment vehicles	2,252,099	228,178	(255,659)	16,090	2,240,707
Property	363,614	17,324	-	317	381,255
Derivatives - forward foreign exchange	509	6	(1,117)	2,591	1,989
	9,926,931	2,449,500	(2,385,467)	(62,044)	9,928,920

Other financial assets / liabilities

Cash deposits*	279,426	3,071	291,767
Amounts payable for investment purchasing commitments	(61,139)	-	(14,693)
Broker balances*	(16,672)	1	197
Investment income due*	61,873	-	68,896
	263,488	3,072	346,167
Net financial assets	10,190,419	(58,972)	10,275,087

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.

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

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

	Market value at 31 March 2023*	Purchase at cost & derivative payments	Sale & derivative receipts	Change in market value	Market value at 31 March 2024
	£000	£000	£000	£000	£000
Bonds	1,441,616	832,276	(463,986)	(109,421)	1,700,485
Equities	5,469,139	1,126,763	(1,296,985)	311,307	5,610,224
Pooled investment vehicles	1,972,419	297,206	(121,020)	103,495	2,252,099
Property	372,612	24,455	(5,854)	(27,599)	363,614
Derivatives - forward foreign exchange	2,549	-	(5,000)	2,960	509
	9,258,335	2,280,700	(1,892,845)	280,742	9,926,931

Other financial assets / liabilities

Cash deposits*	341,424	1,338	279,426
Amounts payable for investment purchasing commitments	-	-	(61,139)
Broker balances*	(8,478)	(35)	(16,672)
Investment income due*	56,574	-	61,873
	389,520	1,303	263,488
Net financial assets	9,647,855	282,045	10,190,419

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

14b Reconciliation of fair value measurements within level 3

	Market value at 31 March 2024	Level 3 transfers		Purchases at cost & derivative payments	Sale & derivative receipts	Unrealised gains / (losses)	Realised gains / (losses)	Market value at 31 March 2025
	£000	in	out	£000	£000	£000	£000	£000
Pooled investments								
Infrastructure	1,517,030	216,479	(144,016)	276,996	(214,706)	(1,147)	21,048	1,671,683
Property	98,123	1,624	(5,274)	5,427	(3,660)	441	4,247	100,926
Private equity	33,813	-	(7,750)	13,934	(13,691)	5,670	(10,426)	21,551
Timber	114,956	-	(7,225)	7,168	(2,968)	(15,467)	517	96,981
Private debt	249,081	4,077	(86,797)	111,045	(91,487)	(9,302)	3,867	180,484
Freehold property								
	363,614	-	-	17,324	-	317	-	381,255
	2,376,617	222,180	(251,062)	431,893	(326,512)	(19,488)	19,252	2,452,881

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 2025.

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	131,533	258,713	6,616	-
Up to one month	GBP	SEK	81,585	1,095,740	-	(2,990)
Up to one month	GBP	NOK	68,588	954,845	-	(1,637)
Open forward currency contracts at 31 March 2025					6,616	(4,627)
Net forward currency contracts at 31 March 2025						1,989

Prior year comparative

Open forward currency contracts at 31 March 2024

Net forward currency contracts at 31 March 2024

509	-
	509

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

		Market value at 31 March 2024	% of total 31 March 2024	Market value at 31 March 2025	% of total 31 March 2025
Manager	Mandate	£000	%	£000	%
In-house	UK all cap equities	337,013	3.3	323,063	3.1
In-house	UK mid cap equities	119,040	1.2	76,576	0.7
Total UK equities		456,053	4.5	399,639	3.8
In-house	European ex UK equities	196,640	1.9	168,741	1.6
In-house	US equities	419,957	4.1	379,136	3.7
Total regional overseas equities		616,597	6.0	547,877	5.3
In-house	Global high dividend	1,311,285	12.9	1,341,666	13.1
In-house	Global low volatility	1,296,763	12.7	1,376,621	13.4
In-house	Global multi factor value	1,285,343	12.6	1,357,439	13.2
In-house	Global quality	123,471	1.2	197,099	1.9
Nordea	Global equities	363,640	3.6	-	-
Baillie Gifford	Global equities	201,984	2.0	205,288	2.0
Total global equities		4,582,486	45.0	4,478,112	43.6
In-house	Currency hedge	509	-	1,990	-
Total currency overlay		509	-	1,990	-
Total listed equities		5,655,645	55.5	5,427,618	52.7
In-house	Private equity unquoted	33,932	0.3	21,550	0.2
In-house	Private equity quoted	43,904	0.4	-	-
Total private equity		77,836	0.7	21,550	0.2
Total equity		5,733,481	56.2	5,449,168	52.9

		Market value at 31 March 2024	% of total 31 March 2024	Market value at 31 March 2025	% of total 31 March 2025
Manager	Mandate	£000	%	£000	%
In-house	Index linked gilts	1,123,288	11.0	1,265,962	12.3
In-house	Nominal gilts	48,982	0.5	159,704	1.6
In-house	US TIPS (Formerly Sovereign bonds)	169,018	1.7	168,879	1.6
In-house	Mature employer gilts	250,368	2.5	271,300	2.6
Total inflation linked assets		1,591,656	15.7	1,865,845	18.1
In-house	Indirect property	98,123	1.0	100,926	1.0
In-house	Property	416,087	4.1	389,462	3.8
In-house	Infrastructure unquoted	1,523,216	14.9	1,663,378	16.2
In-house	Infrastructure quoted	20,387	0.2	18,190	0.2
In-house	Timber	114,235	1.1	96,981	0.9
Total real assets		2,172,048	21.3	2,268,938	22.1
Baillie Gifford	Corporate bonds	31,589	0.3	9	0.0
In-house	Private debt	242,434	2.4	175,743	1.7
In-house	Investment grade credit	127,373	1.2	130,219	1.3
In-house	Agency MBS	-	0.0	19,721	0.2
Total debt assets		401,396	3.9	325,693	3.2

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

16 Investment managers and mandates (cont)

		Market value at 31 March 2024	% of total 31 March 2024	Market value at 31 March 2025	% of total 31 March 2025
Manager	Mandate	£000	%	£000	%
In-house	Cash	290,027	2.8	362,818	3.5
In-house	Transitions	1,812	0.0	2,625	0.0
Total cash and sundries		291,839	2.8	365,443	3.5
Net financial assets		10,190,420	100.0	10,275,087	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 2025, £190.3m (2024 £101.3m) of securities were released to third parties. Collateral valued at 108.8% (2024 105.3%) of the market value of the securities on loan was held at that date.

18 Property holdings

	2023/24	2024/25
	£000	£000
Opening balance	372,612	363,614
Additions	24,455	17,324
Disposals	(5,854)	-
Net change in market value	(27,599)	317
Closing balance	363,614	381,255

As at 31 March 2025, there were no restrictions on the realisability of the property or the remittance of income or sale proceeds. As at 31 March 2025, the Fund had no contractual obligation for any further construction costs.

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

	2023/24	2024/25
	£000	£000
Within one year	23,937	24,361
Between one and five years	70,254	64,028
Later than five years	98,776	84,059
	192,967	172,448

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 2024			31 March 2025		
	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	1,700,485	-	-	1,959,944	-	-
Equities	5,610,224	-	-	5,345,024	-	-
Pooled investments	2,252,099	-	-	2,240,707	-	-
Property leases	-	-	-	-	-	-
Derivative contracts	509	-	-	1,990	-	-
Margin balances	-	-	-	-	-	-
Cash	-	279,426	-	-	291,767	-
Other balances	-	63,585	-	-	69,439	-
	9,563,317	343,011	-	9,547,665	361,206	-
Other assets						
City of Edinburgh Council	-	2,825	-	-	5,787	-
Cash	-	39,683	-	-	39,756	-
Share Capital	-	1,690	-	-	1,690	-
Debtors - current	-	22,465	-	-	19,905	-
Debtors - non-current	-	9,701	-	-	9,060	-
	-	76,364	-	-	76,198	-
Assets total	9,563,317	419,375	-	9,547,665	437,404	-

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

Classification of financial instruments - parent (cont)	31 March 2024			31 March 2025		
	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	-	-	-	-	-	-
Other investment balances	-	(79,523)	-	-	(15,039)	-
	-	(79,523)	-	-	(15,039)	-
Other liabilities						
Creditors	-	-	(24,693)	-	-	(31,368)
Liabilities total	-	(79,523)	(24,693)	-	(15,039)	(31,368)
Total net assets	9,563,317	339,852	(24,693)	9,547,665	422,365	(31,368)

Total net financial instruments	9,878,476		9,938,662
Amounts not classified as financial instruments	364,348		382,345
Total net assets	10,242,824		10,321,007

ALISON MURRAY

"I began my second year as Independent Professional Observer at LPF in September 2024. It's my role to support and provide observations to the Pensions Committee, Sub Committee and Pension Board, impartial from officers of the Fund, in their oversight and decision-making of matters related to the Fund. I reflect on another positive year for the Fund, exemplified by the commendable CEM Investment and Pension Administration analysis for the year. The last year has also seen a focus on responsible investment, in particular, around climate

change. Most notably, the introduction of the Climate Change Policy which complements the Statement of Responsible Investment Principles. For the coming year, I look forward to supporting the Pension Committee and Pension Board Members to ensure the Fund's members and employers remain at the heart of all the Fund's decision making."

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 2024			31 March 2025		
	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	-	3,079	-	-	2,634	-
Share capital	-	(1,690)	-	-	(1,690)	-
Debtors - current	-	517	-	-	760	-
Debtors - non-current	-	-	-	-	-	-
Debtors - non-current Retire. benefit obligation	-	-	-	-	-	-
	-	1,906	-	-	1,704	-
Assets total	-	1,906	-	-	1,704	-
Other liabilities						
Retire. benefit obligation	-	-	-	-	-	-
Creditors	-	(898)	-	-	(375)	-
Creditors - non current	-	(12)	-	-	-	-
Liabilities total	-	(910)	-	-	(357)	-
Total net assets	-	996	-	-	1,347	-
Total adjustments to net financial instruments		996			-	1,347
Total net assets		10,243,820				10,322,354

19b Net gains and losses on financial instruments

	2023/24	2024/25
	£000	£000
Designated as fair value through Fund Account	308,341	(62,361)
Loans and receivables	1,303	3,072
Financial liabilities at amortised cost	-	-
Total	309,644	(59,289)
Gains and losses on directly held freehold property	(20,732)	317
Change in market value of investments per fund account	288,912	(58,972)

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



LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

19c Fair value hierarchy (cont)

	31 March 2025			
	Level 1	Level 2	Level 3	Total
Investment assets at fair value through Fund Account	£000	£000	£000	£000
Bonds	1,959,945		-	1,959,945
Equities	5,345,024	-	-	5,345,024
Pooled investment vehicles	52,486	154,280	2,033,941	2,240,707
Derivatives	1,990	-	-	1,990
Cash deposits	291,767	-	-	291,767
Investment income due	69,239	-	-	69,239
Amounts due from broker	200	-	-	200
Non-financial assets at fair value through profit and loss				
Property	-	-	381,255	381,255
Total investment assets	7,720,650	154,280	2,415,195	10,290,125
Investment liabilities at fair value through Fund Account	(15,038)	-	-	(15,038)
Total investment liabilities	(15,038)	-	-	(15,038)
Net investment assets	7,705,612	154,280	2,415,195	10,275,087

	31 March 2024			
	Level 1	Level 2	Level 3	Total
Investment assets at fair value through Fund Account	£000	£000	£000	£000
Bonds	1,700,485	-	-	1,700,485
Equities	5,610,224	-	-	5,610,224
Pooled investment vehicles	20,059	221,401	2,010,639	2,252,099
Derivatives	509	-	-	509
Cash deposits	279,426	-	-	279,426
Investment income due	63,585	-	-	63,585
Non-financial assets at fair value through profit and loss				
Property	-	-	363,614	363,614
Total investment assets	7,674,288	221,401	2,374,253	10,269,942
Investment liabilities at fair value through Fund Account	(79,523)	-	-	(79,523)
Total investment liabilities	(79,523)	-	-	(79,523)
Net investment assets	7,594,765	221,401	2,374,253	10,190,419

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 Forum 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.

