LOTHIAN
PENSION FUND

2021/22

AUDITED
ANNUAL REPORT
AND ACCOUNTS


ONE PENNY

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A REVIEW OF 2021/22

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

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

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

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

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

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

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

A REVIEW OF 2021/22

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

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

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

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

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

Progress against our Strategy and Business Plan

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

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

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

A REVIEW OF 2021/22

There for our members and their families during a difficult time

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

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

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

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

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

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

WHAT OUR MEMBERS SAY:

"I think you provide an excellent service."

A REVIEW OF 2021/22

Secure benefits and a higher funding level

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

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

Investing in our people

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

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

The LGPS in Scotland

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

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

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

A REVIEW OF 2021/22

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

Maintaining momentum on responsible investment

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

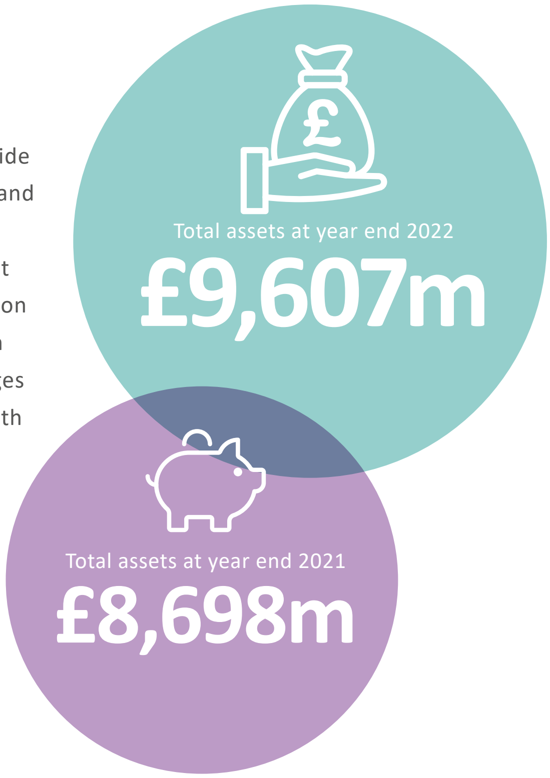
Stewardship is the responsible oversight, management, and allocation of capital to create long-term value for clients and beneficiaries that lead to sustainable benefits for the economy, the environment and society. Our report demonstrates the nature of our commitment to stewardship, for the benefit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

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

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

McCloud and the matter of historic age discrimination

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



A REVIEW OF 2021/22

Affordability of pensions

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

Oversight and governance of the Fund

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

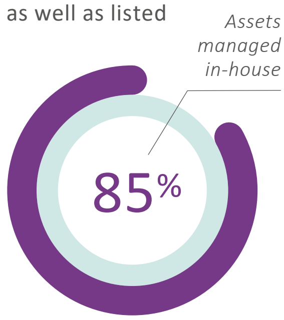
David Vallery
Chief Executive Officer
Lothian Pension Fund

GOVERNANCE AND RISK

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

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

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



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

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

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

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

COLLEAGUE PROFILE

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

Andrew Crawford, Pensions Administration Team Manager

GOVERNANCE AND RISK

The Pensions Committee and Pensions Audit Sub-Committee

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

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

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

COMMITTEE MEMBERS FROM 1 APRIL 2021 - 31 MARCH 2022

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

GOVERNANCE AND RISK

The Pension Board

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

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

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

MEMBER REPRESENTATIVES

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

EMPLOYER REPRESENTATIVES

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

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

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

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

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

GOVERNANCE AND RISK

Scheme Advisory Board (SAB)

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

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

LPFE and LPFI boards

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

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

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

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

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

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

GOVERNANCE AND RISK

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

Joint Investment Strategy Panel

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

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

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

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

JOINT INVESTMENT STRATEGY PANEL

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

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

GOVERNANCE AND RISK

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

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

Risk Management

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

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

GOVERNANCE AND RISK

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

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

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

COUNCILLOR CAMERON ROSE

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

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

GOVERNANCE AND RISK

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

Risk Assurance

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

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

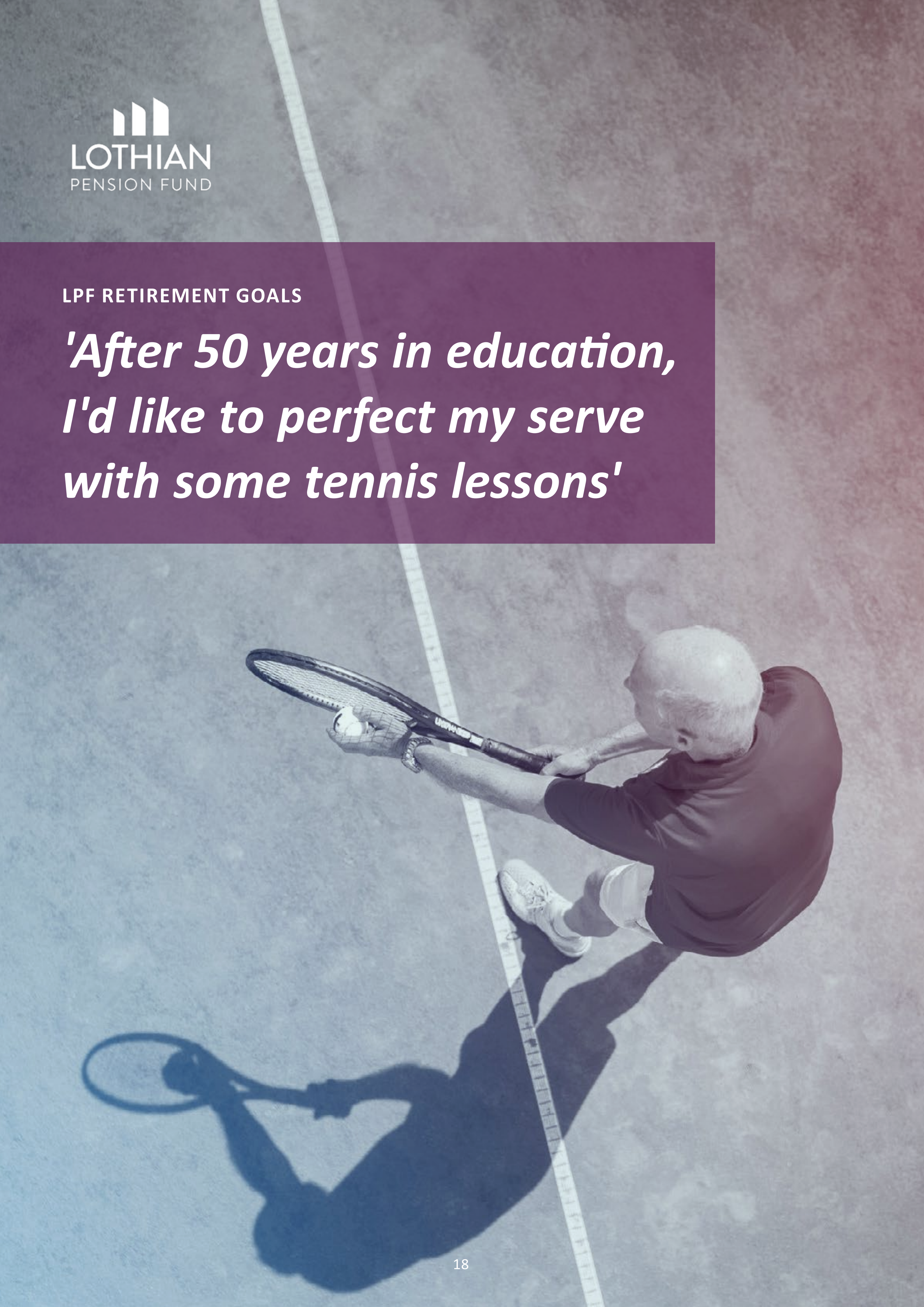
We maintain an assurance overview and mapping document which is updated on an ad hoc basis and reviewed annually by our Audit Sub-Committee.

