Environment Agency
Pension Fund

Active Pension Fund

Annual Report and Financial Statements for the year ended 31 March 2020

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Annual Report and Financial Statements 2019/20

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Environment Agency Pension Fund (EAPF) Chair's statement

As Chair of the Pensions Committee for the Environment Agency Pension Fund (EAPF), it is my pleasure to present this year's Annual Report and Financial Statements for the **Environment Agency Active Pension Fund** ('the Fund') for the year ended 31 March 2020. We are part of the Local Government Pension Scheme (LGPS) and have **£4 billion of Pension Fund assets** and **around 39,000 members** across both our Active and Closed Pension Funds, providing pension benefits for employees and former employees of the Environment Agency, Natural Resources Wales and Shared Services Connected Limited.

2019/20 has been both a challenging and highly successful year for EAPF. **We continue to operate in a period of rapid change and uncertainty.** Whether social, political, technological or climatic, which impact everyone, to those more specific to us as a Fund, change and uncertainty are all around us. All bring opportunities and risks, and demonstrate the need for our **robust approach to protecting our Pension Fund members and employers, investing responsibly and ensuring good governance.**

At time of writing, **the Pensions Committee has been responding to the Pension Fund risks from the coronavirus global public health crisis.** By implementing our business continuity arrangements and following Pension Regulator guidance, we have focussed on providing vital support for our Pension Fund members, the management of our funding and investment risks and supporting the health, safety and wellbeing of our colleagues and partners. We continue to work closely with Capita, our pension administrator, and our internal teams **to ensure our members are fully supported during this period**. We have focussed resource on the payment of pensions, retirements and dealing with bereavements.

We set long term strategies to manage our investment and funding risks, and entered this period of uncertainly in a very positive position. **Our formal triennial valuation at 31 March 2019 reflected a funding ratio of 106%,** which remains amongst the best across the LGPS. Despite the wider market turmoil, our **funding ratio at 31 March 2020 was around 100%**, reflecting the success of our long term strategies. We agreed employer contribution rates as part of the valuation process, with these **employer contribution rates remaining amongst the lowest across the LGPS.** Our employers remain committed to protecting members' pensions and ensuring the Fund maintains its excellent funding position going forward.

Our Investment Strategy, designed to both responsibly manage risks and take positive opportunities, has **delivered 6.4% average annual investment returns over the last 5 years**. 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. The global coronavirus crisis has impacted our investment performance with a return of -1% (benchmark -0.1%) over the year. **Our asset value at 31 March 2020 was £3.6bn**. During 2019/20, we agreed a new investment strategy, focussing on de-risking to help protect our strong funding position. We are very pleased that these strategic changes and the recognition that **Responsible Investment funds have outperformed during the market turmoil** have helped protect our Fund.

Responsible Investment remains at the core of our Fund and it is more pressing than ever as we face a climate emergency. Even with the huge challenge of tackling coronavirus, climate change still presents the biggest threat to our economy, environment, health, way of life and our future. Through strong governance, we have a **comprehensive approach of managing the risks from climate change** across our portfolio and within each asset class.

Last year, we agreed as a Committee to directly engage on our members' behalf with those companies where our assets are invested. We **attended selected company Annual General Meetings (AGMs)** to ask questions of Boards regarding their climate change performance and future actions to protect our beneficiaries' retirement money in an uncertain future.

For over 15 years now we have seen that **our Fund generates strong financial returns by investing in companies that contribute to the long term sustainable success of the economy and society.** With need for responsible and sustainable investment more important than ever, we have a strong desire to keep innovating and driving change. In June, we joined with the Environment Agency and over 200 businesses to write to the Prime Minister saying "**the net zero and environmental agenda now provide the UK government with the opportunity to rebuild the economy back better** in a way that will deliver lasting social, competitiveness and resilience benefits."

We are very proud that in 2019 we were chosen by the **UNPRI as a global leader in responsible investment.** In October 2019, we agreed our **new Responsible Investment Strategy** with 3 focus areas: investments, partnerships and engagement with our members. Our report includes details of our **survey of members' views on our approach to Responsible Investment**. The results empower us as a Committee to strive further and constantly drive harder, **88% of members surveyed see sustainable and low carbon assets as important** and **90% want us to positively influence the behaviour of the companies within which we invest**. This is only the beginning of the discussion with our members with over 500 wanting to take part in focus groups later this year.