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.

WHAT OUR MEMBERS SAY:

"Every time I've called LPF I've spoken to a different member of staff, and every time the service I received has been exceptional."



LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

Sensitivity analysis

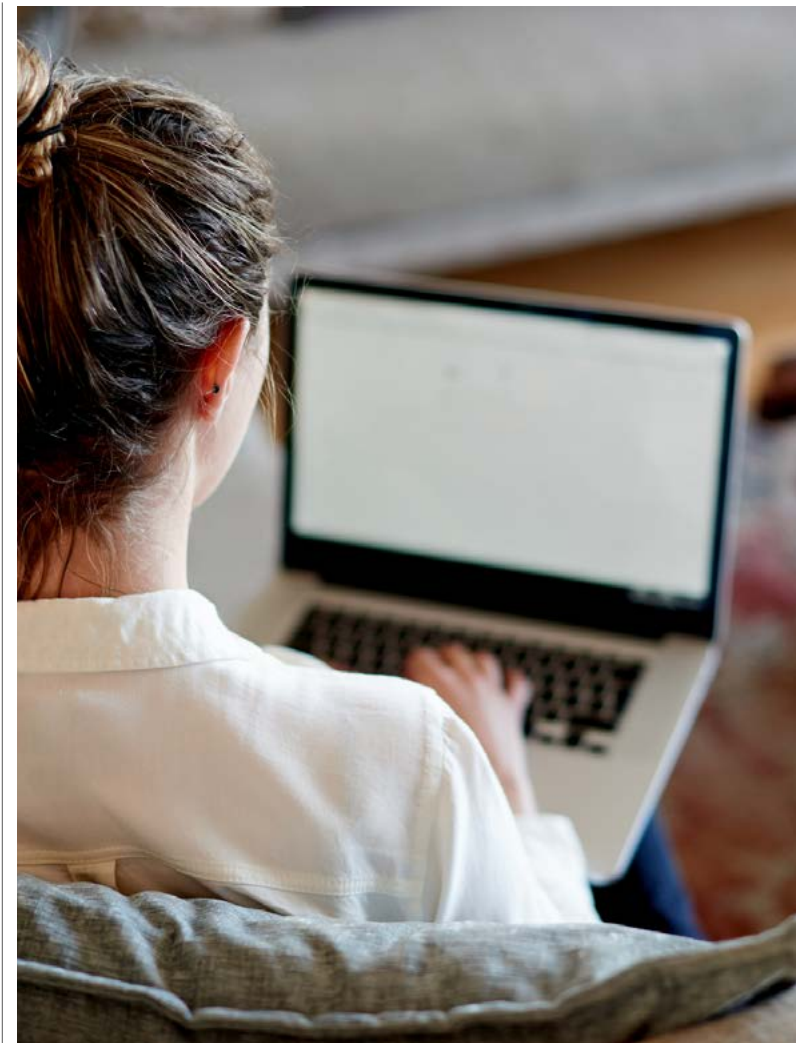
Asset prices have a tendency to fluctuate. The degree of such fluctuation is known as “volatility” and it differs by asset class. The table sets out the long-term volatility assumptions used in the Fund’s asset-liability modelling undertaken by Isio investment advisers.

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 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 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.

Asset type	Potential price movement (+ or -)
Equities - Developed Markets	20.5%
Equities - Emerging Markets	28.0%
Private equity	26.0%
Timber and gold	15.0%
Secured loans	10.5%
Fixed interest Gilts	13.3%
Index-linked Gilts	12.3%
Infrastructure	12.0%
Property	13.0%
Cash	1.9%



LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

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

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.

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.

	Value at 31 March 2025	% of fund	Potential Change +/-	Value on increase	Value on decrease
	£m	%	%	£m	£m
Equities - Developed Markets	4,909	47.8	20.5%	5,915	3,902
Equities - Emerging Markets	510	5.0	28.0%	652	367
Private equity	22	0.2	26.0%	27	16
Timber and gold	97	0.9	15.0%	112	82
Secured loan	306	3.0	10.5%	338	274
Fixed interest Gilts	265	2.6	13.3%	300	229
Index-linked Gilts	1,700	16.6	12.3%	1,909	1,491
Infrastructure	1,681	16.4	12.0%	1,883	1,479
Property	487	4.7	13.0%	551	424
Cash and forward foreign exchange	299	2.9	1.9%	305	293
Total [1]	10,275	100.0	16.7%	11,992	8,558
Total [2]			12.3%	11,532	9,013
Total [3]			13.1%	11,620	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.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

Cash deposits

At 31 March 2025, cash deposits represented £332m, 3.21% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2025	Balances at 31 March 2024	Balances at 31 March 2025
		£000	£000
Held for investment purposes			
Northern Trust Global Investment Limited - liquidity funds	A2	13,096	6,654
Northern Trust Company - cash deposits	A2	65,557	92,387
UK Short-Term Bills and Notes	Aa3	92,668	74,596
The City of Edinburgh Council - treasury management	See below	98,769	92,712
Northern Trust in house property cash	A2	-	16,272
JLL in-house property cash (Barclays)	A1	9,336	9,146
Total investment cash		279,426	291,767
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	39,683	39,669
Royal Bank of Scotland	A1	-	87
Total cash - parent		319,109	331,523
Cash held by LPFE/LPFI Limited			
Royal Bank of Scotland	A1	3,079	874
Northern Trust Global Investment Limited - liquidity funds	A2	-	580
Northern Trust Company - cash deposits	A2	-	602
UK Short-Term Bills and Notes	Aa3	-	578
Total cash - group		322,188	334,157

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)

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.

	Moody's Credit Rating at 31 March 2025	Balances at 31 March 2024	Balances at 31 March 2025
Money market funds		£000	£000
Deutsche Bank AG, London	Aaa-mf	19,247	20,633
Goldman Sachs	Aaa-mf	40	52
Aberdeen Standard Sterling Liquidity Fund	Aaa-mf	-	20,641
Bank call accounts			
Bank of Scotland	A1	16	19
Royal Bank of Scotland	A1	1,411	2,778
Santander UK	A1	31	38
Barclays Bank	A1	17	20
Svenska Handelsbanken		60	74
HSBC Bank PLC	A1	10	12
Notice accounts			
HSBC Bank PLC	A1	6	7
UK Government			
Gilts & T-Bills and UK Government Debt	Aa3	18,421	5,026
UK Pseudo-Sovereign risk instruments			
Other Local Authorities [1]	Aa3	99,193	83,081
		138,452	132,381

[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 2025 was 'Aa3').

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

Securities lending

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



Derivatives

The Fund transacts foreign currency derivatives over-the-counter and hence is exposed to credit risk in the event of a counterparty defaulting on the net payment or receipt that remains outstanding. This risk is minimised by the use of counterparties that are recognised financial intermediaries with acceptable credit ratings and by netting agreements. At 31 March 2025, the Fund was owed £1,990k 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 76% (2024 77%)) 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 £5,480m (2024 £7,613m). 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

	31 March 2024	31 March 2025
	% p.a.	% p.a.
Inflation / pensions increase rate	2.8	2.8
Salary increase rate	3.5	3.5
Discount rate	4.8	5.8



	31 March 2024		31 March 2025	
	Male	Female	Male	Female
Current pensioners	20.3 years	23.1 years	20.2 years	23.1 years
Future pensioners (assumed to be currently 45)	21.1 years	24.8 years	21.1 years	24.7 years

relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

Longevity assumptions

The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2022 model, with a 25% weighting of 2022 data, a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as above.

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 2024	LPF Group 31 March 2024	LPF Parent 31 March 2025	LPF Group 31 March 2025
	£000	£000	£000	£000
Contributions due - employers' cessation	9,701	9,701	9,060	9,060
	9,701	9,701	9,060	9,060

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 2024	LPF Group 31 March 2024	LPF Parent 31 March 2025	LPF Group 31 March 2025
	£000	£000	£000	£000
Contributions due - employers	16,863	16,863	14,147	14,147
Contributions due - members	4,755	4,755	4,915	4,915
Benefits paid in advance or recoverable	-	-	-	-
Sundry debtors	217	1,081	219	1,071
Prepayments	248	283	500	533
LPFE & LPFI Limited Loan facility - see note 27	382	-	124	-
	22,465	22,982	19,905	20,666

25 Creditors

	LPF Parent 31 March 2024	LPF Group 31 March 2024	LPF Parent 31 March 2025	LPF Group 31 March 2025
	£000	£000	£000	£000
Benefits payable	9,487	9,487	8,817	8,817
VAT, PAYE and State Scheme premiums	651	1,853	5,238	6,001
Contributions in advance	11,870	11,870	13,200	13,200
Miscellaneous creditors and accrued expenses	1,496	2,029	1,225	2,246
Office - operating lease	216	216	477	477
Corporation tax losses utilised from CEC group	-	24	-	52
Intra group creditor - see note 28	861	-	1,478	-
	24,581	25,479	30,435	30,793

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.

	2023/24	2024/25
Total contributions during year for Lothian Pension Fund	£000	£000
Standard Life	220	206
Prudential*	4,537	6,015
	4,757	6,221

	31 March 2024	31 March 2025
Total value at year end for Lothian Pension Fund	£000	£000
Standard Life	3,853	3,530
Prudential*	14,092	17,726
	17,945	21,256

*Prudential have provided unaudited data for 2024/25



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 2024	31 March 2025
	£000	£000
Year-end balance of holding account	2,825	5,787
	2,825	5,787

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 2025, the Fund had an average investment balance of £122.3m (2023/24 £141.3m). Interest earned was £6,180k (2023/24 £7,102k).

Year-end balance on treasury management account

	31 March 2024	31 March 2025
	£000	£000
Held for investment purposes	65,017	92,712
Held for other purposes	39,683	39,669
	104,700	132,381

Scheme employers

All scheme employers to the Fund are (by definition) related parties, a full list of employers can be found on page 111.

