DEDICATING A PROPORTION OF OUR ASSETS TO DRIVE SUSTAINABLE OUTCOMES

Practical example: Environment Agency Pension Fund
WHAT?

The Environment Agency Pension Fund (EAPF) is an open defined benefit Local Government Pension Scheme with around 39,000 members and £4 billion in assets. As long-term investors, with liabilities reaching beyond 2100, our aim is to deliver a truly sustainable pension fund by ensuring that it is affordable, delivers financially to meet the objectives of our scheme employers and is invested responsibly.

To help us achieve our Fund’s aim, in 2015 we set ourselves a five year target to allocate at least 25% of our entire investment portfolio to clean technology and other sustainable opportunities. Our progress has included:

• Surpassing this target by the end of 2018, with 39% of our investments originating from clean technology and other sustainable opportunities, representing a value of £1.35 billion.

• Dedicating 9% of the Fund’s investments to low carbon, energy efficient and other climate mitigation opportunities.

• Reducing our exposure to future emissions of coal by 95% and to oil and gas by 90% within our equity portfolio, against our 2015 benchmark.

KEY HIGHLIGHTS

• We aim to have at least 33% of our investments in sustainable assets at any one time.

• Sustainable investing – which we believe is completely in line with our fiduciary responsibility – helps to mitigate risks, provides investment opportunities and adheres to the values of our beneficiaries.
WHY?

Our fiduciary duty is to act in the best long term interests of our members. To do so properly requires us to recognize that environmental, social and governance (ESG) issues can positively and negatively impact the Fund’s financial performance. For this reason, they should be considered within our funding and investment strategies and decision-making processes.

Our responsible investment journey really took shape when press coverage of our Fund in 2003 highlighted a misalignment between our pension’s investment strategy and the values of our sponsor – the Environment Agency. This started a process to embed ESG within our investment strategy, asset allocation, fund manager selection and performance monitoring.

Another motivation towards this approach was being able to align better with our members’ values. Nine out of ten of the 2,500 members who responded to a survey in February 2020 felt it is important to invest in sustainable and low-carbon investments, with seven out of ten believing that climate change will present a financial risk to investments in their lifetime.

Aligning our investment strategy with the values of our sponsor and our members has also opened up the door to a more enhanced three way dialogue between us all.
HOW?

Our Investment Strategy is designed to both responsibly manage risks and take positive opportunities. This is a simple statement but there are many aspects to enable us to achieve this. We set out below some of what we do to help us dedicate a proportion of our assets to drive sustainable outcomes.

We ensure members of our pensions committee understand how Responsible Investment (RI) fits in with their fiduciary duty, and provide them with regular relevant training. We have policies that clearly outline our approach to ESG issues – as both risks and opportunities – and RI is considered within all relevant agenda items at board and investment committee meetings.

Our top level RI policy statements are embedded into our Investment Strategy Statement (ISS) and our strategic investment approach includes:

- Using our Strategic Asset Allocation (SAA) to identify opportunities for sustainable investments where there are gaps, and then working with our asset managers to create these opportunities.
- Ensuring target setting for our sustainable investments remain ambitious year on year.
- Using standards and benchmarks to measure the impact of the sustainable investments, eg requiring real estate funds to participate in the Global Real Estate Sustainability Benchmark (GRESB).
- As our funds are managed by external asset managers, it is vital that we embed our RI approach within the selection, appointment and monitoring of our asset managers. Our expectations towards our asset managers include:
  - Being a signatory to the Principles for Responsible Investment (PRI) and meeting the standards of relevant global stewardship codes.
  - Engaging with invested companies to drive positive change.
  - Expecting them to provide RI updates including a status on ESG integration by the invested companies at every meeting we have with them.
- Analysing in detail the carbon footprint by asset manager level and by fund level.

We have found that membership of organizations (eg PRI, the Institutional Investors Group on Climate Change (IIGCC) and the CDP (formerly the Carbon Disclosure Project) and networks such as A4S’s Asset Owners Network have been valuable ways to frame our actions, provide reassurance that our approach is legitimate and current, and to find opportunities for collaborative opportunities.

Lastly, engaging with our members is a crucial element of our approach. We run surveys, focus groups and regular webinars on our investment approach to gain feedback on how our approach aligns with their expectations of us. It is also important to note to our members that as a defined benefit scheme we value gathering their views to help inform the investment decisions that we make.
NEXT STEPS

Our next five year target is more ambitious than the last and will see half of this allocation focusing on combatting climate change by reducing emissions or building resilience.

We will continue to evolve our definitions of sustainable investment in line with the EU taxonomy for sustainable activities, and reflect this in our disclosures and reporting. We also hope to begin calculating those investments which help to address and manage climate change adaptation, in addition to our current calculations of assets that help limit climate change.

As part of Brunel Pension Partnership, we hope to take part in shareholder activity to encourage companies to manage their risks from climate change. We also hope to attend more AGMs for the public equities we hold. Whilst this was halted during 2020 due to the coronavirus pandemic, in 2019 we attended nine AGMs and questioned boards directly on climate-related and other sustainability issues.

“Responsible Investment remains at the core of our Fund and it is more pressing than ever as we face a climate emergency. Our successful financial performance is supported by our deep commitment to investing responsibly and we believe it is paramount in our ability to deliver sustainable, long-term returns.”

ROBERT GOULD - CHAIR, ENVIRONMENT AGENCY PENSIONS COMMITTEE
TOP TIPS

MAKE AN HONEST APPRAISAL OF THE RI SKILL-SET OF YOUR DECISION-MAKERS AND LOOK TO ADDRESS GAPS

By evaluating the skills and knowledge gaps in a transparent and honest way, you can then match the gaps with comprehensive and individualized training plans for your decision-makers.

PROVIDE AN ENABLING ENVIRONMENT FOR DECISION-MAKERS TO ENHANCE THEIR KNOWLEDGE AND UNDERSTANDING CONTINUALLY

Encouraging access to global platforms and networks enables your decision-makers to share knowledge with peers and learn from others’ experience.

TAKE MEMBERS ON A JOURNEY

Investments are complex but often public discourse can be simple. By providing members with context – the need to act in their long-term interest, manage risk and diversify – they were keen to understand more and engage with us further. It is also a great way of understanding how your communications can be improved.
The A4S Asset Owners Network is a grouping of pension fund chairs and trustees to discuss integrating sustainability into investment decision making. Click here to find out more.