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

LOTHIAN
PENSION FUND

LPF RETIREMENT GOALS

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



INVESTMENT

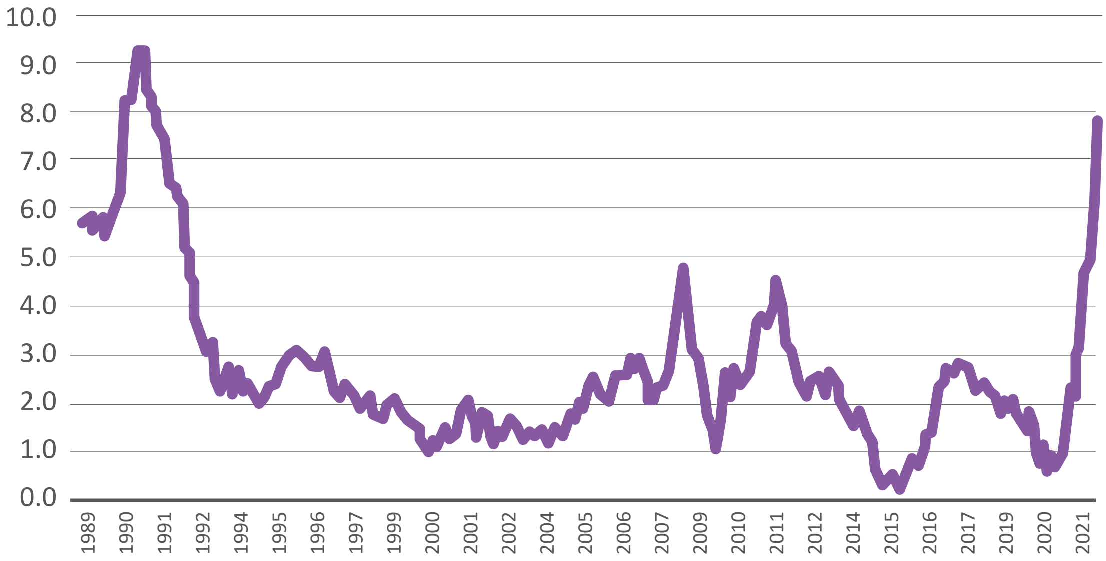
Investment markets

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

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

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

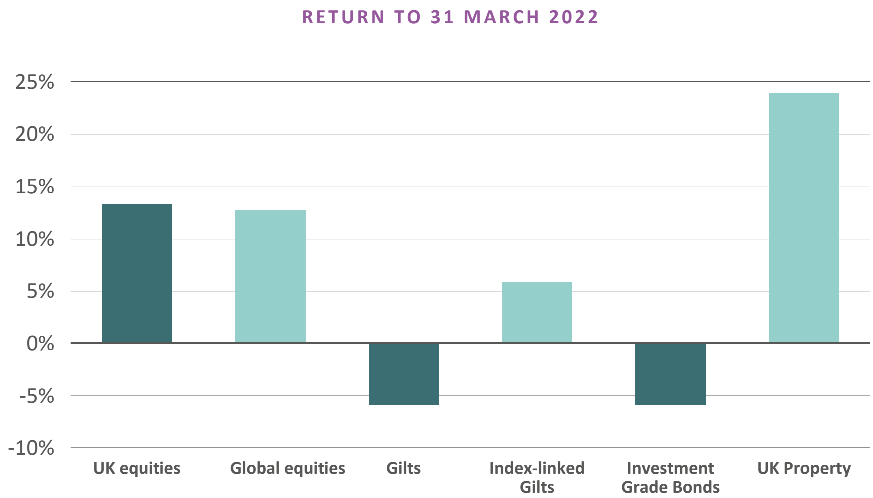
UK INFLATION RATE (CPIH), Year-on-Year



INVESTMENT

Investment markets

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

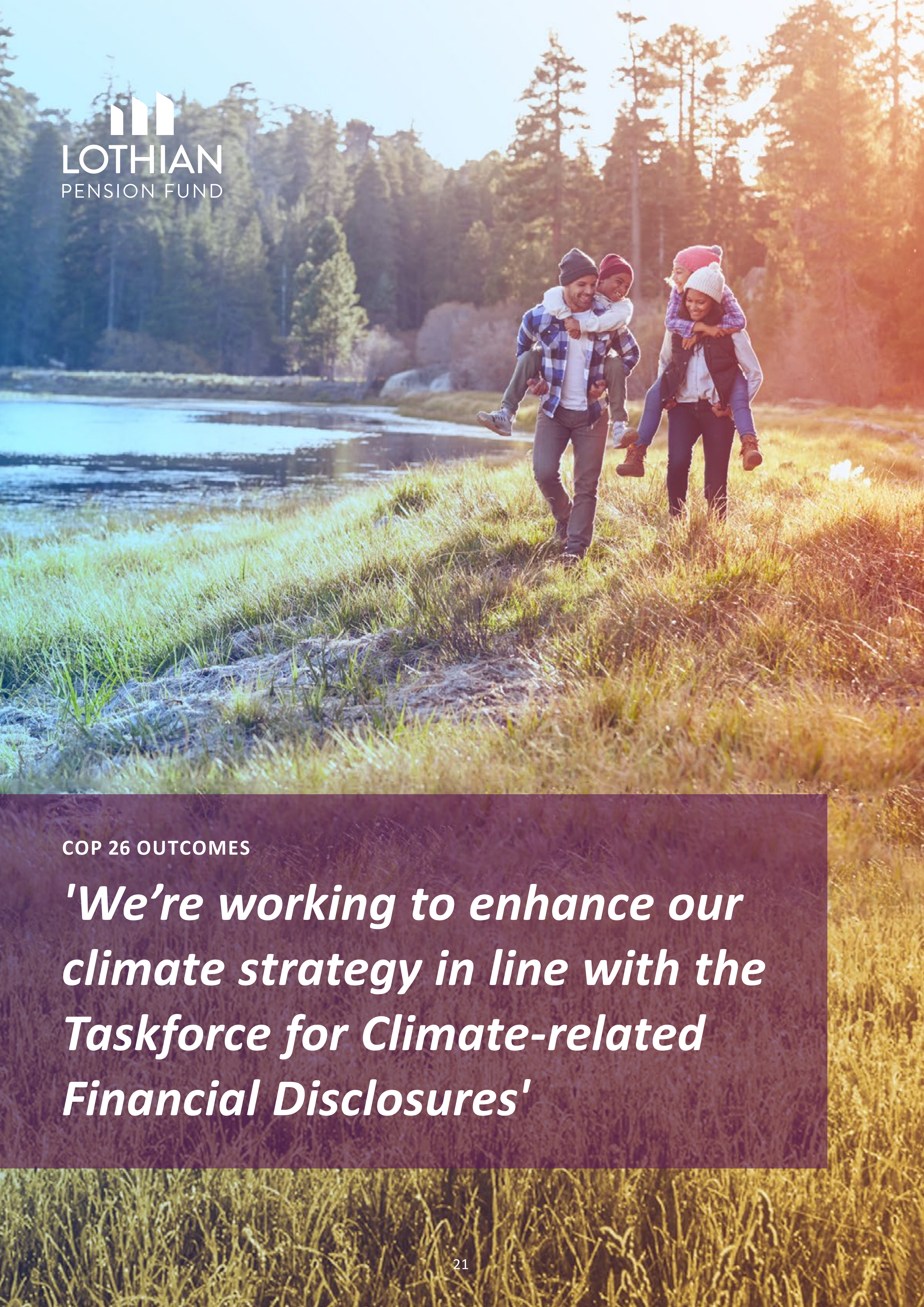


Source: Portfolio Evaluation, Bloomberg

HUGH DUNN

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

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



LOTHIAN PENSION FUND

COP 26 OUTCOMES

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

RESPONSIBLE INVESTMENT

Our investment principles

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

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

WHAT OUR MEMBERS SAY:

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

RESPONSIBLE INVESTMENT

Responsible Investment (RI) and Stewardship Reporting

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

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

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

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

LPF SUPPORTING FUTURE ASSETS

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

RESPONSIBLE INVESTMENT

Climate Change

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

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

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

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

RESPONSIBLE INVESTMENT

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

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

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

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

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

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

RESPONSIBLE INVESTMENT

Climate Change – Governance

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

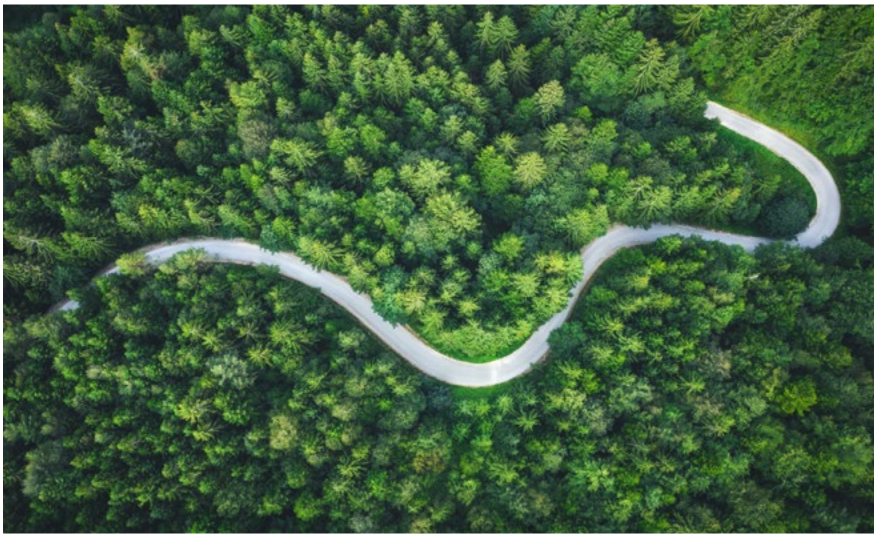
The Committee and Board considers climate-related issues as part of its annual review of our approach to Stewardship. Climate-related risks and opportunities are an integral part of our overall investment process. The Pensions Committee is responsible for setting investment strategy and delegates implementation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

RESPONSIBLE INVESTMENT

Climate Change – Strategy and Risk Management

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

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



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

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

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

RESPONSIBLE INVESTMENT

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

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

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

Climate Change – Monitoring and Metrics

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

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

RESPONSIBLE INVESTMENT

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

Source: MSCI

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

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

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

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

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

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

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

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

FUNDING STRATEGY STATEMENT

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

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

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

WHAT OUR MEMBERS SAY:

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

LOTHIAN PENSION FUND

LPF RETIREMENT GOALS

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

FINANCIAL PERFORMANCE

Administration expenses

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

The budget focuses on controllable expenditures, so excludes all benefit payments and transfers of pensions from the Fund. Similarly, income doesn't include contributions receivable and pension transfers to the Fund. The total net cost outturn of £30,470k against the budget of £30,533k represented an underspend of £63k (0.2%) for the Fund.

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

- **Employees – £305k underspend.** Various planned recruitment processes were delayed at the start of the financial year due to the COVID pandemic which led to an underspend. These posts have now been filled. Variable pay awards were also lower than the full budgeted award
- **Supplies and Services – £298k underspend.** Underspending occurred against budget for investment systems, while the roll out of a secure document management and governance portal has been delayed to after the embedding of the new IT provider
- **Investment managers fees – Uninvoiced – £326k overspend.** Majority of uninvoiced costs relate to private market investments. In general there has been a change in methodology for newer investments where management fees are charged based on market value compared to previously mostly being based on commitment levels. This has reduced the predictability of some fees.
- **Support Costs – £143k underspend.** The budget contained a provision for transition costs between CGI and the Fund's new ICT provider, Cased Dimensions. Transition and parallel running costs between the providers were below budget, but ongoing costs are as expected
- **Income – £454k under-recovery.** Income in relation to collaborative partners is based on a cost sharing mechanism. Due to underspend against budget, in particular staff costs, as well as the lower than expected deal flow in relation to collaborative investments, income was below budget.

FINANCIAL PERFORMANCE

	Approved budget	Actual outturn	Variance
	£000	£000	£000
Employees	5,859	5,554	(305)
Transport and premises	254	221	(33)
Supplies and services	2,292	1,944	(298)
Investment managers fees - invoiced*	3,300	3,294	(6)
Investment managers fees - uninvoiced*	18,700	19,026	326
Other third-party payments	1,426	1,362	(64)
Capital funding - depreciation	249	255	6
Direct Expenditure	**32,080**	**31,706**	**(374)**
Support costs	685	542	(143)
Income	(2, 232)	(1,778)	454
Total net controllable cost to LPF	**30,533**	**30,470**	**(63)**

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

Reconciliation to total costs	Actual outturn
	£000
Actual outturn on budgeted items above	30,470
Securities lending revenue included in income above	407
Investment management fees deducted from capital – performance related element	8,967
IAS19 LPFE retirement benefits	(2,015)
LPFE deferred tax on retirement benefits	173
Corporation tax	31
Total cost to LPF (inclusive of full cost investment management fees)	**38,033**
Per Fund Accounts	
Lothian Pension Fund Group	37,973
Scottish Homes Pension Fund	60
Total	**38,033**

FINANCIAL PERFORMANCE

LOTHIAN PENSION FUND

Cash-flow

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

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

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

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

FINANCIAL PERFORMANCE

Cash-flow (cont.)

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

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

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

SCOTTISH HOMES PENSION FUND

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

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

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

FINANCIAL PERFORMANCE

Cash-flow (cont.)

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

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

2020 Actuarial Valuations

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

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

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

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

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

FINANCIAL PERFORMANCE

Investment management cost transparency

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

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

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

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

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

COLLEAGUE PROFILE

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

Laura Forsyth, Senior Finance Manager

FINANCIAL PERFORMANCE

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

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

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

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

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

COLLEAGUE PROFILE

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

Donna Gammack, Business Support Manager

FINANCIAL PERFORMANCE

	Lothian Pension Fund		Scottish Homes Pension Fund	
	2020/21	2021/22	2020/21	2021/22
	£000	£000	£000	£000
Investment management expenses in compliance with CIPFA guidance	37,468	36,356	112	112
Investment management expenses per financial statements	38,479	37,183	112	112
Disclosure in excess of CIPFA guidance	**1,011**	**827**	**0**	**0**

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

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

FINANCIAL PERFORMANCE

Investment cost benchmarking

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

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

COLLEAGUE PROFILE

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

Lisa Pollock, Property Asset Manager

PERFORMANCE AND ADMINISTRATION

Key Performance Indicators 2021/22

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

The table shows our performance against these targets.