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

	31 March 2024	31 March 2025
	£000	£000
City of Edinburgh Council	83,866	69,164
West Lothian Council	35,025	28,912
East Lothian Council	22,664	18,308
Midlothian Council	19,294	16,366
Scottish Water	12,685	11,830
Scottish Police Authority	7,761	7,832
Edinburgh Napier University	7,421	6,417
Edinburgh College	2,748	3,174
Heriot-Watt University	4,256	3,131
Audit Scotland	3,176	3,104

LPFE Limited is also an employer within the Fund. During the period £1,090k (2024 £909k) was paid to the Fund in employer pension contributions of which £166k was due at year end. Details of LPFE Limited's Retirement Benefit Assets and Liabilities within Lothian Pension Fund can be found in note 29.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

27 Related parties (cont)

Governance

As at 31 March 2025, 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.

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 2024 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 2024	31 March 2025
	£000	£000
Short-term employee benefits	1,652	1,359
Post-employment benefits - employer pension contributions	120	141

Key management personnel employed by LPFE had accrued pensions totalling £83,021 (1 April 2024: £51,302) and lump sums totalling £36,059 (1 April 2024: £36,059) at the end of the period. Further details on senior management remuneration can be found within the remuneration report on page 153.



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

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

LPFE Limited & LPFI Limited – loan facility

LPFE & LPFI Limited are wholly owned by the City of Edinburgh Council as 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 agreement provides that interest is payable at 2% above the Royal Bank of Scotland base lending rate on the daily balance. 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 £5,473 of which £3,653 was due at the year end. No interest was payable by LPFI Limited. At 31 March 2025, there was a £120,616.27 balance on the loan facilities for LPFE Limited and a zero balance on the loan facilities for LPFI Limited.

LPFE Limited & LPFI Limited - services provided

LPFE provides staffing services 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 2025 the fund was invoiced £8,027k (2024 £7,198k) for the services of LPFE Limited staff of which £1,746k (2024 £1,237k) was due at year end.

LPFI provides FCA regulated services to Lothian Pension Fund namely in relation to investment advisory and research. During the period these recharges amounted to £491k (2024 £489k) of which £234k (2024 £149k) was due at year end. Lothian Pension Fund also recharges administrative costs (such as system and office expenses) to LPFI which totaled £502k (2024 £430k) for the year, all of which was due at year end.

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 2023/24	LPF Group 2024/25
	£000	£000
Opening balance	(213)	-
Credit for year to Fund Account	213	
Closing balance	-	-

Elements of closing deferred tax asset

	LPF Group 31 March 2024	LPF Group 31 March 2025
	£000	£000
Pension liability	-	-
	-	-

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

	31 March 2024	31 March 2025
	£	£
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	1,690,378	1,690,378
	1,690,379	1,690,379

*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:

		Fair value at 31 March 2024	% of total 31 March 2024	Fair value at 31 March 2025	% of total 31 March 2025
Asset		£000	%	£000	%
Equity securities:	Consumer	2,403	12.0	2,543	12.0
	Manufacturing	2,795	14.0	2,693	12.0
	Energy and utilities	1,106	5.0	1,070	5.0
	Financial institutions	1,198	6.0	1,229	6.0
	Health and care	1,315	6.0	1,307	6.0
	Information technology	1,009	5.0	803	4.0
	Other	1,248	6.0	1,440	7.0
Debt securities:	Corporate Bonds	328	2.0	-	0.0
	UK Government	2,736	13.0	3,707	17.0
	Other	352	2.0	347	2.0
Private equity:	All	187	1.0	3,696	17.0
Real property:	UK property	1,040	5.0	950	4.0
	Overseas property	69	0.0	131	1.0
Investment funds and unit trusts:	Equities	-	0.0	-	0.0
	Bonds	518	3.0	667	3.0
	Commodities	225	1.0	-	0.0
	Infrastructure	3,068	15.0	-	0.0
Derivatives:	Foreign Exchange	(3)	0.0	14	0.0
Cash and cash equivalents	All	756	4.0	913	4.0
		20,350	100.0	21,510	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 2024	LPF Group 31 March 2025
	£000	£000
Fair value of fund assets	20,350	21,510
Present value of fund liabilities	(15,588)	(14,255)
Asset Ceiling Adjustment for economic benefit calculation result	(4,762)	(7,255)
	-	-

The entity applies asset ceiling to any pension asset arising from the annual actuary valuation. If there's an asset remaining after the ceiling application, it might be recovered through future reduction in pension contribution or a refund or a combination of both. This is on the assumption that the right to the pension asset is unconditional as per the requirements of IFRIC14.

Movement in the defined benefit obligation during the period

	LPF Group 2023/24	LPF Group 2024/25
	£000	£000
Brought forward	13,038	15,588
Current service cost	918	1,072
Past service cost	-	-
Interest cost on obligation	646	789
Fund participants contributions	386	468
Benefits paid	(241)	(144)
Actuarial losses arising from changes in financial assumptions	(1,134)	(3,351)
Actuarial losses arising from changes in demographic assumptions	(405)	(26)
Other actuarial gains/(losses)	2,380	(141)
Balance at year end	15,588	14,255



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 2023/24	LPF Group 2024/25
	£000	£000
Brought forward	17,904	20,350
Benefits paid	(241)	(144)
Interest income on fund assets	877	1,020
Contributions by employer	917	1,093
Contributions by member	386	468
Other gains / (losses)	(348)	-
Return on assets excluding amounts included in net interest	855	(1,277)
Balance at year end	20,350	21,510

Amounts recognised in the Fund Account

	LPF Group 2023/24	LPF Group 2024/25
	£000	£000
Interest received on fund assets	(877)	(1,020)
Interest cost on fund liabilities	646	789
Current service costs	918	1,072
Past service costs	-	-
Employer contributions	(917)	(1,093)
Actuarial gain/(loss) due to re- measurement of defined benefit obligation	841	(3,518)
Return on fund assets (excluding interest above)	(855)	(1,277)
Net cost recognised in Fund Account	(244)	(5,047)

Principal actuarial assumptions used in this valuation

	31 March 2024	31 March 2025
	% p.a.	% p.a.
Inflation / pensions increase rate	2.8	2.8
Salary increase rate	3.5	3.5
Discount rate	4.9	5.8

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.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

29 Retirement benefits obligation - group (cont)

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.

The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2022 model, with a 25% weighting of 2022 data, a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	31 March 2024		31 March 2025	
	Male	Female	Male	Female
Current pensioners	19.3 years	22.1 years	19.2 years	22.1 years
Future pensioners	23.4 years	25.1 years	23.3 years	25.1 years

Expected employer contributions to the defined benefit plan for the year ended 31 March 2025 are £1,096k, based on a pensionable payroll cost of £6,054k.

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 2024	31 March 2025
	£000	£000
Outstanding investment commitment	238,371	193,530
	238,371	193,530

Office accommodation - 9 Haymarket Square, Edinburgh

The Fund is committed to making the following future payments.

	31 March 2024	31 March 2025
	£000	£000
Within one year	28	420
Between one and five years	1,259	1,259
After five years	2,102	1,682
	3,389	3,361

Recognised as an expense during the year	114	365
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Office accommodation - 144 Morrison Street, Edinburgh

The Fund is committed to making the following future payments.

	31 March 2024	31 March 2025
	£000	£000
Within one year	135	135
Between one and five years	405	355
After five years	85	-
	625	490

Recognised as an onerous lease during the year	112	468
Recognised as an onerous contract during the year - service charge & rates	-	465

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

The lease for office accommodation at 144 Morrison Street has been identified as onerous with the opening of new office accommodation at 9 Haymarket Square. A sub-lease for 144 Morrison Street hasn't yet been agreed therefore a separate onerous lease provision is shown in the Net Assets Statement for the remaining amounts payable for this accommodation.

31 Contingent assets and liabilities

Contribution refunds

At 31st March 2025, Lothian Pension Fund had £1,516k (2024: £1,922k) in unclaimed refunds due to members.

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 2025, such contingent assets of the Fund totalled £3,902k and the Fund has secured first ranking security over an employer property asset 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. The Fund's 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 £4.4m. 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.

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 for Portfolio Managers and two years for Senior Management. The first part is payable at the end of the first year if the objectives are met and the remaining parts are payable in the following years if the requirement that the employee is still employed by the company at such time is met. Payment one for the 2024/25 year, payment two for the 2023/24 year and payment three for the 2022/23 year were made in March 2025. A liability has been raised at 31 March 2025 for the two months of service for the second and third instalment of 2024/25 and third instalment of 2023/24 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 2024 remain in the company's employment, there's a contingent liability of £480,430 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.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

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.

Regulations to apply the remedy came into force on 1 October 2023. As expected, a comparison is to 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 (the 'guarantee amount'). This protection applies automatically and members who meet the qualifying criteria don't need to take any action. Many members' benefits won't change or will only see a small increase. As expected, implementation of the remedy has been complex and guidance is still being issued for transfer



calculations and payment of interest to pensioners. We've delivered on key milestones by collecting and validating data from scheme employers and running bulk calculations to prepare our member records. The McCloud calculations have now been switched on so that the guarantee amount checks are built into day-to-day calculations. We're currently recalculating and paying the benefits of pensioner members, who retired prior to the switch on and are due an additional underpin amount. We're working with our software providers to update our systems for transfers to include the calculation. In the meantime, a manual check is being carried out.

The Fund's IAS26 reporting from its actuary, as disclosed in Note 22, takes into account the appeal decision and the proposed remedy.

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.



LOTHIAN PENSION FUND (“THE FUND”) ACTUARIAL STATEMENT FOR 2024/25

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 March 2024. 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
- maximise the returns from investments within reasonable and considered risk parameters, and hence minimise the cost to the employer
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment
- to help employers manage their pension liabilities
- where practical and cost effective, to make allowance for the different characteristics of different employers and groups of employers.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 75% 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 2014 was as at 31 March 2023. This valuation revealed that the Fund’s assets, which at 31 March 2023 were valued at £9,695 million, were sufficient to meet 157% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2023 valuation was £3,525 million.

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 2024 to 31

March 2027 were set in accordance with the Fund’s funding policy as set out 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 2023 valuation report.

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.



LOTHIAN PENSION FUND (“THE FUND”) ACTUARIAL STATEMENT FOR 2024/25

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 2023 valuation were as follows:

	31 March 2023
Financial assumptions	% p.a.
Discount rate	5.2%
Salary increase assumption	3.0%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2022 model, with a 25% weighting of 2022 data, a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Male	Female
Current Pensioners	20.3 years	23.1 years
Future Pensioners *	21.1 years	24.8 years

*Currently aged 45



Copies of the 2023 valuation report and Funding Strategy Statement are available on the Fund's website.

Experience over the period since 31 March 2023

Markets reflected wider volatility during 2023, impacting on investment returns achieved by the Fund's assets. Recent high levels of past inflation in the UK also resulted in a higher than expected LGPS benefit increase of 6.7% in April 2024. However, asset performance improved towards the end of 2023 and into 2024. In 2025, inflation has begun to return towards historical levels and the Bank of England's target (2% pa). Overall, the

funding level of the Fund is likely to be slightly higher than reported at the previous formal valuation at 31 March 2023.

