



**Remuneration Disclosures
Year End 31 March 2024**

1. Overview

1.1 Background

This document sets out the Investment Firm Prudential Regime (“IFPR”) remuneration disclosures for LPFI Ltd in accordance with FCA MIFIDPRU requirements. LPFI is authorised and regulated by the FCA.

LPFI is wholly owned and controlled by Lothian Pension Fund (LPF), a Scottish local government pension scheme which is administered by the City of Edinburgh Council.

The LPF Group consists of three entities:

- LPF, which acts through its administering authority, CEC, a local authority;
- LPFI Limited, a limited company wholly owned and controlled by LPF, established to provide regulated investment services; and
- LPFE Limited, a limited company wholly owned and controlled by LPF, established to provide the Group with staff and other associated resources (LPFE). LPFE is a close link of LPFI.

1.2 Scope

From 1 April to 30 June 2023, LPFI was classified as a small and non-intercorrected firm (SNI). Due to an increase in assets under management, LPFI was recategorised as a non-SNI firm with effect from 1 July 2024..

For this financial year (FY24), LPFI is required to meet SNI disclosure obligations only, and has prepared this document on that basis. From FY25, LPFI will be in scope of non-SNI disclosure obligations.

1.3 Frequency

This disclosure will be published annually online at <https://www.lpf.org.uk/about-us/lpfi/>.

2. Remuneration approach

Our approach to remuneration is intended to:

1. Maintain a competitive package that will attract, motivate, and retain the skills, knowledge, experience, talent, and high performing individuals required to deliver in the sectors within which we operate.
2. Align the interests of our employees with those of our Stakeholders, namely, to be a leader in pension services and to deliver sustainable pensions and long-term Stakeholder satisfaction in a competitive people market.
3. Promote sound and effective risk management, by avoiding excessive or inappropriate risk taking.
4. Provide transparency and fairness of pay throughout the organisation.
5. Ensure value for money in terms of both the overall workforce pay bill and the quality of service provided to its clients.
6. Adopt a 'pay for performance' approach, ensuring individual remuneration is set against goals that are aligned to the group's strategy. That will involve setting goals that are sufficiently stretching but which do not encourage inappropriate behaviours or risk taking and align to the group's long-term horizons.
7. Develop and sustain a high performance and Stakeholder orientated culture.
8. Recognise the staff at all levels for their area of specialism and personal contribution towards achievement of the organisation's goals.
9. Ensure the policy complies with all applicable employment legislation.
10. Ensure the overall uplift to the annual pay bill is in line with the agreed budget set for the year.

LPF APPROACH TO THE ANNUAL PAY REVIEW

Annual Pay review cycle

The remuneration of our people is reviewed annually, considering individual performance measures in line with our performance management process and market practice for the role being undertaken. In addition, measures are reviewed annually to ensure that they are appropriate, fair, and consistent across the group.

Salaries are reviewed on an annual basis and any increases are effective from 1 April each year. There is no automatic entitlement to an increase in any review.

LPF (Lothian Pension Fund) is committed to promoting a diverse, equal, and inclusive culture and is committed to ensuring gender based equal pay and compliance with the Equality Act 2010.

Pay awards consider

1. Individual performance.
2. Economic and market conditions across the financial, pensions and public sectors in Scotland and the wider United Kingdom.
3. Employee's gap to market and industry benchmarking.

The salary review process is not intended to address any promotional issues nor larger market correction increases as this could impact the remaining budget available to the wider team and business unit.

LPFI is not a profit seeking entity and therefore its pay is based on individual performance, which is measured against business objectives, formally set at the start of the year. Equal Opportunities (including our support for Public Sector Equality Duty)

Performance management

Details of the group's performance management processes have been communicated to employees.

LPF APPROACH TO VARIABLE PAY

Variable Pay

It is important to note that Non-Executive Directors are not entitled to any Variable Pay provisions

Based on benchmarking data and a move to performance-led remuneration, as well as a requirement to preserve the organisation's culture and behaviours, the following discretionary variable pay schemes are in place:

- Company-wide
- Portfolio Managers
- Senior Leadership Team

The criteria and eligibility for the company wide scheme are detailed in this policy.