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

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

LPF RETIREMENT GOALS

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

PERFORMANCE AND ADMINISTRATION

Value for Money
Pension Administration Benchmarking

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

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

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

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

The Pensions Administration Standards Association (PASA)

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

PERFORMANCE AND ADMINISTRATION

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

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

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

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

WHAT OUR MEMBERS SAY:

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

PERFORMANCE AND ADMINISTRATION

Customer and complaint feedback

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

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

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

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

Internal Dispute Resolution Procedure (IDRP)

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

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

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

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

PERFORMANCE AND ADMINISTRATION

Our data

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

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

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

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

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

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Customer Service Excellence (CSE)

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

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

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

PERFORMANCE AND ADMINISTRATION

Rectification of age discrimination - McCloud and Sargeant judgements

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

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

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

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

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

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

PERFORMANCE AND ADMINISTRATION

Pension administration

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

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

PERFORMANCE AND ADMINISTRATION

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

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

PERFORMANCE AND ADMINISTRATION

Online services

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

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

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

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

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

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

WHAT OUR MEMBERS SAY:

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

PERFORMANCE AND ADMINISTRATION

Unclaimed Monies Account

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

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

Employer performance

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

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

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

PERFORMANCE AND ADMINISTRATION

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

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

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

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

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

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

PERFORMANCE AND ADMINISTRATION

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

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

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

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

Contributions by value paid on time

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

OUR COLLEAGUES

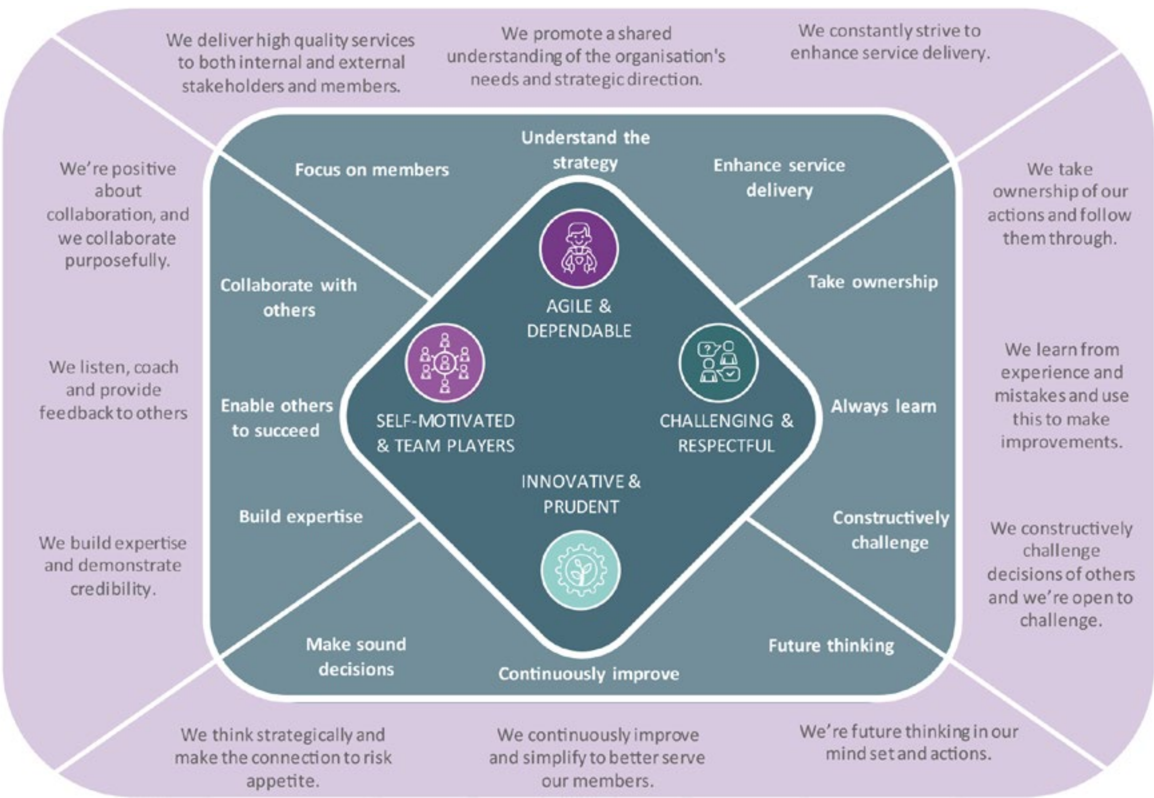
Our colleagues

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

Our core values

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

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



OUR COLLEAGUES

Inclusivity

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

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

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

LOTHIAN
PENSION FUND

LPF RETIREMENT GOALS

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

OUR COLLEAGUES

Gender Balanced

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

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

Performance and Reward

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

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

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

Developing Skills and Capabilities Culturally

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

OUR COLLEAGUES

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

Investing in Colleagues

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

Health and Wellbeing

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

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

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

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

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

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

Management commentary approved by:

Andrew Kerr
Chief Executive Officer
The City of Edinburgh Council
28 September 2022

David Vallery
Chief Executive Officer
Lothian Pension Fund
28 September 2022

John Burns
Chief Finance Officer
Lothian Pension Fund
28 September 2022

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Investment Strategy

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

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

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

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

Investment Strategy Revisions

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

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

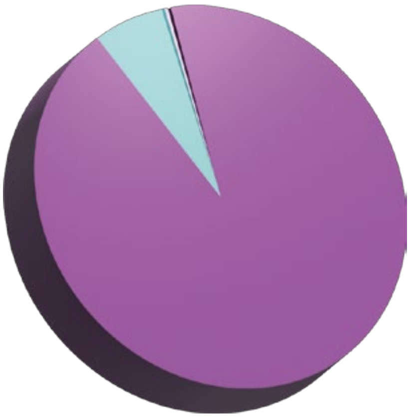
Note: Numbers may not sum due to rounding

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Employer Strategies

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

EMPLOYMENT GROUP STRATEGIES 2022



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

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

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

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

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Policy Groups

The investment strategies are described in terms of allocations to broad asset classes, or policy groups, which are the key determinants of risk and return. These policy groups are Equities, Real Assets, Non-Gilt Debt, LDI (Gilts) and Cash. Although individual investments within each group will have different risk and return characteristics, each policy group targets a long-term return in relation to the return from UK gilts. The return target provides perspective on the expected risk of each group in relation to Fund liabilities. These are detailed in the Statement of Investment Principles.

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

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

Note: Numbers may not sum due to rounding

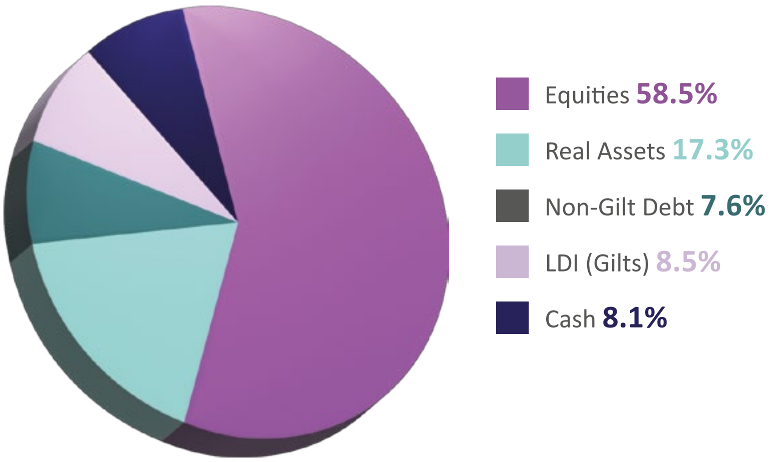
The LDI policy group comprises index-linked and nominal gilts. This is the lowest risk, lowest expected return policy group as it's possible to match the cash flows of gilts with the pension payments that the Fund expects to pay in the future. The purpose of the other policy groups is to generate a return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

Strategy Implementation

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

LOTHIAN PENSION FUND INVESTMENT STRATEGY

ACTUAL ASSET ALLOCATION TOTAL FUND 31 MARCH 2022



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

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

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

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Investment Portfolio Changes

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

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

Note: Numbers may not sum due to rounding

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

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

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

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

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

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

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Investment performance

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

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

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

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

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

**Comprises equity, ‘gilts plus’ and gilts indices*

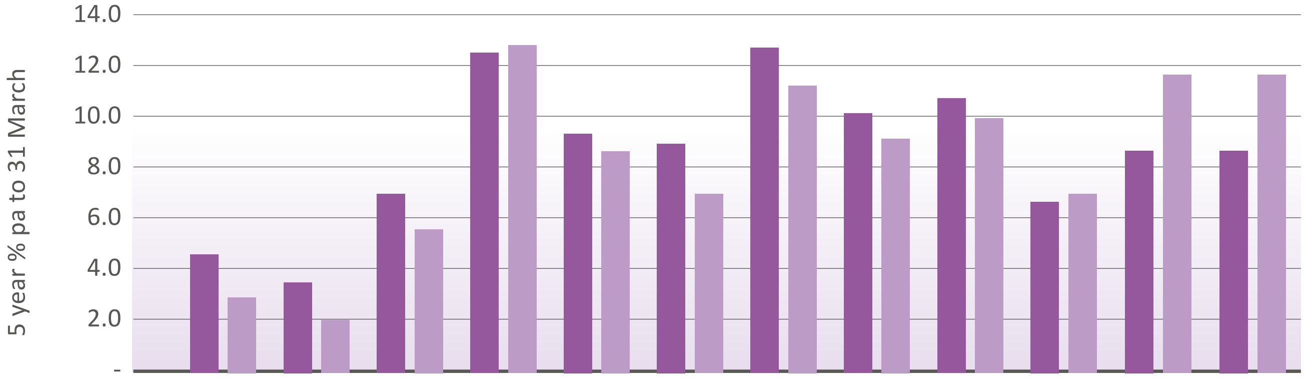
LOTHIAN PENSION FUND MEMBERSHIP

	31 March 2018	31 March 2019	31 March 2020	31 March 2021	31 March 2022
Active	34,528	34,569	35,655	35,863	36,812
Deferred	19,437	20,280	21,406	21,644	19,969
Pensioners	24,430	25,299	26,668	27,704	28,873
Dependants	4,195	4,169	4,172	4,152	4,172
Total	82,590	84,317	87,921	89,363	89,826

LOTHIAN PENSION FUND INVESTMENT STRATEGY

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

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



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

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

LOTHIAN PENSION FUND INVESTMENT STRATEGY

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

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

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

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

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

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

COLLEAGUE PROFILE

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

Rafael Peres, ICT Operations Analyst

LOTHIAN
PENSION FUND

LPF RETIREMENT GOALS

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

LOTHIAN PENSION FUND ACCOUNT FOR YEAR ENDED 31 MARCH 2022

Financial statements

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

Lothian Pension Fund				Lothian Pension Fund	
Parent	Group			Parent	Group
2020/21	2020/21			2021/22	2021/22
£000	£000		Note	£000	£000
		Income			
191,463	191,463	Contributions from employers	4	198,944	198,944
51,193	51,193	Contributions from members	5	53,201	53,201
62,308	62,308	Transfers from other schemes	6	5,130	5,130
304,964	**304,964**			**257,275**	**257,275**
		Less: expenditure			
187,565	187,565	Pension payments including increases	7	195,116	195,116
42,816	42,816	Lump sum retirement payments	8	51,043	51,043
7,389	7,389	Lump sum death benefits	9	7,662	7,662
584	584	Refunds to members leaving service		531	531
(33)	(33)	Premiums to State Scheme		-	-
5,734	5,734	Transfers to other schemes	10	5,874	5,874
2,879	4,132	Administrative expenses	11a	2,820	2,439
246,934	**248,187**			**263,046**	**262,665**
58,030	**56,777**	**Net (withdrawals)/additions from dealing with members**		**(5,771)**	**(5,390)**
		Returns on investments			
228,657	228,657	Investment income	12	276,010	276,010
969,236	969,236	Change in market value of investments	14, 19b	676,468	676,468
(38,479)	(39,725)	Investment management expenses	11b	(37,183)	(35,534)
1,159,414	**1,158,168**	**Net returns on investments**		**915,295**	**916,944**
1,217,444	**1,214,945**	**Net increase in the fund during the year**		**909,524**	**911,554**
7,480,318	**7,478,744**	**Net assets of the fund at 1 April 2021**		**8,697,762**	**8,693,689**
8,697,762	**8,693,689**	**Net assets of the fund at 31 March 2022**		**9,607,286**	**9,605,243**

LOTHIAN PENSION FUND
NET ASSETS AS AT 31 MARCH 2022

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

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

LOTHIAN PENSION FUND ACCOUNTS

The unaudited accounts were issued on 29 June 2022 and the audited accounts were authorised for issue on 28 September 2022.