The next actuarial valuation will be carried out as at 31 March 2026. The Funding Strategy Statement will also be reviewed at that time.

Julie Baillie FFA

For and on behalf of Hymans Robertson LLP
30 April 2025

LOTHIAN PENSION FUND LIST OF ACTIVE EMPLOYERS AT 31 MARCH 2025

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



LOTHIAN PENSION FUND LIST OF ACTIVE EMPLOYERS AT 31 MARCH 2025

Admitted Bodies	
Audit Scotland	Dacoll Limited
Baxter Storey	Edinburgh Leisure
BEAR Scotland	Edinburgh Napier University
Bellrock Property and Facilities Management	ELCAP
Capital City Partnership	Enjoy East Lothian
CGI UK Ltd	First Step
Children's Hearing Scotland	Forth and Oban Ltd
Children's Hospice Association Scotland	Handicabs (Lothian) Ltd
Citadel Youth Centre	Health in Mind
Convention of Scottish Local Authorities	Improvement Service (The)

Admitted Bodies	
Lothian Buses	Scottish Futures Trust
LPFE Limited	Scottish Schools Education Research Centre (SSERC)
Melville Housing Association	Skanska UK
Mitie PFI	Sodexo Ltd
Museums Galleries Scotland	St Andrew's Children's Society Limited
Newbattle Abbey College	University of Edinburgh (Edinburgh College of Art)
North Edinburgh Dementia Care	West Lothian Leisure
NSL Services Ltd	
Queen Margaret University	
Scottish Adoption Agency	

SCOTTISH HOMES PENSION FUND INVESTMENT STRATEGY

Investment strategy

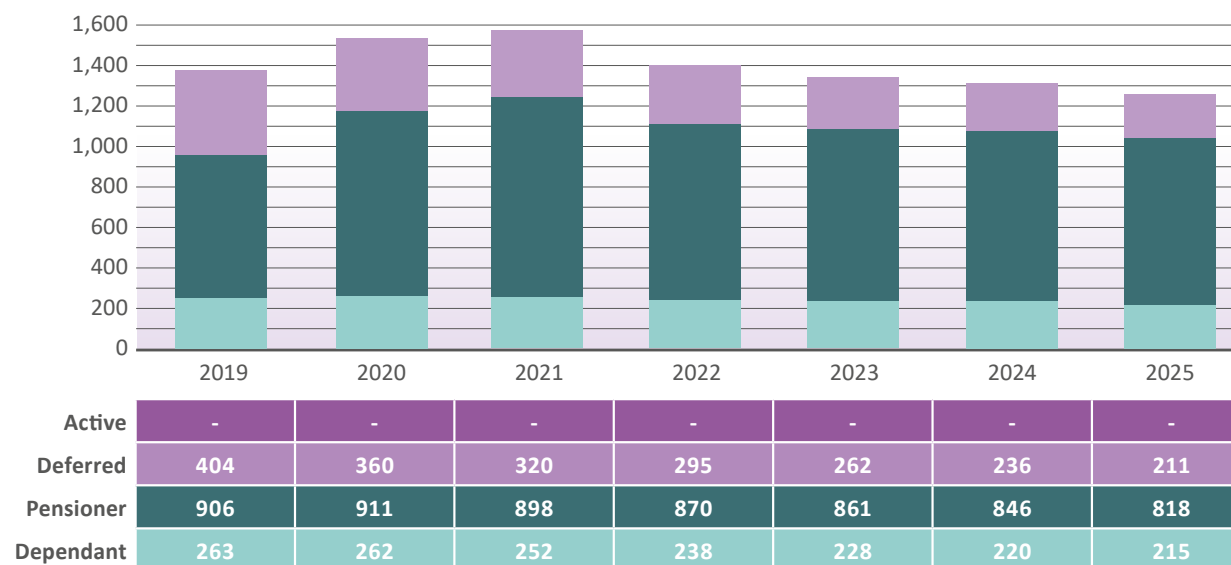
The Fund's last triennial actuarial valuation was dated 31 March 2023, at which point the actuary estimated Scottish Homes Pension Fund's funding level to be 127.3%. The Fund continues to have achieved its full funding objective ahead of the timeline originally agreed by the Scottish Government and the 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 2025, and the Fund invests solely in cash and bonds, specifically UK gilts, which move proportionately with liability values.

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

SCOTTISH HOMES PENSION FUND MEMBERSHIP DATA



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.

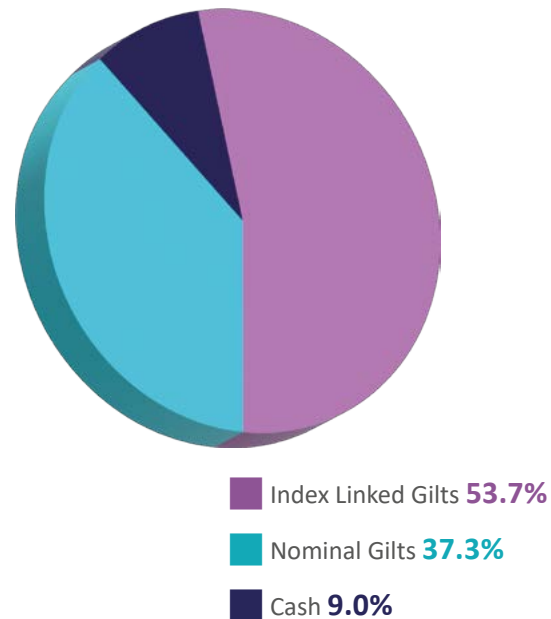
SCOTTISH HOMES PENSION FUND INVESTMENT STRATEGY

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. At the last formal actuarial valuation at end March 2023, Hymans Robertson, the Fund's actuary, reported a funding level of 127.3%.

The portfolio holdings will continue to be monitored and if required, rebalanced, to ensure that the cash flow and duration match the expected liabilities.

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

ACTUAL ASSET ALLOCATION 31 MARCH 2025



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 2025 was equivalent to slightly more than seventeen months' pension payments.

The Fund's assets have declined over the year, from £117.6m to £111m, whilst paying out £7.2m for pensions 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 2025

Financial statements

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

2023/24			2024/25
£000		Note	£000
Income			
-	Contributions from the Scottish Government	3	-
-	Transfers from other schemes		-
-			-
Less: expenditure			
6,502	Pension payments including increases		6,654
329	Lump sum retirement payments		262
20	Lump sum death benefits		69
(26)	Administrative expenses	4b	(35)
6,825			6,950
(6,825)	Net withdrawals from dealing with members		(6,950)
Returns on investments			
1,991	Investment income	5	1,811
(1,662)	Change in market value of investments	6, 9b	(2,918)
(88)	Investment management expenses	4c	(90)
241	Net returns on investments		(1,197)
(6,584)	Net increase/(decrease) in the fund during the year		(8,147)
126,444	Net assets of the fund at 1 April 2024		119,860
119,860	Net assets of the fund at 31 March 2025	9	111,713

SCOTTISH HOMES PENSION FUND NET ASSETS STATEMENT AS AT 31 MARCH 2025

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

31 March 2024		Note	31 March 2025
£000			£000
Investment Assets			
108,016	Bonds - UK		100,465
9,136	Cash Deposits		10,162
490	Other investment assets		430
117,642		9c	111,057
Investment Liabilities			
-	Other investment liabilities		-
-			-
117,642	Net investment assets	7	111,057
Current assets			
311	The City of Edinburgh Council	15	172
1,927	Cash balances	10,15	495
5	Debtors	13	4
2,243			671
Current liabilities			
(25)	Creditors	14	(15)
(25)			(15)
2,218	Net current assets		656
119,860	Net assets of the Fund	9	111,713

The unaudited accounts were issued on 25 June 2025 and the audited accounts were authorised for issue on 24 September 2025.

Alan Sievwright

Alan Sievwright

Chief Finance Officer,
Lothian Pension Fund
24 September 2025

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 131.

2 Events after the reporting date

There have been no events since 31 March 2025, and up to the date when these Financial Statements were authorised, that require any adjustments to these 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 that is, 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 2023, SHPF showed a funding surplus of £27 million with a funding level of 127%, derived from a market valuation of assets of £126 million and liabilities of £99 million.

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 amount has been set at £90,000 per annum and will be reviewed ahead of the next triennial valuation 2026. Investment expenses are being met directly from the Fund's surplus.

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

4a Total management expenses

	2023/24	2024/25
	£000	£000
Administrative costs	(45)	(40)
Investment management expenses	40	38
Oversight and governance costs	67	57
	62	55

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

	2023/24	2024/25
	£000	£000
Employee costs	33	31
System costs	13	13
Actuarial fees	10	1
External audit fees	1	1
Printing and postage	2	2
Depreciation	1	1
Office costs	2	3
Sundry costs less sundry income	2	3
	64	55
Administration fee received	(90)	(90)
	(26)	(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.

4c Investment management expenses

	2023/24	2024/25
	£000	£000
Employee costs	52	60
Custody fees	5	4
Engagement and voting fees	1	1
Consultancy fees	7	2
System costs	15	14
Legal fees	-	-
Office costs	3	4
Sundry costs less sundry income	5	5
	88	90

The Fund hasn't incurred any performance-related investment management fees in 2024/25 or 2023/24.

5 Investment income

	2023/24	2024/25
	£000	£000
Income from fixed interest securities	1,838	1,674
Interest on cash deposits and sundries	153	137
	1,991	1,811
Irrecoverable withholding tax	-	-
	1,991	1,811

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

6 Reconciliation of movement in investments

	Market value at 31 March 2024	Purchases at cost	Sales & proceeds	Change in market value	Market value at 31 March 2025
	£000	£000	£000	£000	£000
Bonds	108,016	13,849	(17,580)	(3,820)	100,465
	108,016	13,849	(17,580)	(3,820)	100,465
Other financial assets / (liabilities)					
Cash deposits*	9,136			902	10,162
Investment income due/ amounts payable*	490			-	430
	9,626			902	10,592
Net financial assets	117,642			(2,918)	111,057

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

The change in the 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 2023	Purchases at cost	Sales & proceeds	Change in market value	Market value at 31 March 2024
	£000	£000	£000	£000	£000
Bonds	104,882	7,904	(2,390)	(2,380)	108,016
	104,882	7,904	(2,390)	(2,380)	108,016
Other financial assets / (liabilities)					
Cash deposits*	19,273			718	9,136
Investment income due/ amounts payable*	447			-	490
	19,720			718	9,626
Net financial assets	124,602			(1,662)	117,642

* 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

Manager	Mandate	Market value at 31 March 2024	% of total 31 March 2024	Market value at 31 March 2025	% of total 31 March 2025
		£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	117,541	99.91	110,898	99.86%
Total fixed interest and inflation linked bonds		117,541	99.91	110,898	99.86%
In-house	Cash	89	0.08	148	0.13%
Total cash		89	0.08	148	0.13%
Net financial assets		117,642	100	111,057	100%

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

	Market value at 31 March 2024	% of total 31 March 2024	Market value at 31 March 2025	% of total 31 March 2025
	£000	%	£000	%
UK Gov 2% 07/09/2025	6,108	5.10%	20,123	18.0
UK Gov 1.25% Index Linked 22/11/27	9,231	7.70%	9,440	8.5
UK Gov 4.125% Index Linked 22/07/30	8,385	7.00%	8,244	7.4
UK Gov 0% T-BILL 04/08/2025	-	0.00%	6,894	6.2
UK Gov 4.25% 07/06/32	7,071	5.90%	6,800	6.1
UK Gov 2.5% Index Linked 17/07/24	9,508	7.93%	-	-
UK Gov 0% T-BILL 09/09/2024	8,605	7.18%	-	-
UK Gov 1% 22/04/2024	7,982	6.66%	-	-

COLLEAGUE PROFILE GILLIAN REID, MEMBER SERVICES

Gillian joined LPF in 2008 as a Trainee Pension Administrator, qualifying in 2011. After a decade elsewhere, she returned in 2022 as a Member Administrator. In 2025, she was seconded to Employer Services, where she liaises with employers, handles queries, supports training, resolves payroll issues, and helps with data for valuations and accounts.