The applicable criteria and measures for both the Portfolio Managers and Senior Leadership Team schemes are made available to relevant participants. Where an employee is eligible for either scheme, they will be given the addendum for these schemes on their employee file and asked to sign it each year to acknowledge the basis on which any award is made.

Companywide Variable Pay scheme

The group, through LPFE, currently operates a Company Variable Pay Scheme (**the Company Scheme**).

General Rules applying to the Company Scheme

The LPFE Board acts as Remuneration Committee for the wider LPF group (LPFI is not required to establish a Remuneration Committee due to FCA threshold levels). Awards under the scheme, and the structure of the scheme, are at all times subject to the discretion of the LPFE Board.

The Board therefore reserves the right to vary the amount of variable pay or to modify or withdraw the scheme at any time.

The scheme is non-contractual, meaning it does not form part of any employee's contract of employment with LPFE now or at any time in the future.

The scheme is based on detailed criteria that are reviewed annually by the LPFE Board. Measures for each calendar year are established by the LPFE Board, after consultation with the SLT (Senior Leadership Team), not more than sixty days following the beginning of each calendar year. These measures consider LPF's strategy, risk appetite, and any environmental, social and governance risk factors when they are set. That will include critical measures which will determine whether the Company Scheme operates at all in that year, plus additional more detailed individual performance, behavioural and company performance measures to determine extent of any award (if applicable). The measurement of performance and variable remuneration takes into consideration current and future risks including the risks of the business objectives not being met.

The Company Variable pay awards is currently set at up to 10%. Up to 5% which is based on the company's performance against its goals and 5% based on individual performance. This allocation is reviewed annually by the LPFE Board.

The SLT will communicate an overview of the applicable measures to staff following their determination by the LPFE Board.

Specific rules on Eligibility for award

Employees will only be eligible to receive a payment where they are employed by LPFE and not under notice of termination of employment (whether the notice is given by you or LPFE) on the date the payment is due.

Employees will not be eligible if they are subject to disciplinary action or performance action plans on either the date the award is made and/or the date payment would otherwise fall due.

Any awards will apply in the March payroll in the calendar year immediately after the year in which performance has been assessed. Awards are calculated based on your salary in the relevant performance year, excluding any allowances.

All staff employed by LPFE will otherwise be eligible for the Company Scheme.

Process for Communication

SLT will provide employees with an overview of the company-wide measures that have been met prior to that March payroll.

Line managers will engage with employees as part of their performance review on which individual measures have been met prior to the end of each calendar year.

Process for Payment of the award

Where applicable, payments will be *pro-rated* for the number of months employed in the year and salary (for the purposes of calculation) is an average earned throughout the year.

Any payment will be subject to statutory payroll deductions.

All amounts actually paid under the Company Scheme will be added to employees salary, despite being a separate discretionary award, for the purpose of calculating pension benefits under the Lothian Pension Fund.

No payments will be made under the Company Scheme for the relevant year unless all the critical company-wide measures set by the LPFE Board are met.

Company Scheme Criteria

For the year, employees will be entitled to up to a maximum award of 10% of their gross annual salary, subject to satisfaction of the relevant individual performance and company-wide measures in place in that calendar year and all other criteria.

The amount of any award will be strictly confidential to the employee and not disclosed more widely by the LPFE Board or SLT.

Redundancy and Leavers arrangements

The leaver arrangements and severance arrangements are contained within the Redundancy policy. Any payment made relating to the early termination of employment must be determined according to length of service, seniority, performance over time, and other appropriate considerations. The LPFE board will agree and approve any such payment, ensuring it is fair and reasonable.

MATERIAL RISK TAKERS

The FCA requires investment firms to identify employees who are material risk takers (MRTs). A MRT is defined as someone whose professional activities have a material impact on the risk profile of the firm or of the assets that the firm manages.

LPFI has assessed these MRTs to be:

- SLT
- Portfolio Managers

The list of all LPFI employees identified as MRTs is maintained by the People & Communications team. This list is updated as necessary on material changes to authority or responsibilities, and is fully reassessed on an annual basis.