John Burns FCMA CGMA, PgC
Chief Finance Officer,
Lothian Pension Fund
28 September 2022

Notes to the net asset statement

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

1 Statement of Accounting Policies

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

2 Lothian Pension Fund Group

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

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

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

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

3 Events after the Reporting Date

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

4 Contributions from employers

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

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

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

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

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

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

5 Contributions from members

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

6 Transfers in from other pension schemes

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

7 Pensions payable

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

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

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

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

8 Lump sum retirement benefits payable

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

9 Lump sum death benefits payable

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

10 Transfers out to other pension schemes

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

11a Administrative expenses

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

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

COLLEAGUE PROFILE

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

Asef Uddin, Trainee Pensions Administrator

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

11b Investment management expenses

	LPF Parent 2020/21	LPF Group 2020/21	LPF Parent 2021/22	LPF Group 2021/22
	£000	£000	£000	£000
External management fees:				
invoiced	3,474	3,474	3,213	3,213
deducted from capital (direct investment)	22,222	22,222	23,772	23,772
deducted from capital (indirect investment)	1,011	1,011	827	827
Securities lending fees	107	107	81	81
Transaction costs - Equities	2,049	2,049	1,624	1,624
Property operational costs	3,865	3,865	1,770	1,770
Third party - Invest property service charge expense	3,337	3,337	5,964	5,964
Third party - Invest property service charge income	(3,337)	(3,337)	(5,964)	(5,964)
Employee costs	3,040	3,581	2,938	3,477
Custody fees	377	377	426	426
Engagement and voting fees	121	121	112	112
Performance measurement fees	84	84	98	98
Consultancy fees	100	100	110	110
Research fees	568	568	442	442
System costs	715	717	909	918
Legal fees	176	224	275	358
Depreciation	166	166	170	170
Office costs	140	140	127	127
Sundry costs less sundry income	264	(760)	289	(866)
IAS19 retirement benefit adjustments - see note 30	-	2,067	-	(1,253)
Deferred tax on retirement benefit obligation - see note 29	-	(393)	-	108
Corporation tax	-	-	-	-
Corporation tax gains utilised by CEC group	-	5	-	20
	38,479	39,725	37,183	35,534

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

11b Investment management expenses (cont.)

	Total	Management /Expense fees	Performance related fee	Transaction costs
2021/2022	**£000**	**£000**	**£000**	**£000**
Bonds	109	109	-	-
Equities	5,249	3,506	119	1,624
Pooled investment vehicles	24,114	15,234	8,848	32
Property	1,770	1,770	-	-
Cash and FX contacts	45	45	-	-

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

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

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

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

11c Total management expenses

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

	LPF Parent 2020/21	LPF Group 2020/21	LPF Parent 2021/22	LPF Group 2021/22
	£000	£000	£000	£000
Administrative costs	2,479	3,698	2,534	2,032
Investment management expenses	36,049	36,061	34,514	34,185
Oversight and governance costs	2,830	4,098	2,953	1,756
	41,358	**43,857**	**40,001**	**37,973**

SHARON DALLI

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

12 Investment income

	2020/21	2021/22
	£000	£000
Income from bonds	1,486	4,586
Dividends from equities	157,622	168,743
Unquoted private equity and infrastructure	48,952	85,598
Income from pooled investment vehicles	2,710	2,805
Gross rents from properties	21,207	22,500
Interest on cash deposits	282	57
Stock lending and sundries	537	407
	232,796	**284,696**
Irrecoverable withholding tax	(4,139)	(8,686)
	228,657	**276,010**

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

13 Net investment assets

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

14a Reconciliation of movement in investments and derivatives

	Market value at 31 March 2021*	Purchase at cost & derivative payments	Sale & derivative receipts	Change in market value	Market value at 31 March 2022*
	£000	£000	£000	£000	£000
Bonds	689,792	638,774	(228,844)	15,320	1,115,043
Equities	5,044,875	1,014,338	(1,127,432)	502,592	5,434,373
Pooled investment vehicles	1,615,521	240,695	(274,517)	83,339	1,665,038
Property	366,125	380	(7,982)	72,780	431,303
Derivatives - futures	-	-	-	-	-
Derivatives - forward foreign exchange	625	24	(1,790)	1,234	(2,375)
	7,716,938	**1,894,211**	**(1,640,565)**	**672,797**	**8,643,382**
Other financial assets / liabilities					
Cash deposits*	933,452			3,717	837,138
Broker balances*	(87,278)			(46)	(674)
Investment income due*	33,602			-	44,555
	879,776			**3,671**	**881,019**
Net financial assets	**8,596,714**			**676,468**	**9,524,401**

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

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

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

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

14b Reconciliation of fair value measurements within level 3

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

15 Derivatives - forward foreign exchange

Summary of contracts held at 31 March 2022.

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

Prior year comparative

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

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

16 Investment managers and mandates

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

16 Investment managers and mandates (cont)

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

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

17 Securities lending

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

18 Property holdings

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

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

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

19 Financial Instruments

19a Classification of financial instruments

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

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

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

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

ANDY MCKINNEL

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

Lothian Pension Fund's Independent Professional Observer

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

19a Classification of financial instruments (cont)

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

	31 March 2021		31 March 2022
Total adjustments to net financial instruments	**(4,073)**		**(2,043)**
Total net assets - group	**8,693,689**		**9,605,243**

19b Net gains and losses on financial instruments

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

19c Fair Value Hierarchy

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

19c Fair Value Hierarchy (cont)

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20 Nature and extent of risk arising from financial instruments

Risk and risk management

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

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

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

Types of investment risk

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

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

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

The Fund manages these risks in a number of ways:

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

Sensitivity analysis

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

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

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

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

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

Credit risk

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

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

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

Cash deposits

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

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

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

Securities lending

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

Derivatives

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

Refinancing risk

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

Liquidity risk

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

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

21 Actuarial statement

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

22 Actuarial present value of promised retirement benefits

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

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

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

Longevity assumptions

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

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

Commutation assumption

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

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

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

The above debtors all relate to community admission bodies.

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

26 Additional Voluntary Contributions

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

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

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

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

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

**Figures provided are unaudited*

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

27 Related parties
The City of Edinburgh Council

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

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

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

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

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

Year end balance on treasury management account

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

27 Related parties (cont)
Scheme employers

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

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

Governance

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

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

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

27 Related parties (cont)

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

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

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

LPFE Limited & LPFI Limited – loan facility

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

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

LPFE Limited - staffing services

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

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

Movement in deferred tax asset (Non-current asset)

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

Elements of closing deferred tax asset

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

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

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

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

29 Retirement benefits obligation - Group

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

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

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

Fund assets

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

29 Retirement benefits obligation - group (cont)

Amounts recognised in the Net Assets Statement

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

Movement in the defined benefit obligation during the period

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

29 Retirement benefits obligation - group (cont)

Movement in the fair value of Fund assets during the period

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

Amounts recognised in the Fund Account

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

29 Retirement benefits obligation - group (cont)

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

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

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

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

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

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

30 Contractual commitments

Investment commitments

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

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

Office accommodation - 144 Morrison Street, Edinburgh

The Fund is committed to making the following future payments.

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

31 Contingent assets and liabilities

Contribution refunds

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

Co-investment deal abort costs

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

Employer Cessations

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

EU Tax claims & income recovery

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

31 Contingent assets and liabilities (cont)

Variable pay arrangements

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

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

Rectification of age discrimination - McCloud and Sargeant judgements

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

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

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

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

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

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

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

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

32 Impairment losses

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

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

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

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

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

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

Description of Funding Policy

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

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

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

Funding Position as at the last formal funding valuation

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

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

Principal Actuarial Assumptions and Method used to value the liabilities

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

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

Method

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

Assumptions

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

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

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

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

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

**Currently aged 45*

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

Experience over the period since 31 March 2020

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

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

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

LOTHIAN PENSION FUND
LIST OF ACTIVE EMPLOYERS AT 31 MARCH 2022

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

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

LOTHIAN PENSION FUND
LIST OF ACTIVE EMPLOYERS AT 31 MARCH 2022

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

SCOTTISH HOMES PENSION FUND INVESTMENT STRATEGY

Investment strategy

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

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

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

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

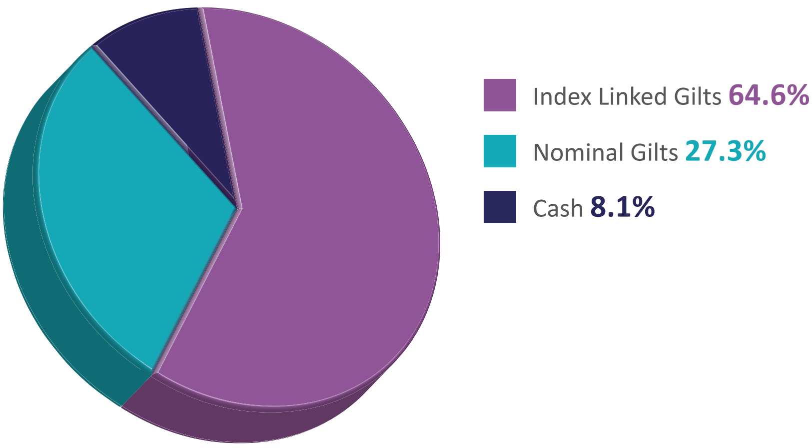
To ensure that invested assets are as closely matched with the liability profile as possible, the investment manager takes into consideration the expected duration of liabilities and whether they are fixed or inflation-linked in nature. The fund's strategy is to match the cash flows of liabilities one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

SCOTTISH HOMES PENSION FUND INVESTMENT STRATEGY

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

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

ACTUAL ASSET ALLOCATION 31 MARCH 2022



Investment movements

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

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

SCOTTISH HOMES PENSION FUND MEMBERSHIP

	31 March 2018	31 March 2019	31 March 2020	31 March 2021	31 March 2022
Active	-	-	-	-	-
Deferred	433	416	368	328	302
Pensioners	908	893	905	897	872
Dependants	269	264	260	253	239
Total	1,610	1,573	1,533	1,478	1,413

**Membership from 2019 includes former employees of Homeless Action Scotland (HAS), following the Direction by Scottish Ministers that HAS admitted as a scheme employer of Scottish Homes Pension Fund with effect from 11 July 2018.*

SCOTTISH HOMES PENSION FUND ACCOUNT FOR YEAR ENDED 31 MARCH 2022

Financial Statements

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

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

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

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

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

The unaudited accounts were issued on 29 June 2022 and the audited accounts were authorised for issue on 28 September 2022.

John Burns FCMA CGMA, PgC
Chief Finance Officer, Lothian Pension Fund
28 September 2022

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

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

1 Statement of Accounting Policies

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

2 Events after the Reporting Date

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

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

3 Contributions from the Scottish Government

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

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

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

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

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

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

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

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

4a Total Management expenses

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

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

4b Administrative expenses

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

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

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

4c Investment management expenses

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

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

5 Investment income

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

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

6 Reconciliation of movement in investments

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

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

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

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

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

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

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

7 Investment managers and mandates

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

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

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

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

9 Financial Instruments

9a Classification of financial instruments

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

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

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

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

9b Net gains and losses on financial instruments

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

9c Valuation of financial instruments carried at fair value

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

Level 1

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

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

Level 2

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

Level 3

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

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Nature and extent of risk arising from financial instruments

Risk and risk management

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

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

Types of investment risk

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

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

Sensitivity analysis

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

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

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

[1] No allowance for correlations between assets

[2] Including allowance for correlations between assets

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

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

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

However, because the purpose of a pension scheme is to make payments to scheme beneficiaries, the true risk of a pension scheme is not measured in absolute terms, but relative to its liabilities [3]. The risk is lower than the absolute asset risk, due to the impact of correlation with the discount rate used to value the liabilities.

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

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

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

Credit risk

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

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

Cash deposits are the major areas of credit exposure where credit risk is not reflected in market prices.

Cash deposits

At 31 March 2022, cash deposits represented £14m, 9.3% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2022	Balances at 31 March 2021	Balances at 31 March 2022
Held for investment purposes		**£000**	**£000**
Northern Trust Company - cash deposits	A2	14,906	8,935
UK Short-Term Bills and Notes	Aa3		3,356
The City of Edinburgh Council - treasury management	See below	-	-
		14,906	**12,291**
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	1,357	1,551
Total cash		**16,263**	**13,842**

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

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

A proportion of Sterling cash deposits of the Fund are managed along with those of the administering authority (the City of Edinburgh Council) and other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk basis, with security of the investments the key consideration. The Council has in place counterparty criteria.