"One of the standout aspects of working at LPF is the people. The supportive, friendly, and collaborative culture creates an environment where everyone is always willing to help and share their knowledge. I've been fortunate to have the opportunity to develop my career further through a secondment to a different team, allowing me to broaden my horizons and contribute to the future growth of LPF. The flexibility offered here also makes a significant difference, enabling me to balance the demands of a challenging and fulfilling role with the responsibilities of having a young family. I truly feel valued both as a person and as a professional, and I'm excited for the future I'm building here."



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 2024			31 March 2025		
	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						
Investment assets	£000	£000	£000	£000	£000	£000
Bonds	108,016	-	-	100,465	-	-
Cash	-	9,136	-	-	10,162	-
Other balances	-	490	-	-	430	-
	108,016	9,626	-	100,465	10,592	-
Other assets						
City of Edinburgh Council	-	311	-	-	172	-
Cash	-	1,927	-	-	495	-
Debtors	-	5	-	-	4	-
	-	2,243	-	-	671	-
Assets total	108,016	11,869	-	100,465	11,263	-
Financial liabilities						
Other liabilities						
Creditors	-	-	(25)	-	-	(15)
Liabilities total	-	-	(25)	-	-	(15)
Total net assets	108,016	11,869	(25)	100,465	11,263	(15)
Total net financial instruments			119,860			111,713

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

9b Net gains and losses on financial instruments

	2023/24	2024/25
	£000	£000
Designated as fair value through fund account	(2,380)	(3,820)
Loans and receivables	718	902
Financial liabilities at amortised cost	-	-
Total	(1,662)	(2,918)

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 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 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.

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

	31 March 2025			
	Level 1	Level 2	Level 3	Total
Investment assets	£000	£000	£000	£000
Bonds	100,465			100,465
Cash deposits	10,162	-	-	10,162
Investment income due/amounts payable	430	-	-	430
Total financial assets	111,057	-	-	111,057
Investment liabilities				
Payable for investment purchases	-	-	-	-
Total investment liabilities	-	-	-	-
Net investment assets	111,057	-	-	111,057

	31 March 2024			
	Level 1	Level 2	Level 3	Total
Investment assets	£000	£000	£000	£000
Bonds	108,016	-	-	108,016
Cash deposits	9,136	-	-	9,136
Investment income due/amounts payable	490	-	-	490
Total financial assets	117,642	-	-	117,642
Investment liabilities				
Payable for investment purchases	-	-	-	-
Total investment liabilities	-	-	-	-
Net investment assets	117,642	-	-	117,642

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 2023 actuarial valuation showing a funding level of 127%, 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 Forum 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 and cash. 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, the portfolio was reviewed and it was determined that no rebalancing exercise was required for the year 2024/25.

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

Sensitivity analysis

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

Asset type	Potential price movement (+ or -)
Index-Linked Gilts	12.3%
Fixed Interest Gilts	13.3%
Cash	1.9%

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 2025	% of fund	Potential Change +/-	Value on increase	Value on decrease
	£m	%	%	£m	£m
Index-Linked Gilts	59.3	53.6	12.3%	66.6	52.0
Fixed Interest Gilts	41.1	37.2	13.3%	46.6	35.6
Cash	10.7	9.2	1.9%	10.9	10.5
Total [1]	111.1	100.0	12.7%	124.1	98.1
Total [2]			10.7%	122.9	99.3
Total [3]			1.4%	112.1	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

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 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 2025, cash deposits represented £10.2m, 9.2% (2024: £11.1m, 9.3%) of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2025	Balances at 31 March 2024	Balances at 31 March 2025
Held for investment purposes		£000	£000
Northern Trust Company - cash deposits	A2	531	3,268
UK Short-Term Bills and Notes	Aa3	8,605	6,894
		9,136	10,162
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	1,927	495
Total cash		11,063	10,657

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 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.

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

	Moody's Credit Rating at 31 March 2025	Balances at 31 March 2024	Balances at 31 March 2025
Money market funds	£000	£000	£000
Deutsche Bank AG, London	Aaa-mf	268	77
Goldman Sachs	Aaa-mf	1	-
Aberdeen Standard Sterling Liquidity Fund	Aaa-mf	268	77
Bank call accounts			
Bank of Scotland	A1	-	
Royal Bank of Scotland	A1	20	10
Svenska Handelsbanken	-	1	-
UK Government			
Gilts & T-Bills and UK Government Debt	Aa3	256	19
UK Pseudo-Sovereign risk instruments			
Other Local Authorities [1]	Aa3	1,113	312
		1,927	495

[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 2025 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.

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 is not 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 £87m (2024 £92m). 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 isn't relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

	31 March 2024	31 March 2025
	% p.a.	% p.a.
Inflation/pensions increase rate	2.80	2.80
Discount rate	4.80	5.80

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 2023 model, with a 15% weighting of 2023 (and 2022) data, 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	31 March 2024		31 March 2025	
	Male	Female	Male	Female
Current pensioners	20.2 years	23.0 years	20.1 years	22.9 years
Future pensioners (assumed to be currently 45)	20.7 years	24.9 years	20.6 years	24.9 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.

13 Debtors

	31 March 2024	31 March 2025
	£000	£000
Sundry debtors	5	4
	5	4

14 Creditors

	31 March 2024	31 March 2025
	£000	£000
Benefits payable	25	14
Miscellaneous creditors and accrued expenses	0	1
	25	15

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

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 2024	31 March 2025
	£000	£000
Year end balance of holding account	311	172
	311	172

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 2025, the Fund had an average investment balance of £1.5m (2024 £1.4m). Interest earned was £80k (2024 £89k).

	31 March 2024	31 March 2025
Year end balance on treasury management account	£000	£000
Held for investment purposes	-	-
Held for other purposes	1,927	495
	1,927	495

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 116) 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 2025, the Fund was recharged £93k (2024 £85k) for the services of LPFE Limited staff.

Governance

As at 31 March 2025, 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.

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

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

During the period from 1 April 2024 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 2024	31 March 2025
	£000	£000
Short-term employee benefits	1,652	1,359
Post-employment benefits - employer pension contributions	120	141

Key management personnel employed by LPFE had accrued pensions totalling £83,021 (1 April 2024: £51,302) and lump sums totalling £36,059 (1 April 2024: £36,059) at the end of the period. Further details on senior management remuneration can be found within the remuneration report on page 157.

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.

Regulations to apply the remedy came into force on 1 October 2023. As expected, a comparison is to 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 (the 'guarantee amount'). This protection applies automatically and members who meet the qualifying criteria don't need to take any action. Many members benefits won't change or will only see a small increase. As expected, implementation of the remedy has been complex and guidance is still being



issued for transfer calculations and payment of interest to pensioners. We have delivered on key milestones by collecting and validating data from scheme employers and running bulk calculations to prepare our member records. Next steps will be switching on McCloud calculations so that guarantee amount checks are built into day to day calculations and once further guidance has been received regarding calculation of interest for affected pensioners, we'll be able to recalculate their benefits.

The Fund's IAS26 reporting from its actuary, as disclosed in Note 12, takes into account the appeal decision and the proposed remedy.

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 2024/25

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 March 2024, states that a bespoke funding strategy has been adopted for the Fund.

The strategy aims for the Fund 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 eight years.

As the Fund is closed to accrual and the liabilities will mature over the time, the investment strategy is designed to reflect the expressed requirements of the Scottish Government, namely low risk, with investments now exclusively bonds.



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 2014 was as at 31 March 2023. This valuation revealed that the Fund's assets, which at 31 March 2023 were valued at £126 million, were sufficient to meet 127% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2023 valuation was £27 million.

The Guarantor's contributions for the period 1 April 2024 to 31 March 2027 were set in accordance with the Fund's funding policy as set out 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 2023 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 market value.

The key financial assumptions adopted for the 2023 valuation were as follows:

Financial assumptions	31 March 2023
Discount Rate	Bank of England nominal yield curve
Benefit increase assumption (CPI)	Bank of England implied inflation (RPI) curve less 1% p.a. before 2030 and 0.1% p.a. thereafter*

* The change in RPI-CPI gap assumption is to reflect changes to RPI from 2030, when it will be redefined to match CPIH. CPIH inflation is historically very similar to CPI inflation hence the gap of only 0.1% pa after that point.

SCOTTISH HOMES PENSION FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2024/25

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2022 model, with a 25% weighting of 2022 data, a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Male	Female
Current Pensioners	20.2 years	23.0 years
Future Pensioners *	20.7 years	24.9 years

*Currently aged 45

Copies of the 2023 valuation report and Funding Strategy Statement are available on the Fund's website.

Experience over the period since 31 March 2023

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 2025 is likely to be similar to that reported at the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2026. The Funding Strategy Statement will also be reviewed at that time.

Julie Baillie FFA

For and on behalf of Hymans Robertson LLP
30 April 2025



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 2024/25 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 2024/25 financial year and report on the net assets available to pay pension benefits as at 31 March 2025. 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.

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

ACCOUNTING POLICIES AND GENERAL NOTES

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.

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 a distribution notice is issued 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

Rental income, excluding VAT, arising from operating leases (including those containing stepped and fixed rent increases) is accounted for in the Fund Account on a straight line basis over the lease term. Lease premiums paid and rent free periods granted, are recognised as assets and are amortised over the non-cancellable lease term.

IFRS 15 requires the Fund to determine whether it's a principal or an agent when goods or services are transferred to a customer. An entity is a principal if the entity controls the promised good or service before the entity transfers the goods or services to a customer.