The remuneration of our MRTs is designed to support a culture where individuals are rewarded for the delivery of sustained performance, risk management and targeted performance in line with LPF's strategic objectives. Performance will include a range of financial and non-financial factors to encourage long-term sustained delivery for our Stakeholders. Those employees holding control regulatory and/or senior management functions will have their remuneration assessed based on the responsibilities relating to their functions and independent of the business area they oversee.

The LPFE Board shall have direct responsibility for determining the remuneration of all MRTs, having regard to input from SLT for the Portfolio Managers.

Any variable pay awarded under the applicable schemes (for PMs and SLT) in a given performance year will vest on a cumulative basis.

The rules applicable to all schemes continue to apply to awards (including vested awards) made under the Senior Leadership Team and Portfolio Manager schemes, in that employees will not be entitled to receive any vested award where they (i) are under notice of termination of employment, (ii) cease to be employed by LPFE at the point when any vested or other award becomes due (subject to good leaver treatment) for payment or (iii) are under performance or disciplinary review (at the sole discretion of the LPFE Board) on either the date the award is made and/or the date payment would otherwise fall due.

If employment is terminated by LPFE on the grounds of gross misconduct, the right to receive any further payments under either the Company Scheme or any other eligible Scheme (including any deferred or vested payments awarded in previous calendar years) will be forfeit. Examples of what constitutes gross misconduct are given below but this is not an exhaustive list:

- Acting fraudulently or dishonestly or in a manner that adversely affects the group's reputation or undertaking other misconduct.
- Directing an employee, contractor or advisor to act fraudulently, dishonestly or to undertake other misconduct.
- Knowingly breaching material obligations through omission or negligence.
- Receiving a variable pay award due to fraud, dishonesty or a breach of obligation committed by another person.
- Knowingly receiving a variable pay award because of an error in the calculation of a performance measure.

REMUNERATION GOVERNANCE

LPFI Board has overall responsibility for overseeing the implementation of remuneration for LPFI. The LPFI Board has delegated this responsibility to the LPFE Board, in its role as remuneration committee for the LPF Group

The LPFE Board is in place and acts as the Remuneration Committee in respect of overseeing the establishment and implementation of a Remuneration Policy for all LPFE employees, which is designed to support the long-term business strategy and values of the LPF group as well as promote effective risk management and comply with applicable legal and regulatory requirements.

The board therefore reviews performance and approves remuneration arrangements as set out within its Terms of Reference, operating as the Remuneration Committee for the LPF group, including LPFI.

The group's remuneration policy and procedures have been designed to avoid conflicts of interest, encourage responsible business conduct, and promote risk awareness and prudent risk taking. They are subject to independent internal review by the LPFE Board. They do that through:

- **Objective review and calibration:** a detailed annual salary review exercise incorporating external benchmarking and thorough oversight and calibration by SLT.
- **Effective and independent governance:** presenting balanced, detailed, and accurate information to the LPFE Board (acting as remuneration committee) for challenge and fully informed decision making.
- **Policy adherence:** consistently reinforcing its performance management procedures across all its employees and functions within a robust framework.
- **Effective communication:** transparently communicating with its employees around both the process and outcomes for each year.

The board includes one member of the group's executive, three Stakeholder members and two independent non-executive directors. Its effectiveness is reviewed periodically as part of the group's wider governance review programme. That is to ensure that the governance around the group's performance and remuneration processes continues to be proportionate and aligned to the scale of its business and strategies.

3. Fixed and variable remuneration

This table sets out the amount of remuneration awarded to LPFI employees during the period.

| For the year ended 31 March 2024 | £,000s |
|---|---------------|
| Number of staff | 56 |
| Fixed remuneration | £815 |
| Variable remuneration | £295 |
| of which, awarded in cash | £295 |
| of which, awarded in non-cash | £0 |
| Total | £1,110 |

4. Fixed and variable remuneration MRTs

This table sets out the amount of remuneration awarded to LPFI MRTs during the period.

| For the year ended 31 March 2024 | £,000s |
|---|---------------|
| Number of staff | 19 |
| Fixed remuneration | £542 |
| Variable remuneration | £274 |
| of which, awarded in cash | £274 |
| of which, awarded in non-cash | £0 |
| Total | £816 |