The Council has in place institutional restrictions on investments and counterparty criteria. These include -

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

	Moody's Credit Rating at 31 March 2022	Balances at 31 March 2021	Balances at 31 March 2022
Money market funds	**£000**	**£000**	**£000**
Deutsche Bank AG, London	Aaa-mf	176	58
Aberdeen Standard Sterling Liquidity Fund	Aaa-mf	206	125
Goldman Sachs	Aaa-mf	-	41
Bank call accounts			
Bank of Scotland	A1	136	155
Royal Bank of Scotland	A1	105	7
Royal Bank of Scotland	A1	136	-
Notice accounts			
HSBC Bank PLC	Aa3	123	155
UK Government			
Gilts & T-Bills and UK Government Debt	Aa3	-	691
Supranational Commercial Paper			
European Investment Bank	AAA	-	119
UK Pseudo-Sovereign risk instruments			
Other Local Authorities [1]	Aa3	475	200
		1,357	**1,551**

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

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

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

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

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

Refinancing risk

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

Liquidity risk

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

All of the Fund's investments could be converted to cash within three months in a normal trading environment.

11 Actuarial statement

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

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

12 Actuarial present value of promised retirement benefits

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £116m (2021 £125m). This figure is used for statutory accounting purposes by Scottish Homes Pension Fund and complies with the requirements of IAS26. The assumptions underlying the figure match those adopted for the Administering Authority's IAS19 reports at each year end.

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

	31 March 2021	31 March 2022
	% p.a.	% p.a.
Inflation/pensions increase rate	2.85%	3.20%
Discount rate	2.00%	2.70%

Longevity assumptions

The life expectancy assumption is based on Fund specific statistical analysis with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.5% and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	31 March 2021		31 March 2022	
	Male	Female	Male	Female
Current pensioners	20.8 years	23.2 years	20.7 years	23.4 years
Future pensioners (assumed to be currently 45)	21.0 years	26.0 years	20.9 years	26.1 years

Commutation assumption

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

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

13 Debtors

	31 March 2021	31 March 2022
	£000	£000
Sundry debtors	0	1
	0	**1**

14 Creditors

	31 March 2021	31 March 2022
	£000	£000
Benefits payable	45	13
Miscellaneous creditors and accrued expenses	1	2
	46	**15**

15 Related party transactions

The City of Edinburgh Council

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

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

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

	31 March 2021	31 March 2022
	£000	£000
Year end balance of holding account	141	183
	141	**183**

Part of the Fund's cash holdings are invested on the money markets by the treasury management operations of the Council, through a service level agreement. During the year to 31 March 2022, the Fund had an average investment balance of £1.7m (2021 £2.5m). Interest earned was £2k (2021 £4k).

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

	31 March 2021	31 March 2022
Year end balance on treasury management account	**£000**	**£000**
Held for investment purposes	-	-
Held for other purposes	1,357	1,551
	1,357	**1,551**

Fund Guarantor

The Fund guarantor (by definition) is a related party to the scheme. The Scottish Government's contributions to the Fund can be found in note 3 (page 122) of the notes to the Financial Statements.

LPFE Limited - staffing services

Staffing services are provided to Lothian Pension Fund and Scottish Homes Pension Fund for the purposes of administering the Funds under an intra-group resourcing agreement. The agreement also provides for the running costs of the company to be covered as part of a service charge and allows for the provision of staffing services to LPFI Limited. Lothian Pension Fund is invoiced for these services and Scottish Homes Pension Fund is then allocated a percentage recharge on a defined basis. During the year to 31 March 2022, the Fund was recharged £76k (2021 £88k) for the services of LPFE Limited staff.

Governance

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

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

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

During the period from 1 April 2021 to the date of issuing of these accounts, Lothian Pension Fund was charged by City of Edinburgh Councils via its service level agreement for time spent by its Executive Management team on pension fund issues. Scottish Homes Pension Fund is then recharged for these services on a defined basis. All other staff that held key positions in the financial management of Lothian Pension Fund and Scottish Homes Pension Fund were employed by LPFE Limited. Total compensation paid in relation to key management personnel employed by LPFE Limited during the period was as follows:

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

Key management personnel employed by LPFE had accrued pensions totalling £134,724 (1 April 2021: £119,873) and lump sums totalling £131,304 (1 April 2020: £126,989) at the end of the period.

Staff are either employed by City of Edinburgh Council or LPFE Limited, and their costs reimbursed by the Pension Funds. The Councillors, who are members of the Pensions Committee, are also remunerated by City of Edinburgh Council.

16 Contingent assets/liabilities

Rectification of age discrimination - McCloud and Sargeant judgements

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

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

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

Final regulations to allow for implementation of the remedy are still to be laid, but the Fund has already begun preparatory work to review member data and gather supplementary information from employers.
The Fund's IAS26 reporting from its actuary, as disclosed in Note 12, takes into account the appeal decision and the proposed remedy.

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

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

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

17 Contractual commitments

The Fund had no contractual commitments at the year end.

18 Impairment losses

No impairment losses have been identified during the year.

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

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

Description of Funding Policy

The Administering Authority's Funding Strategy Statement (FSS), dated September 2021, states that a bespoke funding strategy has been adopted for the Fund.

The strategy aims for the Fund to be 100% solvent by 2044 using a discount rate based on government bonds. It includes target funding levels at each actuarial valuation. Contributions from the Scottish Government are determined by reference to the target funding levels.

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

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018 was as at 31 March 2020. This valuation revealed that the Fund's assets, which at 31 March 2020 were valued at £166.1 million, were sufficient to meet 117.7% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2020 valuation was £24.9 million.

The Guarantor's contributions for the period 1 April 2021 to 31 March 2024 were set in accordance with the Fund's funding policy as set out in its FSS.

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

Principal Actuarial Assumptions and Method used to value the liabilities

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

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date.

Assumptions

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

The key financial assumptions adopted for the 2020 valuation were as follows:

Financial assumptions	31 March 2020
Discount Rate	Bank of England nominal yield curve
Benefit increase assumption (CPI)	Bank of England implied inflation (RPI) curve less 0.9% p.a.

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

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2019 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 2.0% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Male	Female
Current Pensioners	20.8 years	23.3 years
Future Pensioners *	21.1 years	26.0 years

**Currently aged 45*

Copies of the 2020 valuation report and Funding Strategy Statement are available on the LPF website.

Experience over the period since 31 March 2020

Since the last formal valuation, real bond yields have fallen slightly, placing a higher value on the liabilities and on the assets held by the Fund. As a result, the funding level of the Fund as at 31 March 2022 is likely to be fairly similar to that reported at the previous formal valuation.

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

Richard Warden FFA
For and on behalf of Hymans Robertson LLP
11 May 2022

ACCOUNTING POLICIES AND GENERAL NOTES

1. Basis of preparation

The Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The Financial Statements summarises the transactions of the Funds for the 2021/22 financial year and report on the net assets available to pay pension benefits as at 31 March 2022. The Financial Statements don't take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present values of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, are disclosed in the Notes to the Financial Statements.

The Financial Statements are prepared on the going concern basis, which provides that the funds will continue in operational existence for the foreseeable future. The basis is on the grounds that there's sufficient funding available to the funds to support the anticipated continuation of the provision of services.

2. Summary of significant accounting policies

General

a) Basis of consolidation – Group accounts

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

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

Further details of the consolidation are provided in the Notes to the Financial Statements of Lothian Pension Fund.

LPFE Limited (LPFE) and LPFI Limited (LPFI) are wholly owned by the City of Edinburgh Council in its capacity as administering authority for the Local Government Pension Scheme in the Lothian area.

The purpose of LPFE is to provide staff services in respect of management of the Fund. LPFI's purpose is to provide FCA regulated services to LPF and other Local Government Pension Scheme funds. It's considered appropriate to consolidate the Financial Statements of the two companies with those of Lothian Pension Fund.

ACCOUNTING POLICIES AND GENERAL NOTES

Fund Account – revenue recognition

b) Contribution income

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the rate certified by the Scheme Actuary in the payroll period to which they relate.

Similarly, employer deficit funding contributions are accounted for on the due date on which they're payable as certified by the Scheme Actuary.

Employers' pensions strain contributions are accounted for in the period in which the liability arises. Any amount due but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

c) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

d) Investment income

i) Interest income

Interest income is recognised in the Fund Accounts as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

ACCOUNTING POLICIES AND GENERAL NOTES

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iv) Income from unquoted private equity and infrastructure investments

Income from the above sources is recognised when it's notified by the manager. Distributions are split into capital and income elements with the latter being included under investment income in the Fund Account.

v) Property related income

Property-related income consists primarily of rental income. Rental income from operating leases on properties owned by Lothian Pension Fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Rental income is reported gross with the operational costs of the properties included in investment management expenses.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

vi) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account – expense items

e) Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

ACCOUNTING POLICIES AND GENERAL NOTES

f) Taxation

i) Pension Funds

The Local Government Pension Scheme is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

ii) Controlled entities – LPFE and LPFI

The Companies are mutual traders and are therefore not liable to corporation tax on any surpluses generated from services provided in respect of the Fund. The tax charges for the period are based on any profit for the period from non-mutual trade, adjusted for any non-assessable or disallowed items. They're calculated using tax rates that have been enacted or are substantively enacted by the period end date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. No deferred tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets are recognised to the extent that it's probable that future profits will be available against which deductible temporary differences can be utilised.

The amount of benefit brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

ACCOUNTING POLICIES AND GENERAL NOTES

g) Administrative expenses

All administrative expenses are accounted for on an accruals basis. Lothian Pension Fund is responsible for administering the two Funds. The costs include charges from LPFE and LPFI for services rendered. LPF receives an allocation of the overheads of the Council based on the amount of central services consumed. In turn, these costs are allocated to the two Funds.

Costs directly attributable to a specific fund are charged to the relevant fund. Investment management costs that are common to all funds are allocated in proportion to the value of each fund as at the end of the year. Other administration costs are allocated in proportion to the number of members in each of the funds at the end of the year.

h) Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

For some investment managers, an element of their fee is performance related. The amount of any performance related fees paid is disclosed in the note to the accounts on investment management expenses provided for each Fund.

The cost of administering the Local Government Pension Scheme in the UK has come under increasing scrutiny in recent years. As a result, it has been decided to recognise investment management costs that are deducted from the value of an investment and recognised this as a cost in the Fund Account rather than as a reduction in the change in market value of investments. Investment transaction costs that are added to an investment purchase price or deducted from the proceeds of a sale are also recognised as a cost in the Fund Account rather than as a reduction in the change in market value of investments.

In June 2016, CIPFA revised and updated its guidance “Accounting for Local Government Pension Scheme Management Costs”. Whilst the underlying principle of transparency of investment costs remains unchanged, there’s been a degree of relaxation to full cost disclosure. Specifically, for complex ‘fund of funds’ structures, the new guidance states that “Investment costs incurred by a separate legal entity, or in respect of investment decisions over which the pension fund has no control, should not be included in the (Pension) Fund Account . . . If pension funds wish to provide information about the total cost of ‘fund of fund’ investments, this should be included as part of the Investments section in the Annual Report.”

The impact of this is that investment management costs deducted from any underlying fund in a ‘fund of funds’ investment would not be included in the costs disclosed in the Fund Account. As this would significantly under-report investment management costs, it has been decided not to adopt this element of the CIPFA guidance. However, this type of cost is separately identified as "external management fees – deducted from capital (indirect)" in the notes on investment management expenses.

ACCOUNTING POLICIES AND GENERAL NOTES

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are not treated as an expense. Such costs are accounted for as part of the acquisition costs or sale proceeds.

The cost of obtaining investment advice from external consultants is included in investment management charges.

The costs of the in-house investment management team are charged to the fund. The basis of allocation is as described in section g.