An entity is an agent if the entity's performance obligation is to arrange for the provision of goods and services by another party. Any leases entered into between the Fund and a tenant

require the Fund to provide ancillary services to the tenant such as maintenance works etc, therefore these service charge obligations belong to the Fund. However, to meet this obligation the Fund appoints a property agent, Jones Lang Lasalle Inc "JLL" and directs it to fulfil the obligation on its behalf. The contract between the Fund and the managing agent creates both a right to services and the ability to direct those services. This is a clear indication that the Fund operates as a principal and the managing agent operates as an agent. Therefore, it's necessary to recognise the gross service charge revenue and expenditure billed to tenants as opposed to recognising the net amount.

Interest income is accounted on an accruals basis and included in operating profit.

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.

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.



ACCOUNTING POLICIES AND GENERAL NOTES

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 and reviewed by the Investment Valuation Group.

The Fund's Investment Valuation Group supports the Chief Finance Officer of the Fund with the application of appropriate

valuation standards against the investment assets held by the Fund. The 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.





*During 2024,
LPF voted on
resolutions at*

484

*company
meetings.*

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 / index linked	Level 1	Recorded at net market value based on their current yields.	Evaluated price feeds	Not required
Non exchange traded pooled investments	Level 2	Closing bid price where bid and offer price are published. Closing single price where single price published.	NAV – based pricing set on a forward pricing basis	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.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices
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 margin of error, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2025.

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 of 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.

Lothian Pension Fund	Assessed Valuation range (+ or -)	Value at 31 March 2025	Value on increase	Value on decrease
Unquoted		£m	£m	£m
Private Equity	26.0%	22	27	16
Infrastructure	12.0%	1,681	1,883	1,479
Timber	15.0%	97	112	82
Private Secured Loans	10.5%	306	338	274
Property	13.0%	487	551	424
		2,593	2,910	2,276

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 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.

ACCOUNTING POLICIES AND GENERAL NOTES

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.

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

Paragraph 30 of IAS 8, requires an entity to disclose if there are

new accounting standards that are issued but not yet effective and to disclose information relevant to assessing the possible impact that the application of the new accounting standards will have on the entity's financial statements. This summary includes all new accounting standards and amendments issued before 31 March 2025 with an effective date for accounting periods beginning on or after 1 April 2025.

- **Amendments to IAS 21** - Lack of Exchangeability published in August 2023 and effective on annual periods beginning on or after 1 January 2025.

The amendments outline that:

An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that isn't exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there's an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations.

- **Amendment to IFRS 9 and IFRS 7** - Classification and Measurement of Financial Instruments published in May 2024 and effective on annual periods beginning on or after 1 January 2026.

The amendments:

- o Clarify the requirements for the timing of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled

ACCOUNTING POLICIES AND GENERAL NOTES

- through an electronic cash transfer system
- o Clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest (SPPI) criterion
- o Add new disclosures for certain instruments with contractual terms that can change cash flows (such as some instruments with features linked to the achievement of environment, social and governance (ESG) targets)
- o Make updates to the disclosures for equity instruments designated at Fair Value through Other Comprehensive Income (FVOCI).

- **Amendment to IFRS 9 and IFRS 7 - Contracts Referencing Nature-dependent Electricity** published in December 2024 and effective on annual periods beginning on or after 1 January 2026.

The amendments outline:

Change to the 'own use' and hedge accounting requirements of IFRS 9 and include targeted disclosure requirements to IFRS 7. These amendments apply only to contracts that expose an entity to variability in the underlying amount of electricity because the source of its generation depends on uncontrollable natural conditions (such as the weather). These are described as 'contracts referencing nature-dependent electricity'.

- **IFRS 18, 'Presentation and Disclosure in Financial**

Statements' published in April 2024 and effective on annual periods beginning on or after 1 January 2027.

This is the new standard on presentation and disclosure in financial statements, with a focus on updates to the statement of profit or loss. The key new concepts introduced in IFRS 18 relate to:

- o The structure of the statement of profit or loss
- o Required disclosures in the financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements (that is, management-defined performance measures)
- o Enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general.

- **IFRS 19, 'Subsidiaries without Public Accountability:** Disclosures' published in May 2024 and effective on annual periods beginning on or after 1 January 2027. This new standard works alongside other IFRS Accounting Standards. An eligible subsidiary applies the requirements in other IFRS Accounting Standards except for the disclosure requirements and instead applies the reduced disclosure requirements in IFRS 19. IFRS 19's reduced disclosure requirements balance the information needs of the users of eligible subsidiaries' financial statements with cost savings for preparers. IFRS 19 is a voluntary standard for eligible subsidiaries.

All amendments require implementation in the annual period beginning on or after 1st January 2025, or later and therefore no changes on the presentation of the 2024/25 Financial Statements are proposed. 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 in future accounting periods.

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 2025 was £2,106m (2024 £1,946m).

ACCOUNTING POLICIES AND GENERAL NOTES

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 2025 for which there's a significant risk of material adjustment in the forthcoming financial year are as follows:

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 2025	Approx Increase in liabilities	Approx monetary amount £m
0.1% p.a. decrease in the Discount Rate	2%	87
1 year increase in member life expectancy	4%	219
0.1% p.a. increase in Salary Increase Rate	0%	6
0.1% p.a. increase in Pensions Increase Rate (CPI)	1%	81

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 2025	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%	3
0.1% p.a. increase in Pensions Increase Rate (CPI)	1%	1

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 Financial Statements 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.

ACCOUNTING POLICIES AND GENERAL NOTES

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 Audited Annual Accounts for signature.

I confirm that these Audited Annual Accounts were approved for signature by the Lothian Pension Fund Committee at its meeting on 24 September 2025.

Richard Lloyd-Bithell
Richard Lloyd-Bithell

Service Director: Finance and Procurement
The City of Edinburgh Council
24 September 2025



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 2023/24 (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 2025.

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 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 2025 and the transactions of the pension fund for year ended 31 March 2025.

Alan Sievwright

Alan Sievwright
Chief Finance Officer
Lothian Pension Fund
24 September 2025

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CITY OF EDINBURGH COUNCIL AS ADMINISTERING AUTHORITY FOR LOTHIAN PENSION FUND AND SCOTTISH HOMES PENSION FUND AND THE ACCOUNTS COMMISSION

Reporting on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual report of Lothian Pension Fund (parent and group) and Scottish Homes Pension Fund (the Funds) for the year ended 31 March 2025 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Lothian Pension Fund Account, the Lothian Pension Fund Net Assets Statement, Scottish Homes Pension Fund Account, Scottish Homes Pension Fund Net Asset Statement and notes to the financial statements, including a summary of material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 (the 2024/25 Code).

In our opinion the accompanying financial statements:

- give a true and fair view of the financial transactions of the Funds during the year ended 31 March 2025 and of the amount and disposition at that date of their assets and liabilities;

- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2024/25 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 3 November 2022. Our period of appointment is five years, covering 2022/23 to 2026/27. We are independent of the Funds in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by

the Ethical Standard were not provided to the council as administering authority for the funds. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.



Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Funds' ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the Funds' current or future financial sustainability. However, we report on the Funds arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CITY OF EDINBURGH COUNCIL AS ADMINISTERING AUTHORITY FOR LOTHIAN PENSION FUND AND SCOTTISH HOMES PENSION FUND AND THE ACCOUNTS COMMISSION

Risks of material misstatement

We report in our Annual Audit Report the most significant assessed risks of material misstatement that we identified and our judgements thereon.

Responsibilities of the Chief Finance Officer and the City of Edinburgh Council for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Funds' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the Funds' operations.

The City of Edinburgh Council is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud.

Procedures include:

- using our understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003, and The Local Government Pension Scheme (Scotland) Regulations

2018 as amended are significant in the context of the Funds;

- inquiring of the Chief Finance Officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the Funds;
- inquiring of the Chief Finance Officer concerning the Funds' policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among our audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Funds' controls, and the nature, timing and extent of the audit procedures performed.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CITY OF EDINBURGH COUNCIL AS ADMINISTERING AUTHORITY FOR LOTHIAN PENSION FUND AND SCOTTISH HOMES PENSION FUND AND THE ACCOUNTS COMMISSION

Auditor's responsibilities for the audit of the financial statements

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Reporting on other requirements

Other information

The Chief Finance Officer is responsible for the other information in the annual report. The other information

comprises the Management Commentary, Annual Governance Statement, Governance Compliance Statement, Statement of Responsibilities and other reports included in the annual report other than the financial statements and our auditor's report thereon.



Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Management Commentary, Annual Governance Statement and Governance Compliance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary, Annual Governance Statement and Governance Compliance Statement

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016): and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CITY OF EDINBURGH COUNCIL AS ADMINISTERING AUTHORITY FOR LOTHIAN PENSION FUND AND SCOTTISH HOMES PENSION FUND AND THE ACCOUNTS COMMISSION

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:



- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual report, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance

with paragraph 108 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Chris Brown

Chris Brown, for and on behalf of Azets Audit Services
Quay 2,
139 Fountainbridge,
Edinburgh
EH3 9QG
30 September 2025

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 (together the Fund). Responsibility for the oversight and management of the Fund is delegated under a governance structure to satisfy the requirements of relevant pension and investment legislation, and to ensure best practice. Further details on the governance framework can be found in the Governance and Risk section at the front of the Annual Report.

In summary:

The main functions of the Administering Authority are the administration of scheme benefits and the investment of the assets of the funds. 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 Forum
- Two private limited companies (details below)
- A delegations' model.

We have two private limited companies as part of LPF's operations. These are LPFE Limited (LPFE) and LPFI Limited (LPFI). LPFE provides colleagues who support the activities of the funds and LPFI. LPFI is a regulated investment firm authorised by the Financial Conduct Authority (for the purpose of this report LPFI, LPFE and the Fund are referred to as the LPF Group). Both LPFI and LPFE are companies limited by shares and wholly owned by the Council.

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 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.



The LPF Group has adopted a Local Code of Governance which was developed in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) and SOLACE 'Delivering Good Governance in Local Government' framework which provides principles aimed at delivering good governance in local government.

The Key Principles include:

- Integrity and Ethical Values
- Openness and Engagement
- Defining Outcomes
- Risk Management
- Transparency and Accountability

This statement explains how the LPF Group has complied with the Local Code of 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 ring-fenced governance structures

ANNUAL GOVERNANCE STATEMENT

focused on the Fund themselves. The governance framework comprises the systems, controls, processes, cultures and values by which the LPF Group directs and controls the Fund. It also describes the way the LPF Group engages with and accounts to its stakeholders in relation to the management of the administration of the Fund. It enables the LPF Group to monitor the achievement of its objectives and consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The LPF Group is also directly regulated by The Pensions Regulator, the Financial Conduct Authority (regarding its regulated investment activity in respect of LPFI), the Scottish Information Commissioner and is subject to other corporate and public sector rules and regulations.

The LPF Group relies on the Administering Authority for a few services. 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 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 LPFE and LPFI, the Administering Authority continues to have appropriate assurance processes and procedures around the administration of those companies and the wider administration of the Fund.

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. 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 LPF 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 2025 for the Fund.