Securities lending revenue is reported gross and their fees are disclosed in investment management expenses.

i) Operating lease

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the term of the lease. In accordance with IFRS 16, lease incentives are recognised as a reduction in the lease expense over the term of the lease on a straight-line basis.

Net Assets Statement

j) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS13. For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

The basis of the valuation of each class of investment assets is set out on the next page. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

LPF RETIREMENT GOALS

'I'd like to give something back to the community by volunteering more'

ACCOUNTING POLICIES AND GENERAL NOTES

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuations provided
Market quoted investments - Equities	Level 1	Closing bid value on published exchanges	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Future derivative contracts	Level 1	Determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.	Not required	Not required
Forward foreign exchange derivatives	Level 1	Based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.	Not required	Not required
Government bonds – fixed interest / index linked gilts	Level 2	Recorded at net market value based on their current yields.	Evaluated price feeds	Not required
Freehold and leasehold properties	Level 3	Valued at fair value at the year-end using the investment method of valuation by Oliver Hayes FRICS of independent valuers, CBRE Ltd in accordance with RICS Red Book Global Valuation Standards (introduced with effect from 31 January 2022).	Existing lease terms and rentals. Independent market research. Nature of tenancies. Covenant strength for existing tenants. Assumed vacancy levels. Estimated rental growth. Discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market price
Unquoted Pooled investments – Private Equity, Infrastructure, Timber, Private Secured Loans & Property	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Guidelines and the IPEV Board's Special Valuation Guidance (March 2020).	EBITDA multiple Revenue multiple. Discount for lack of marketability. Control premium.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

ACCOUNTING POLICIES AND GENERAL NOTES

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisers, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2022.

Lothian Pension Fund	Assessed Valuation range (+ or -)	Value at 31 March 2021	Value on increase	Value on decrease
Unquoted		**£m**	**£m**	**£m**
Private Equity	26.0%	44	55	33
Infrastructure	12.0%	932	1,044	820
Timber	18.0%	108	127	89
Private Secured Loans	10.5%	261	288	234
Property	13.0%	505	571	439
		1,850	**2,085**	**1,615**

Scottish Homes Pension Fund has no assets valued at Level 3.

k) Foreign currency transactions and balances

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

l) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

m) Financial liabilities

The Fund recognise financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised.

n) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits of each of the Fund is assessed on an annual

ACCOUNTING POLICIES AND GENERAL NOTES

basis by the Scheme Actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statements.

o) Additional voluntary contributions

The Lothian Pension Fund provide an additional voluntary contributions (AVC) scheme for their members, the assets of which are invested separately from those of the Fund. The Fund has appointed Standard Life and Prudential as their AVC providers. AVCs are paid to the AVC providers by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

In accordance with regulation 5(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998, AVCs are not included in pension fund financial statements. Details of contributions paid and the total value of funds invested are disclosed by way of note.

p) Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the Net Assets Statement but are disclosed by way of narrative in the notes.

q) Employee benefits

The employees of LPFE are eligible to participate in Lothian Pension Fund.

In the Consolidated Financial Statements, the current service cost for the period is charged to the Fund Account. The assets of Lothian Pension Fund are held separately from those of the Company. The Company has fully adopted the accounting principles as required by IAS19 – Employee Benefits.

The liability recognised in the Net Asset Statement in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs.

ACCOUNTING POLICIES AND GENERAL NOTES

The defined benefit obligation is calculated annually, by the Scheme Actuary, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in a currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the Fund Account in the period in which they arise.

Past-service costs are recognised immediately in the Fund Account, unless the changes to the pension plan are conditional on the employees remaining in service for a specified time period (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

3. Accounting Standards that have been issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2022/23 Code:

- The Code requires implementation from 1 April 2022 and there is therefore no impact on the 2021/22 financial statements.
- IFRS 16 Leases (early adoption in 2022/23)
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IAS 37, IFRS 16, IAS 41)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS16)

The amendments are generally minor or principally providing clarification. Overall, these new or amended standards are not expected to have a significant impact on the financial statements.

ACCOUNTING POLICIES AND GENERAL NOTES

4 . Critical judgements in applying accounting policies

Unquoted private equity and infrastructure investments

It's important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments.

They're inherently based on forward-looking estimates and judgements involving many factors. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation (IPEV) Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of IFRS.

For the Lothian Pension Fund, the value of unquoted private equity, infrastructure, timber and secured loan investments at 31 March 2022 was £1,344m (2021 £1,330m).

Actuarial present value of promised retirement benefits

Each Fund is required to disclose the estimated actuarial present value of promised retirement benefits as at the end of the financial year. These estimates are prepared by the Fund Actuary. These values are calculated in line with International Accounting Standard 19 (IAS19) assumptions and comply with the requirements of IAS26. However, the results are subject to significant variances based on changes to the underlying assumptions.

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

5 . Assumptions made about the future and other major sources of estimation uncertainty

The Financial Statements contain estimated figures that are based on assumptions made by the Council; private equity and infrastructure managers; other providers of valuation information; and the Scheme Actuary about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because amounts cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2022 for which there's a significant risk of material adjustment in the forthcoming financial year are as follows:

ACCOUNTING POLICIES AND GENERAL NOTES

a) Actuarial present value of promised retirement benefits

Uncertainties

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on the fund's assets. The Fund actuary advises on the assumptions to be applied and prepares the estimates.

Effect if actual results differ from assumptions – Lothian Pension Fund

The effects on the net pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions – year ended 31 March 2022	Approx Increase in liabilities %	Approx monetary amount £m
0.1% decrease in the real discount rate	2	196
1 year increase in member life expectancy	4	402
0.5% increase in salary increase rate	1	100
0.1% increase in pensions increase rate	2	174

Effect if actual results differ from assumptions – Scottish Homes Pension Fund

The effects on the net pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions – year ended 31 March 2022	Approx Increase in liabilities %	Approx monetary amount £m
0.1% decrease in the real discount rate	1	1
1 year increase in member life expectancy	4	5
0.1% increase in pensions increase rate	1	1

ACCOUNTING POLICIES AND GENERAL NOTES

b) Valuation of unquoted private equity and infrastructure investments

Uncertainties

These investments aren't publicly listed and therefore there's a degree of estimation involved in their valuation, see 2j above for more details on the valuation methodology.

Effect if actual results differ from assumptions

There is a risk that these investments may be under or overstated in the accounts at any point in time. The actual financial return of this type of investment is only known with certainty when they reach the end of their lifecycles and the final distributions are made to investors. A sensitivity analysis can be found in note 2j above.

c) Quantifying the cost of investment fees deducted from capital

Uncertainties

Section 2 h) describes the accounting policy for investment management expenses in relation to expenses deducted from the capital value of investments. Quantification of these costs involves asking the relevant managers for information and only some of this information can be independently verified. In cases where the charges relate to an investment as a whole, an estimate needs to be made of the costs applicable to the holding owned by the relevant fund.

Effect if actual results differ from assumptions

There's a risk that the cost of investment fees deducted from capital may be under or overstated. However, as the costs are included in the Fund Account by adjusting the change in market value of investments, any inaccuracy in the cost estimate will not change the reported net change in the Fund for the year.

STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

The responsibilities of the Administering Authority

The Administering Authority's responsibilities are to:

- Make arrangements for the proper administration of the financial affairs of the Fund in its charge and to secure that one of its officers has the responsibility for the administration of those affairs. The Head of Finance serves as the Section 95 Officer for all the Council’s accounting arrangements, including those of Lothian Pension Fund and Scottish Homes Pension Fund. For the Fund, this Section 95 responsibility has been delegated to the Chief Finance Officer, Lothian Pension Fund
- Manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and, so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003)
- Approve the Unaudited Annual Accounts for signature.

Hugh Dunn

Service Director: Finance and Procurement
The City of Edinburgh Council
28 September 2022

STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

The responsibilities of the Chief Finance Officer, Lothian Pension Fund

The Chief Finance Officer, Lothian Pension Fund, is responsible for the preparation of the Fund's Financial Statements which, in terms of the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code of Practice), is required to present a true and fair view of the financial position of the Fund at the accounting date and their income and expenditure for the year ended 31 March 2022.

In preparing this statement of accounts, the Chief Finance Officer, Lothian Pension Fund, has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with legislation and the Local Authority Accounting Code (in so far as it is compatible with legislation)

The Chief Finance Officer, Lothian Pension Fund, has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the financial statements give a true and fair view of the financial position of the Pension Fund as at 31 March 2022 and the transactions of the Pension Fund for year ended 31 March 2022.

John Burns, FCMA CGMA PgC
Chief Finance Officer
Lothian Pension Fund
28 September 2022

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Independent auditor's report to the members of City of Edinburgh Council as administering authority for Lothian Pension Fund and Scottish Homes Pension Fund and the Accounts Commission

Report 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 and Scottish Homes Pension Fund (the Funds) for the year ended 31 March 2022 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Lothian Pension Fund Fund Account, the Lothian Pension Fund Net Assets Statement, Scottish Homes Pension Fund Fund Account, the Scottish Homes Pension Fund Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. 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 2021/22 (the 2021/22 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2021/22 Code of the financial transactions of the Funds during the year ended 31 March 2022 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 2021/22 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 31 May 2016. The period of total uninterrupted appointment is six years. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

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.

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 Fund's 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.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

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:

- obtaining an understanding of the applicable legal and regulatory framework and how the Funds are complying with that framework;
- identifying which laws and regulations are significant in the context of the Funds;
- assessing 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.

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

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.

REPORTING ON OTHER REQUIREMENTS

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 or 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 and accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, 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 120 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.

Nick Bennett, for and on behalf of Azets Audit Services
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL
Date:

ANNUAL GOVERNANCE STATEMENT

Roles and responsibilities

The City of Edinburgh Council (the Council) has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in the Lothian area of Scotland (Administering Authority). This responsibility is for two separate Funds: the Lothian Pension Fund and Scottish Homes Pension Fund (the Fund). Responsibility for the oversight and management of those funds is delegated to a governance structure in order to satisfy the requirements of relevant pensions and investment legislation and to ensure best practice.

Oversight bodies: The main functions of the Administering Authority are administration of scheme benefits and the investment of the assets of the Fund. These functions are conducted in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972. The Fund's governance structure must also adhere to the Local Government Pension Scheme (Governance)(Scotland) Regulations 2015. The oversight of the Funds is therefore carried out via:

- The Pensions Committee and the Pensions Audit Sub-Committee
- The Pension Board
- The Joint Investment Strategy Panel
- The LPF Group.

Corporate group: The Lothian Pension Fund group comprises the investment and pensions team employed by LPFE Limited (LPFE) and LPFI Limited (LPFI), the Group's regulated investment vehicle (together the LPF Group). Both companies are wholly owned by the Administering Authority.

Further details on the above arrangements can be found in the Governance section of the Management Commentary towards the front of this document.

Scope of responsibility

As the Administering Authority of the Fund, the Council is responsible for ensuring that its business in administering the Fund, is conducted in accordance with the law and appropriate standards, and that monies are safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a statutory duty under the Local Government in Scotland Act 2003, to make arrangements to secure best value, which for the Fund is exercised in conjunction with its other separate statutory duties.

In discharging these overall responsibilities, elected members, senior officers and external representatives are responsible for implementing effective arrangements for governing the affairs of the LPF Group, and facilitating the effective exercise of its functions, including arrangements for the management of risk.

ANNUAL GOVERNANCE STATEMENT

The LPF Group has adopted a Local Code of Corporate Governance that's consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) framework 'Delivering Good Governance in Local Government'.

This statement explains how the LPF Group has complied with the Local Code of Corporate Governance and how it meets the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

The governance framework

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

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

The LPF Group has a few remaining services on which it relies from the Administering Authority. These include the Council's Democracy, Governance and Resilience, Procurement, Information Governance and Internal Audit functions, all of which form part of the LPF Group's overall assurance stack. However, the Fund also seeks specialist external input in order to provide effective assurance around its financial services, investments and pensions specific business.

The LPF Group also currently places reliance upon certain of the internal financial controls within the Administering Authority's financial systems and the monitoring in place to ensure the effectiveness of these controls.

Following the establishment of the wholly-owned subsidiary companies, LPFE and LPFI, the Administering Authority continues to have appropriate assurance processes and procedures around the administration of those companies and the wider LPF Group administering the Fund.

ANNUAL GOVERNANCE STATEMENT

Review of Affectiveness

The Local Code of Governance details the Administering Authority's arrangements for monitoring each element of the framework and providing evidence of compliance.

The Chief Internal Auditor provides an annual assurance statement on the effectiveness of the system of internal control. The internal audit represents only one aspect of the LPF Group's wider assurance stack, which also includes significant external assurance around the group's systems and controls, data security, human resources, risk management frameworks and FCA regulated compliance. In addition, the Chief Finance Officer of the LPF Group provides a statement of the effectiveness of the internal financial control system for the year ended 31 March 2022 for the Fund.

These forms of external assurance continue to provide the Pensions Committee, Pension Board and boards of LPFE and LPFI with good levels of assurance and broad coverage of the group's activities (where specialist professional knowledge and expertise is required) and haven't raised any material issues in this financial year.

The group closely monitors its overall "assurance stack" to ensure that it has appropriate levels of coverage proportionate to its business model and structures, and in line with its risk appetite. Stakeholders are comfortable with the levels of assurance provided, but the group is currently reviewing the structuring and affectiveness of its third line Internal Audit assurance.

ANNUAL GOVERNANCE STATEMENT

Certification

It's our opinion, in light of the foregoing, that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance that operate within the LPF Group in its administration of the Fund. We consider the governance and internal control environment operating during the financial year from 1 April 2021 to 31 March 2022 to provide reasonable and objective assurance that any significant risks impacting on the LPF Group and its ability to achieve its objectives in properly administering the Fund have and will continue to be identified and suitably proportionate actions have and will be taken to avoid or mitigate the impact of any such risks.

The LPF Group has identified certain key areas for improvement, summarised as follows:

- **Merger:** to explore the possibility of a merger with the Falkirk Council Pension Fund and the attendant structural (governance and legal) enhancements that will flow from that initiative.
- **Human resources:** to continue to implement the human resources strategy and Governance specific to LPF Group's requirements, prioritising an intranet to reinforce communications on policies, procedures and group "culture"
- **Pension Board:** to ensure that vacancies in the Pension Board are filled timeously and by suitable candidates and that this body of external stakeholder representatives receives the training and support it requires on an ongoing basis
- **Business continuity:** to continue to assess and refresh the business continuity plan on an ongoing basis
- **Financial services regulatory compliance:** to continue to instruct external compliance audits on the operations and governance of LPFI in order to ensure best practice compliance and assurance around its existing operations (and in preparation for its extended collaborative business model) and take action to address the recommendations from those audits on an ongoing basis
- **Third line:** to review the structure and effectiveness of its internal audit assurance
- **Data security:** we're working towards achieving Cyber Essentials and Cyber Essentials+ accreditation and aim to have this by the end of 2022. Cyber Essentials is a UK Government backed scheme, overseen by the National Cyber Security Centre, designed to show that an organisation has a good level of protection in cyber security
- **Wider governance:** to continue to maintain and reinforce separate governance and controls specific to the needs of the LPF Group, the pensions funds it administers and its distinct duties to employer and member stakeholders, consistently throughout the LPF Group's governance structures. To ensure that oversight from the Administering Authority is supported in a manner consistent with those duties.

ANNUAL GOVERNANCE STATEMENT

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

David Vallery
Chief Executive Officer
Lothian Pension Fund
28 September 2022

GOVERNANCE COMPLIANCE STATEMENT

The Regulations that govern the management of Local Government Pension Scheme in Scotland require that a Governance Compliance Statement is published. This statement sets out the extent to which governance arrangements comply with best practice.

The statement below describes arrangements at 31 March 2022 and over the financial year.

Principle		Full Compliance	Comments
Structure	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.	✔	The City of Edinburgh Council acts as administering authority and delegates all pension scheme matters* to a committee of seven members (Pensions Committee) made up as follows: • Five City of Edinburgh Council elected members • Two external members, one drawn from the membership of the Fund and one drawn from the employers that participate in the Fund. **with the exception of consideration of a proposed merger with LPF and Falkirk Council Pension Fund.*
	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	✔	The Pensions Committee includes two external places for pension fund stakeholders i.e. one each from the employer and member representatives. Fund members and employers are also represented within the Fund's Pension Board. Membership includes five employer representatives and five member representatives, although this is currently under review. All members of the Pension Board are invited to attend the meeting of the Pensions Committee and receive the relevant papers prior to those meetings. Two members of the Pension Board are invited to attend the Pensions Audit Sub-Committee.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Structure	That where a secondary committee or board has been established, the structure ensures effective communication across both levels.	✔	The Pensions Audit Sub-Committee, consisting of three members of the Pensions Committee, report to the Pensions Committee on their findings and recommendations. Two members of the Pension Board attend the Pensions Audit Sub-Committee in a non-voting capacity. The Pension Board attends the Pensions Committee meetings and takes part in training events. Implementation of investment strategy is currently delegated from the Pensions Committee to the Service Director: Finance and Procurement, who takes advice from the Joint Investment Strategy Panel. The Panel meets quarterly and reports to the Pensions Committee annually. The advisers on the Joint Investment Strategy Panel consists of the Chief Investment Officer and one other portfolio manager of LPFI plus two experienced independent external industry advisers. The Pensions Committee receives annual updates from LPFE and LPFI.
Representation	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include employing authorities (including non-scheme employers, e.g. admitted bodies) and scheme members (including deferred and pensioner scheme members).	✔	The Pension Board consists of a mix of representatives: • Five employer representatives from non-administering authority employers • Five member representatives appointed by the Trade Unions in accordance with the approach required under Scottish statute.
	Where appropriate, independent professional observers, and expert advisers (on an ad-hoc basis).	✔	Our current Independent Professional Observer (IPO) was appointed in August 2018. The appointment was extended in August 2021 for a further two years. The IPO helps Committee scrutinise advice.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Representation	Where appropriate, independent professional observers, and expert advisers (on an ad-hoc basis).	✔	As mentioned previously, external investment advisers sit on the Joint Investment Strategy Panel. A separate specialist Pensions Audit Sub-Committee consisting of three members (including at least two elected members from the City of Edinburgh Council) undertake the audit scrutiny of the Funds. A non-executive director was appointed to the board of LPFI on 7 February 2017 and LPFE on 19 March 2018 with a further two year reappointment being approved in January 2021 to both LPFE and LPFI Boards. A further non-executive director was appointed to the board of LPFI on 22 January 2021 and LPFE on 11 February 2021. An external compliance consultant supports the LPF Group on its ongoing compliance with the Financial Conduct Authority rules, regulations and guidance.
	That where lay members sit on a main or secondary committee, they're treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	✔	The Pension Board attends the Pensions Committee meetings to help ensure that the operation of the pension funds is in accordance with the applicable law and regulation. The Pension Board takes part in all Committee training events. The Pensions Committee takes account of the views of the Pension Board when making decisions.
Selection and Role of Lay Members	That Committee or Board members are made fully aware of the status, role and function that they're required to perform on either a main or secondary Committee.	✔	A comprehensive training programme including induction is in place. Members of the Pensions Committee and Pension Board are expected to attend no less than three days of training (21 hours) per year. The elected members are required to read, sign and abide by the Councillors' Code of Conduct. The LPF Code of Conduct, approved in December 2019 (which has been specifically updated and tailored for the Pension Committee and Pension Board) is required to be read and signed by elected and non-elected members prior to their appointment.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Selection and Role of Lay Members	That at the start of any meeting, Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	✔	The declaration of members' interests is a standard item on the agenda for meetings of the Pensions Committee, Pensions Audit Sub-Committee and Pension Board. A Code of Conduct also applies to all members of the Pensions Committee and the Pension Board. The declaration of board members' interest is a standard item on the agenda for the meetings for the LPFE and LPFI board meetings.
Voting	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS Committees.	✔	Five of the seven places of the Pensions Committee are held by elected members of the City of Edinburgh Council, which is required to retain a 2/3 majority in line with the Local Government (Scotland) Act 1973. The LPF Group's Nomination and Appointments Policy clearly documents how employer and member representatives will be elected to the Pensions Committee and Pension Board. LPFI and LPFE board members conduct meetings and other matters in accordance with their respective articles of association and shareholders' agreements.
Training/Facility Time/Expenses	a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	✔	A Training and Attendance Policy is in place covering training requirements and reimbursement of expenses. The policy is available on the LPF Group's website www.lpf.org.uk. Board members and staff working for LPFI and LPFE also attend separate training for the purposes of their knowledge, understanding and (where appropriate) compliance with Financial Conduct Authority regulations.
	b) That where such a policy exists, it applies equally to all members of Committees, Sub-Committees, advisory panels or any other form of secondary forum.	✔	The Training and Attendance Policy applies to both the Pensions Committee and the Pension Board. Advisers have their own professional development obligations.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Training/Facility Time/Expenses	c) That the administering authority considers the adoption of annual training plans for Committee and Board members and maintains a log of all such training.	✔	Each Pensions Committee and Pension Board member is expected to attend no less than three days training per year (21 hours) per year. Attendance at meetings and training is monitored and reported.
Meetings frequency	a) That an administering authority's main Committee or Committees meet at least quarterly.	✔	The Pensions Committee meets at least four times a year. Due to urgent business, the Pension Committee met an additional time on 20 August 2021.
	b) That an administering authority's secondary Committee or panel meet at least twice a year and is synchronised with the dates when the main Committees sits.	✔	The Pensions Audit Sub-Committee is held before the Pensions Committee at least three times a year with further meetings held if necessary. The Joint Investment Strategy Panel meets quarterly or more frequently as required. The Pension Board attends all the Pensions Committee meetings and separately meets in advance of such meetings. Further meetings are held if necessary. The LPFE and LPFI boards meet six times a year (in February, May, June, August, October and December).
	c) That an administering authority who doesn't include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not applicable	
Access	That subject to any rules in the council's constitution, all members of main and secondary Committees or Boards have equal access to committee papers, documents and advice that falls to be considered at meetings of the main Committee.	✔	Pensions Committee papers and minutes are publicly available on the Council's website and all Pensions Committee and Pension Board members have equal access. Members of the Pensions Committee and Pension Board have equal access to the Independent Professional Observer who provides quarterly updates and attends all Pension Committee, Audit Sub Committee and Pension Board meetings.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Scope	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	✔	The Pensions Committee deals with all matters relating to both the administration and investment of the Fund and the LPF Group. A separate specialist Pensions Audit Sub-Committee consisting of three members (including at least two elected members from the City of Edinburgh Council) undertake the audit scrutiny of the Fund.
Publicity	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	✔	Governance documents, policies and details of Pension Board membership are on the LPF Group's website. The LPF Group also communicates regularly with employers and scheme members.

David Vallery
Chief Executive Officer
Lothian Pension Fund
28 September 2022

REMUNERATION REPORT

Remuneration policy for employees

Our officers and employees of Lothian Pension Fund are employed by LPFE, an arms-length organisation owned by the City of Edinburgh Council, the administering authority for Lothian Pension Fund. In recent years LPFE has been incorporated as a standalone entity to allow us to compete with private sector investment management firms for recruitment and retention of skilled and experienced investment managers and analysts.

Operating this model allows us to achieve significantly lower costs, and therefore improved net returns or lower investment risk than would be possible by appointing private sector asset managers to invest the Fund's assets. The LPFE Board acts as a Remuneration Committee for officers and employees determining pay arrangements based on comparison to well-researched market benchmarks and performance against pre-agreed performance targets, and always linked to the principle of delivering value-for-money for the members of the Fund and their sponsoring employers.