These monitoring and oversight activities continue to provide the Pensions Committee, Pension Board and corporate Board of Directors of LPFE and LPFI with good levels of assurance



and broad coverage of the LPF 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 2024 to 31 March 2025 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 the LPF Group's requirements, supporting organisational design to support LPF Group's evolving needs
- **Business continuity:** to continue to improve business continuity arrangements and ensure an appropriate plan is agreed, reviewed, managed, maintained and tested on an ongoing basis
- **Financial services regulatory compliance:** to continue to review, develop and enhance operational and governance activities of LPFI to ensure best practice compliance

and assurance around its existing operations and take appropriate, pragmatic and proportionate action to address any gaps or weaknesses identified

- **Data strategy and framework:** to continue to progress development, implementation and identification of further improvements regarding LPF's approach to managing and protecting data, including continuing to enhance and maintain cyber security within the organisation, following achievement of Cyber Essentials and Cyber Essentials+ accreditation. (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 improve and evolve our governance operating model and framework, including our governance processes and practices. Therefore continuing to embed strong corporate governance and maintain and reinforce separate governance and controls specific to the needs of the LPF Group. The fund 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. We expect to complete an externally supported governance review and work with the Pensions Committee, Council, LPFE and LPFI Boards and officers to consider findings and recommendations.



The LPF Group will continue to ensure that these are treated as a priority and that progress towards implementation will be reviewed through the governance structures and processes established for the LPF Group and summarised herein.

David Vallery

David Vallery

Chief Executive Officer
Lothian Pension Fund
24 September 2025

GOVERNANCE COMPLIANCE STATEMENT

The regulations that govern the management of LGPS 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 the arrangements as at 31 March 2025 and in place during the 2024/25 financial year.

Principle		Full Compliance	Comments
Structure	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.	✓	The City of Edinburgh Council (Council) acts as Administering Authority and delegates all pension scheme matters to the Pensions Committee which as set out earlier is made up of: • Five Council elected members • Two external members, one drawn from the membership of the funds and one drawn from the employers that participate in the funds.
	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.	✓	As above, the Pensions Committee membership includes a representative of the participating employers and scheme members. Membership of the Pension Board also includes an equal number of non-administering employer and Trade Union member representatives. All members of the Pension Board are invited to attend Pensions Committee meetings. A secondary committee has been established: the Pensions Audit Sub-Committee (Sub-Committee). The Convener of that Sub-Committee is appointed from the membership of the Pensions Committee and (as at 31 March 2025) that role was held by one of the elected members. Two members of the Pension Board are also invited to attend the Sub-Committee in a non-voting capacity.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Structure	Where a secondary committee or board has been established, the structure ensures effective communication across both levels.	✓	Processes and structures are in place to support communication. The Sub-Committee reports to the Pensions Committee after each of its meetings, presenting its findings and recommendations as part of a standing item on the Pensions Committee agenda. As noted, two members of the Pension Board are invited to attend the Sub-Committee, with feedback from that meeting shared as a standing item on the Pension Board agenda. Furthermore, Pension Board members attend the Pensions Committee meetings. Members of both the Pensions Committee and the Pension Board participate in joint training events. Reporting is also in place to the Pensions Committee from the JIF, which reports to the Pensions Committee annually.
Representation	All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These stakeholders include employing authorities (including non-scheme employers, e.g. admitted bodies) and scheme members (including deferred and pensioner scheme members).	✓	The commentary set out in relation to the principles above equally applies here. Specifically, the composition of the Pensions Committee and Pension Board ensures that key stakeholders are given the opportunity to be represented at both the Pensions Committee and the Sub-Committee. The structures in place, which require the attendance of key stakeholders at Pensions Committee and Sub-Committee meetings, also provide an opportunity for representation.
	Where appropriate, independent professional observers and expert advisers are engaged on an ad-hoc basis.	✓	The Independent Professional Observer (IPO) was appointed in September 2023 and provides written observations to Pensions Committee and Pension Board members in advance of each meeting. The IPO attends Pensions Committee, Sub-Committee, and Pension Board meetings. External investment advisers also sit on the JIF. Two independent Non-Executive Directors (INED) are appointed to the Board of Directors of LPFI and LPFE, which supports independent judgment and diversity in decision-making. In addition, a formal and transparent search process commenced during the period to appoint an independent Non-Executive Director to join each Board of Directors in 2025. Several specialist advisers provide services to LPF and, where required, may from time to time be invited to attend meetings to present reports or support discussions. For example, LPF's External Auditor attends when necessary. Internal Audit reports to the Sub-Committee quarterly. Additionally, independent professional advisers presented at training events provided to the Pensions Committee and Pension Board members in 2024/25 on several topics.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
	That where lay members sit on a main or secondary committee, they're treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	✓	The Pensions Committee (and the Sub-Committee as at 31 March 2025) membership comprises external non-elected members. Non-elected members of those bodies are treated no differently from Elected members – they're voting members with the full powers, duties and responsibilities as any other member. In addition, as noted previously, Pension Board members attend the Pensions Committee meetings and receive equal access to the papers for those meetings. While the Pension Board members don't have voting rights at the Pensions Committee, the Pension Board is given an opportunity to contribute during meetings. As noted above, the Pension Board takes part in all joint training events.
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.	✓	The delegated functions of the Pensions Committee are set out in its Terms of Reference. Training is made available, and an induction programme is in place. In addition, a new Knowledge and Development Strategy together with an updated Training and Attendance Policy was approved in March 2025 as part of continuous development. The Elected members of the Pensions Committee are required to read, sign and abide by the Councillors' Code of Conduct. The LPF Code of Conduct, approved in December 2019 (and specifically updated and tailored for the Pension Committee and Pension Board) must be read and signed by elected and non-elected members prior to their appointment.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Selection and Role of Lay Members	That at the start of any meeting, Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	✓	The Code of Conduct is applicable to all members of the Pensions Committee and Pension Board and includes requirements related to conflicts of interest. On an ongoing basis, members are required to notify any actual or potential conflicts of interest. Each meeting of the Pensions Committee, Sub-Committee, Pension Board and LPFI and LPFE Board begins with a declaration of interests standing item.
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.	✓	All Pensions Committee members are entitled to vote. LPFI and LPFE Board meetings are carried out in accordance with their respective Articles of Association and other constitutional documents.
Training/ Facility Time/ Expenses	That in relation to the way in which statutory and related decisions are taken by the administering authority, there's a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. 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. That the administering authority considers the adoption of annual training plans for Committee and Board members and maintains a log of all such training.	✓	A Training and Attendance Policy has been in place throughout the period. This policy was also updated in early 2025 covering training requirements (a minimum of 21 hours per year) and sets out the scope of reimbursing expenses. The policy is publicly available and applies to all Pensions Committee and Pension Board members. The Pensions Committee and Pension Board members have regular joint training sessions hosted and run by LPF for the purposes of developing their knowledge and understanding of key matters, such as related to investment strategy, pension operations, their role and responsibilities as governing body members. External speakers are invited to present on a variety of topics including on the fiduciary duty, and (where appropriate) Financial Conduct Authority compliance. Annual training plans have been adopted as part of the Training and Attendance Policy providing an outline programme for a three-year period. Attendance at meetings and training is monitored and reported. The External Auditor carried out additional work on governance arrangements related to this area as part of the statutory audit.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Meetings frequency	a) That an administering authority's main Committee or Committees meet at least quarterly.	✓	The Pensions Committee meets at least quarterly.
	b) That an administering authority's secondary Committee or panel meet at least twice a year and is synchronised with the dates when the main Committees sits.	✓	The Sub-Committee meets at least three times a year at an annual cadence to coincide with the Pensions Committee. Further meetings are held if necessary. The Pension Board meets separately in advance of each Pensions Committee meeting, in addition to attendance at the Pensions Committee meetings themselves. The JIF meets quarterly or more frequently as required. The LPFE and LPFI Boards also meet quarterly and more frequently as required.
	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.	✓	Except for any matters considered under a private agenda, as permitted by legislation, Pensions Committee papers and minutes are publicly available on the Council's website All Pensions Committee papers are circulated in advance to all members of the Pensions Committee and Pension Board members, including the IPO. Members of the Pensions Committee and Pension Board have equal access to the IPO.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Scope	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	✓	The Pensions Committee receives and votes on, as required, matters relating to both the administration and investment of the Fund. LPF provides regular updates for Pensions Committee members.
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.	✓	Details related to the governance arrangements are publicly available on LPF's website, including the Pensions Committee Terms of Reference. The LPF Group also communicates regularly with employers and scheme members through various channels, including in respect of any vacancies which may arise to join the Pensions Board or apply as an external member of the Pensions Committee.

David Vallery

David Vallery
 Chief Executive Officer
 Lothian Pension Fund
 24 September 2025

REMUNERATION REPORT

Remuneration policy for employees

Officers and employees of Lothian Pension Fund are employed by LPFE, an arm's-length organisation owned by the City of Edinburgh Council, the administering authority for the Fund. LPFE has been incorporated as a standalone entity to enable us to compete with private sector investment management firms in the recruitment and retention of skilled and experienced investment managers and analysts.

Managing the majority of the Fund's assets internally enables us to achieve significantly lower costs, which in turn leads to improved net returns or reduced investment risk compared to appointing private sector asset managers to invest the Fund's assets. The LPFE Board acts as the Remuneration Committee for officers and employees, determining pay arrangements based on well-researched market benchmarks and performance against pre-agreed targets. These arrangements are always linked to the principle of delivering value for money for the Fund's members and their sponsoring employers.

Each year, LPF participates in a range of benchmarking exercises to measure operating costs, and net investment returns against relevant peers and indices. Pay arrangements at LPFE are underpinned by comprehensive market benchmarking, conducted with an external provider, and reflect the market conditions for investment expertise where



such skills are required for the role. By using benchmarks for costs and net investment returns, we provide assurance to our oversight bodies that these pay arrangements represent value for money for members and their sponsoring employers, who bear the cost of operating the Fund and delivering retirement benefits.

We operate three variable pay schemes at LPF, two of which include vesting periods. The Portfolio Manager and Senior Management schemes entitle eligible colleagues to receive an assessed percentage of their salary as additional variable pay if specific objectives are achieved during the year. The assessment year runs from 1 January to 31 December. Senior Manager awards have a two year vesting period and Portfolio Manager awards have a three-year vesting period.

The first portion is payable at the end of the first year, provided objectives are met. The remaining portion(s) are payable in each of the subsequent two years, subject to the condition that the employee remains in employment at the relevant time.

The accounting treatment for variable pay, as outlined in International Accounting Standard (IAS) 19: Employee Benefits, requires that employee service prior to the vesting date gives rise to an obligation to make payment. This is because, at the end of each reporting period, the remaining amount of future

service required to become entitled to the benefit is reduced.

In accordance with IAS 19, a liability has been recognised as of 31 March 2025 for the two months of service already rendered by employees in respect of the remaining vested payments under the scheme.

This obligation on the part of LPF to make payments for service provided up to 31 March 2025 is reflected in the figures presented in the following pages.