Each year LPF participates in a range of benchmarking exercises to measure operating costs and net investment returns against peers and indices relevant to us. Pay arrangements in LPFE are underpinned by comprehensive market benchmarking with an external provider and reflect the market for investment expertise where this is a requirement for the role. By using benchmarks on costs and net investment returns, we're able to provide assurance to our oversight bodies that such pay arrangements represent value-for-money for employee members and their sponsoring employers who bear the costs of operating the pension fund and securing retirement benefits.

We have three variable pay schemes at LPF; two of which have vesting periods. The Portfolio Manager and Senior Management schemes entitle colleagues to receive an assessed percentage of their salary as an additional variable pay award if they meet certain objectives during the year. The assessment year runs from 1 January to 31 December each year. The award then vests over three years.

The first part is payable at the end of the first year if the objectives are met and the remaining two parts are payable in the following two years if the requirement that the employee is still employed by the company at such time is met.

The accounting treatment for variable pay as outlined in "International Accounting Standard (IAS) 19, Employee Benefits" states that employee service before the vesting date gives rise to an obligation to make payment, because, at the end of each successive reporting period, the amount of future service that an employee will have to deliver before becoming entitled to the benefit is reduced.

In accordance with IAS 19, therefore, a liability has been raised as at 31 March 2022 for the two months of service which the employees have delivered with regards to the remaining vested payments in the scheme.

REMUNERATION REPORT

This obligation of LPF to make payments as a result of colleague service delivered up to 31 March 2022 is reflected in the figures presented below.

NUMBER OF EMPLOYEES BY PAY BAND

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

Remuneration Bands	2020/21	2021/22	Remuneration Bands	2020/21	2021/22
£50,000 - £54,999	-	1	£115,000 - £119,999	-	1
£55,000 - £59,999	-	-	£120,000 - £124,999	-	-
£60,000 - £64,999	4	1	£125,000 - £129,999	1	-
£65,000 - £69,999	-	2	£130,000 - £134,999	3	1
£70,000 - £74,999	2	-	£135,000 - £139,999	1	2
£75,000 - £79,999	-	2	£140,000 - £144,999	1	2
£80,000 - £84,999	1	1	£145,000 - £149,999	-	1
£85,000 - £89,999	-	-	£150,000 - £154,999	-	-
£90,000 - £94,999	-	-	£155,000 - £159,999	1	-
£95,000 - £99,999	-	-	£160,000 - £164,999	-	3
£100,000 - £104,999	2	1	£165,000 - £169,999	4	-
£105,000 - £109,999	-	-	£170,000 - £174,999	-	-
£110,000 - £114,999	-	2	£175,000 - £189,000	-	1
			Total No. of Employees	**20**	**21**

REMUNERATION REPORT

EMPLOYEES REMUNERATION

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

	Total Remuneration 2020/21	Salary, Fees and Allowances	Variable Remuneration	Total Remuneration 2021/22
Name and Post Title	**£000**	**£000**	**£000**	**£000**
Doug Heron, Chief Executive Officer (to July 2021)	157	47	-	47
David Vallery, Chief Executive Officer (from June 2021)	-	98	16	114
Bruce Miller, Chief Investment Officer	169	119	57	176
Struan Fairbairn, Chief Risk Officer (resigned March 2022)	132	94	44	138
John Burns, Chief Finance Officer	126	90	42	132
Helen Honeyman, Chief People Officer	98	82	30	112
Total	**682**	**530**	**189**	**719**

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

REMUNERATION REPORT

The variable remuneration shown above includes the Company variable remuneration for 2021/22 along with the Senior Management variable remuneration for 2020/21 and vested payment for the previous two assessment years. This is split as follows:

	Company Variable Remuneration 2021/22	Senior Management Variable Remuneration			Total Variable Remuneration 2021/22
		2020 Payment 3	2021 Payment 2	2022 Payment 1	
Name and Post Title	**£000**	**£000**	**£000**	**£000**	**£000**
Doug Heron, Chief Executive Officer (to July 2021)	-	-	-	-	-
David Vallery, Chief Executive Officer (from June 2021)	6	-	-	10	16
Bruce Miller, Chief Investment Officer	12	14	14	17	57
Struan Fairbairn, Chief Risk Officer (resigned March 2022)	9	11	11	13	44
John Burns, Chief Finance Officer	9	11	10	12	42
Helen Honeyman, Chief People Officer	8	-	9	13	30
Total	**44**	**36**	**44**	**65**	**189**

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

	Total Remuneration 2020/21	Salary, Fees and Allowances	Variable Remuneration	Total Remuneration 2021/22
Name and Post Title	**£000**	**£000**	**£000**	**£000**
Andrew Imrie, Portfolio Manager	167	111	53	164
Stewart Piotrowicz, Portfolio Manager	166	109	53	162
Ian Wagstaff, Portfolio Manager	166	111	53	164
Total	**499**	**331**	**159**	**490**

REMUNERATION REPORT

The variable remuneration shown on the previous page includes the Company variable remuneration for 2021/22 along with the Portfolio Manager variable remuneration for 2021/22 and vested payment for the previous two assessment years. This is split as follows:

	Company Variable Remuneration 2021/22	Portfolio Manager Variable Remuneration			Total Variable Remuneration 2021/22
		2020 Payment 3	2021 Payment 2	2022 Payment 1	
Name and Post Title	£000	£000	£000	£000	£000
Andrew Imrie, Portfolio Manager	11	14	13	15	53
Stewart Piotrowicz, Portfolio Manager	11	14	13	15	53
Ian Wagstaff, Portfolio Manager	11	14	13	15	53
Total	**33**	**42**	**39**	**45**	**159**

Senior officers of the City of Edinburgh Council are also fully remunerated via the Council and no additional remuneration is paid by LPF. This remuneration is disclosed in the Financial Statements of the City of Edinburgh Council.

The total amount of variable remuneration payable over the next two years if all of the colleagues involved in the arrangements at 31 January 2022 remain in the company's employment is as follows:

	Payable January 2023		Payable January 2024
	2021 Payment 3	2022 Payment 2	2022 Payment 3
	£000	£000	£000
Senior Employee Variable Remuneration	43	46	46
Portfolio Manager Variable Remuneration	84	104	104
Employer National Insurance Contribution	18	23	23
Total	**136**	**173**	**173**

The amounts payable for senior employee variable remuneration over the next two years exclude amounts previously calculated for Doug Heron and Struan Fairbairn in respect of performance in 2020/21 and 2021/22 following their resignations from LPFE in March 2021 and March 2022 respectively, and their subsequent foregoing of vested variable pay.

REMUNERATION REPORT

Colleague Pension Entitlement

Pension benefits for colleagues are provided through the Local Government Pension Scheme.

The Local Government Pension Scheme became a career average pay scheme for colleagues on 1 April 2015. Benefits built up to 31 March 2015 are protected and based on final salary. Accrued benefits from 1 April 2015 will be based on career average salary.

The Scheme's normal retirement age for colleagues is linked to the State Pension Age (with a minimum of age 65).

From 1 April 2009, a five-tier contribution system was introduced with contributions from Scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009, contributions rates were set at 6% for all non-manual colleagues.

The tiers and members' contribution rates for 2021/22 were as follows:

Pensionable Pay (2021/22)	Rate (%)
On earnings up to and including £22,300 (2020/2021 £22,200)	5.5%
On earnings above £22,301 and up to £27,300 (2020/2021 £22,200 to £27,100)	7.25%
On earnings above £27,301 and up to £37,400 (2020/2021 £27,100 to £37,200)	8.5%
On earnings above £37,401 and up to £49,900 (2020/2021 £37,200 to £49,600)	9.5%
On earnings of £49,901 and above (2020/2021 £49,600)	12.0%

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

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004.

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

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

REMUNERATION REPORT

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

	In-year Pension Contributions			Accrued Pension Benefits	
	2020/21	2021/22*		As at 31 March 2022	Increase from 31 March 2021
Name and Post Title	£000	£000		£000	£000
Doug Heron, Chief Executive Officer	40	8	Pension	6	1
			Lump Sum	-	-
David Vallery, Chief Executive Officer (from June 2021)	-	12	Pension	-	-
			Lump Sum	-	-
Bruce Miller, Chief Investment Officer	39	24	Pension	37	2
			Lump Sum	33	1
Struan Fairbairn, Chief Risk Officer (resigned March 2022)	30	19	Pension	16	2
			Lump Sum	-	-
John Burns, Chief Finance Officer	28	18	Pension	48	3
			Lump Sum	84	3
Helen Honeyman, Chief People Officer	26	16	Pension	4	4
			Lump Sum	-	-
Total	**163**	**97**		**228**	**16**

**The pension contribution rate for LPFE reduced from 30.4% in 2020/21 to 18.1% in 2021/22*

The pension entitlement of the LPF Group's colleagues whose remuneration during the year exceeded £150,000 is as follows:

	In-year Pension Contributions			Accrued Pension Benefits	
	2020/21	2021/22*		As at 31 March 2022	Increase from 31 March 2021
Name and Post Title	£000	£000		£000	£000
Andrew Imrie, Portfolio Manager	36	22	Pension	30	3
			Lump Sum	17	-
Stewart Piotrowicz, Portfolio Manager	36	22	Pension	25	3
			Lump Sum	-	-
Ian Wagstaff, Portfolio Manager	36	22	Pension	23	3
			Lump Sum	-	-
Total	**108**	**66**		**95**	**9**

**The pension contribution rate for LPFE reduced from 30.4% in 2020/21 to 18.1% in 2021/22*

REMUNERATION REPORT

Exit Packages

Exit packages include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs. There was no payment of any exit packages in 2021/22 or in the previous year.

Remuneration for Councillors on the Pensions Committee

Councillors on the Pensions Committee are remunerated by the City of Edinburgh Council; no additional remuneration is paid by the Fund.

ADDITIONAL INFORMATION

Key documents online

You can find further information on what we do and how we do it, on our website at www.lpf.org.uk. To view individual policy documents, click on the links below if viewing online or visit www.lpf.org.uk/publications.

- Actuarial Valuation reports
- Pension Board constitution
- Annual Report and Accounts
- Statement of Investment Principles
- Pension Administration Strategy
- Communications Strategy
- Funding Strategy Statement
- Service Plan
- Training and Attendance policy

Fund advisers

Actuaries:	Hymans Robertson LLP, Exchange Place One, 1 Semple Street, Edinburgh, EH3 8BL
Bankers:	Royal Bank of Scotland, 36 St Andrew Square, Edinburgh, EH2 2YB
Strategic advisers:	Kirstie MacGillvray and Stan Pearson
Investment custodians:	The Northern Trust Company, 50 Bank Street, Canary Wharf, London, E14 5NT
Investment managers:	Details can be found in the notes to the accounts.
Additional Voluntary Contributions (AVC) managers:	Standard Life, Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH M&G Corporate Services Limited, 10 Fenchurch Avenue, London EC3M 5AG.
Property valuations:	CBRE Ltd Valuation & Advisory Services, Henrietta House, 8 Henrietta Place, London W1G 0NB
Property Management and Property Fund Accounting:	Jones Lang LaSalle Limited: 30 Warwick Street, London, W1B 5NH
Property Legal:	CMS Cameron McKenna Nabarro Olswang LLP, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EN Addleshaw Goddard LLP, One St Peter's Square, Manchester, M2 3DE
Solicitors:	Lothian Pension Fund In-house

ADDITIONAL INFORMATION

Comments and suggestions

We appreciate your comments and suggestions on this report. Please let us know which sections you found useful and if you have any suggestions for items to be included in the future. Please email your comments to pensions@lpf.org.uk.

Accessibility

You can get this document on tape, in Braille, large print and various computer formats on request. Please contact the Interpretation and Translation Service (ITS) on 0131 242 8181 and quote reference number 00819. The ITS can also give information on community language translations.

Contact details

If you would like further information about Lothian Pension Fund and Scottish Home Pension Fund, please contact us using the details on the back page of this report.

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