REMUNERATION REPORT

NUMBER OF EMPLOYEES BY PAY BAND

The numbers of employees whose total remuneration during the year exceeded £50,000 were as follows:

Remuneration Bands	2023/24	2024/25	Remuneration Bands	2023/24	2024/25	Remuneration Bands	2023/24	2024/25
£50,000 - £54,999	-	6	£135,000 - £139,999	1	2	£220,000 - £224,999	-	-
£55,000 - £59,999	1	1	£140,000 - £144,999	-	-	£225,000 - £229,999	-	1
£60,000 - £64,999	2	1	£145,000 - £149,999	1	-	£230,000 - £234,999	-	-
£65,000 - £69,999	4	2	£150,000 - £154,999	3	-	£235,000 - £239,999	-	-
£70,000 - £74,999	2	1	£155,000 - £159,999	1	-	£240,000 - £244,999	-	-
£75,000 - £79,999	1	3	£160,000 - £164,999	-	1	£245,000 - £249,999	-	-
£80,000 - £84,999	3	-	£165,000 - £169,999	1	-	£250,000 - £254,999	1	-
£85,000 - £89,999	1	1	£170,000 - £174,999	-	3	£255,000 - £259,999	-	-
£90,000 - £94,999	-	4	£175,000 - £179,000	3	-	£260,000 - £264,999	-	-
£95,000 - £99,999	1	2	£180,000 - £184,999	2	-	£265,000 - £269,999	-	-
£100,000 - £104,999	-	1	£185,000 - £189,999	-	3	£270,000 - £274,999	-	-
£105,000 - £109,999	1	1	£190,000 - £194,999	-	1	£275,000 - £279,999	-	-
£110,000 - £114,999	2	-	£195,000 - £199,999	-	2	£280,000 - £284,999	1	-
£115,000 - £119,999	-	1	£200,000 - £204,999	-	-	£285,000 - £289,999	-	1
£120,000 - £124,999	-	1	£205,000 - £209,999	-	-	£290,000 - £294,999	-	1
£125,000 - £129,999	-	-	£210,000 - £214,999	-	-	Total no. of employees	32	39
£130,000 - £134,999	-	-	£215,000 - £219,999	-	-			

REMUNERATION REPORT

EMPLOYEES REMUNERATION

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

	Total Remuneration 2023/24	Salary, Fees and Allowances	Variable Remuneration	Total Remuneration 2024/25
Name and Post Title	£000	£000	£000	£000
David Vallery, Chief Executive Officer	282	199	89	288
Bruce Miller, Chief Investment Officer (to January 2024)	246	-	-	-
Emmanuel Bocquet, Chief Investment Officer (from November 2023)	84	189	40	229
John Burns, Chief Finance Officer (to May 2023)	132	-	-	-
Alan Sievwright, Chief Finance Officer (from June 2023)	147	160	38	198
Kerry Thirkell, Chief Risk Officer	183	146	49	195
Karlynn Sokoluk, Chief Operating Officer (to Spetember 2024)	154	67	32	99
Helen Honeyman, Chief Operating and People Officer (Operating Officer from September 2024)	181	138	53	191
Total	1,409	899	301	1,200

The senior colleagues detailed above have responsibility for the management of the LPF Group, to the extent that they have the authority to direct or control the major activities of the Group (including activities involving the expenditure of funds), during the year to which the Remuneration Report relates, whether solely or collectively with others.

REMUNERATION REPORT

The variable remuneration shown above includes the Company's variable remuneration for 2024/25, the Senior Management's variable remuneration for 2024/25, and the vested payments for the previous two assessment years. This is split as follows:

	Company Variable Remuneration 2024/25	Senior Management Variable Remuneration			Total Variable Remuneration 2024/25
		2023 Payment 3	2024 Payment 2	2025 Payment 1	
Name and Post Title	£000	£000	£000	£000	£000
David Vallery, Chief Executive Officer	20	20	15	34	89
Bruce Miller, Chief Investment Officer (to January 2024)	-	-	-	-	-
Emmanuel Bocquet, Chief Investment Officer (from November 2023)	16	-	-	24	40
John Burns, Chief Finance Officer (to May 2023)	-	-	-	-	-
Alan Sievwright, Chief Finance Officer (from June 2023)	16	-	-	22	38
Kerry Thirkell, Chief Risk Officer	15	7	8	19	49
Karlynn Sokoluk, Chief Operating Officer (to September 2024)	-	1	8	23	32
Helen Honeyman, Chief Operating and People Officer (Operating Officer from September 2024)	13	13	9	18	53
Total	80	41	40	140	301

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

	Total Remuneration 2023/24	Salary, Fees and Allowances	Variable Remuneration	Total Remuneration 2024/25
Name and Post Title	£000	£000	£000	£000
Andrew Imrie, Portfolio Manager	177	129	56	185
Stewart Piotrowicz, Portfolio Manager	177	126	58	184
Ian Wagstaff, Portfolio Manager	177	129	56	185
Albert Chen, Portfolio Manager	154	112	49	161
Ross Crawford, Portfolio Manager	156	118	51	169
Nicola Barrett, Portfolio Manager	166	117	55	172
Gillian De Candole, Portfolio Manager	153	119	49	168
Total	1,160	850	374	1,224

REMUNERATION REPORT

The variable remuneration shown on the previous page includes the Company's variable remuneration for 2024/25, the Portfolio Manager's variable remuneration for 2024/25, and the vested payments for the previous two assessment years. This is split as follows:

	Company Variable Remuneration 2024/25	Portfolio Manager Variable Remuneration			Total Variable Remuneration 2024/25
		2023 Payment 3	2024 Payment 2	2025 Payment 1	
Name and Post Title	£000	£000	£000	£000	£000
Andrew Imrie, Portfolio Manager	10	14	16	16	56
Stewart Piotrowicz, Portfolio Manager	12	15	16	15	58
Ian Wagstaff, Portfolio Manager	10	14	16	16	56
Albert Chen, Portfolio Manager	9	13	14	13	49
Ross Crawford, Portfolio Manager	10	13	14	14	51
Nicola Barrett, Portfolio Manager	12	14	15	14	55
Gillian De Candole, Portfolio Manager	9	13	13	14	49
Total	72	96	104	102	374

Senior officers of the City of Edinburgh Council are fully remunerated by 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 colleagues involved in the arrangements as at 31 January 2025 remain in the Company's employment, is as follows:

	Payable March 2026		Payable March 2027
	2023 Payment 3	2024 Payment 2	2024 Payment 3
	£000	£000	£000
Senior Employee Variable Remuneration	32	75	-
Portfolio Manager Variable Remuneration	128	127	127
Employer National Insurance Contribution	22	28	18
Total	182	230	145

The amounts payable for senior employees' variable remuneration over the next two years exclude amounts previously calculated for colleagues who have subsequently left their posts.

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. wAccrued benefits from 1 April 2015 are 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 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, contribution rates were set at 6% for all non-manual colleagues.

The tiers and members' contribution rates for 2024/25 are as follows:

Pensionable Pay (2024/25)	Rate (%)
On earnings up to and including £27,000 (2023/2024 £25,300)	5.5%
On earnings above £27,001 and up to £33,000 (2023/2024 £25,301 to £31,000)	7.25%
On earnings above £33,001 and up to £45,300 (2023/2024 £31,001 to £42,000)	8.5%
On earnings above £45,301 and up to £60,400 (2023/2024 £42,501 to £56,600)	9.5%
On earnings of £60,401 and above (2023/2024 £56,601)	12.0%

If a person works part-time, their contribution rate is worked out using the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

There's no automatic entitlement to a lump sum. Members may opt to give up (commute) part of their pension for a lump sum, up to the limit set by the Finance Act 2004.

The value of the accrued benefits has been calculated based

on the age at which the person will first become entitled to receive a pension on retirement without reduction for early payment; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for future inflation.

The pension figures shown relate to the benefits that the person has accrued as a result of their total local government service, and not just their current appointment.

REMUNERATION REPORT

The pension entitlement of LPF Group senior employees is as follows:

	In-year Pension Contributions			Accrued Pension Benefits	
	2023/24	2024/25		As at 31 March 2025	Increase from 31 March 2024
Name and Post Title	£000	£000		£000	£000
David Vallery, Chief Executive Officer	35	40	Pension	12	12
			Lump Sum	-	-
Bruce Miller, Chief Investment Officer (to January 2024)	-	-	Pension	41	-
			Lump Sum	36	-
Emmanuel Bocquet, Chief Investment Officer (from November 2023)	-	-	Pension	-	-
			Lump Sum	-	-
John Burns, Chief Finance Officer (to May 2023)*	-	-	Pension	-	-
			Lump Sum	-	-
Alan Sievwright, Chief Finance Officer (from June 2023)	-	32	Pension	-	-
			Lump Sum	-	-
Kerry Thirkell, Chief Risk Officer	28	29	Pension	9	9
			Lump Sum	-	-
Karlynn Sokoluk, Chief Operating Officer (to September 2024)	24	12	Pension	7	7
			Lump Sum	-	-
Helen Honeyman, Chief Operating and People Officer (Operating Officer from September 2024)	25	28	Pension	14	4
			Lump Sum	-	-
Total	112	141		119	32

* John Burns is in receipt of pension benefits from 1 June 2023

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	
	2023/24	2024/25		As at 31 March 2025	Increase from 31 March 2024
Name and Post Title	£000	£000		£000	£000
Andrew Imrie, Portfolio Manager	24	25	Pension	47	6
			Lump Sum	20	1
Stewart Piotrowicz, Portfolio Manager	24	25	Pension	38	4
			Lump Sum	-	-
Ian Wagstaff, Portfolio Manager	24	25	Pension	37	5
			Lump Sum	-	-
Albert Chen, Portfolio Manager	21	22	Pension	20	4
			Lump Sum	-	-
Ross Crawford, Portfolio Manager	21	23	Pension	18	4
			Lump Sum	-	-
Nicola Barrett, Portfolio Manager	23	24	Pension	16	4
			Lump Sum	-	-
Gillian De Candole, Portfolio Manager	21	24	Pension	19	4
			Lump Sum	-	-
Total	158	168		215	32

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 one redundancy payment of £2.5k made in 2024/25.

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](#)

[- 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
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Auditors:	Azets Audit Services, Quay 2, 139 Fountainbridge, Edinburgh EH3 9QG
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Bankers:	Royal Bank of Scotland, 36 St Andrew Square, Edinburgh, EH2 2YB
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Strategic advisers:	Stan Pearson and Stephen Jones
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Investment custodians:	The Northern Trust Company, 50 Bank Street, Canary Wharf, London, E14 5NT
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Investment managers:	Details can be found in the notes to the accounts.
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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.
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Property valuations:	CBRE Ltd Valuation & Advisory Services, Henrietta House, 8 Henrietta Place, London W1G 0NB
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Property Management and 5NH Property Fund Accounting:	Jones Lang LaSalle Limited: 30 Warwick Street, London, W1B
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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
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Solicitors:	Lothian Pension Fund In-house
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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, large print if you ask us. Please contact Interpretation and Translation Service (ITS) on its@edinburgh.gov.uk and quote reference number 24-1016.



ITS can also give information on community language translations. You can get more copies of this document at www.lpf.org.uk/publications.

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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