Collaboration is core to how we deliver our responsible investment approach. Our pooling provider, the **Brunel Pension Partnership Limited**, published its first **Climate Change policy** this year and we welcomed the shareholder resolution Brunel Ltd co-filed at the Barclays AGM. We will work together to support similar shareholder actions in the future. We have continued to be active in our support for the work of the **Task Force on Climate-related Financial Disclosure (TCFD)** and we report in line with the TCFD recommendations. In 2017, along with the Church of England National Investing Bodies, we set up **the Transition Pathway Initiative (TPI)**. In that short time, it has been supported by investors representing over $18 trillion, who use the results of the TPI's analysis to inform investment decision-making and engagement with companies. We support the '**MakeMyMoneyMatter'** campaign to drive positive change.

Being **open and transparent** about the Fund, its benefits and how we invest is a core principle. Our Board and member representatives actively engage with our members and other stakeholders to ensure the Fund is aware of and can respond effectively to any concerns. We also use our website, newsletters and member webinars to engage directly. We embed providing an excellent service to our members and employers in our day-to-day work in line with our accreditation to **Customer Service Excellence (CSE)** and this work supports our **97% employee participation rate**, with our employees rating their pension very highly in staff surveys.

Our biggest area of focus as a Committee over the year has been to implement the Government's requirement to pool the management and investment of our Fund assets with other LGPS funds. Following our establishment of the **Brunel Pension Partnership (Brunel) Limited** in July 2017 with 9 other partner funds, we have transitioned some assets into the Brunel portfolios in line with an agreed transition plan. Importantly, the assets remain our, EAPF's, assets and we retain responsibility for setting our detailed EAPF Strategic Asset Allocation. We balance both the role of a Client and Shareholder and, in all the complex decisions we take as a Pensions Committee, we recognise our legal duty to act in the best interests of our members. Our top priority is **to ensure that the pensions of our past, present and future members are secure and well managed**.

Finally, I wish to thank the Pensions Committee for its continued hard work and diligence. On behalf of the Committee, I thank everyone involved in the Fund, including our Pension Fund Management team, employers and external contractors for helping the Committee manage the Active Fund through this very challenging time.

We will continue to keep you updated on our work through **www.eapf.org.uk**.

Robert A. Gould.

Robert Gould
Chair, Environment Agency Pensions Committee
04 December 2020

About the Environment Agency Pension Fund (EAPF)

EAPF background

With 5.8 million members, the Local Government Pension Scheme (LGPS) is one of the largest public service pension schemes in the UK. It is a nationwide pension scheme for people working in local government or working for other types of employer participating in the Scheme.

Employers in the Scheme include local authorities and public service organisations as well as other employers which provide the LGPS for their employees by becoming admitted bodies. The Scheme is administered for participating employers locally through around 90 regional pension funds in England and Wales of which the EAPF is one.

On 1 April 2013, we became a multi-employer Fund, as we welcomed Natural Resources Wales as the new employer for former employees of Environment Agency Wales. In November 2013, Shared Services Connected Limited joined us following the outsourcing of the Environment Agency's HR and Finance Service Centres.

LGPS regulations

The Scheme rules are contained in **regulations** made by Parliament after consultation with both employee representatives (Trade Unions) and employer representatives. The rules comply with the relevant provisions of the Pension Schemes Act 1993, the Pensions Act 1995, the Pensions Act 2004 and the Pensions Act 2008.

The LGPS provides salary related defined benefits, which are not dependent upon investment performance. As the LGPS is a statutory funded pension scheme, it's a secure pension arrangement with rules set out in legislation made under Acts of Parliament (the Superannuation Act 1972 and Public Service Pensions Act 2013).

The LGPS is a registered public service pension scheme under Chapter 2 of Part 4 of the Finance Act 2004, achieving automatic registration by virtue of Part 1 of Schedule 36 of that Act (because the LGPS was, immediately before 6 April 2006, both a retirement benefits scheme approved under Chapter I of Part XIV of the Income and Corporation Taxes Act 1988 and a relevant statutory scheme under section 611A of that Act). The LGPS was contracted out of the State Second Pension (S2P) until 5 April 2016 and it provides benefits that are as good as most members would receive if they had been in the S2P.

The LGPS benefits are primarily governed by the Local Government Pension Scheme Regulations 2013 (SI 2013/2356) and Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (SI 2014/525). The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016/946). These are all subject to amendment over time.

The LGPS is a national defined benefit pension scheme providing final salary benefits in relation to membership up to 31 March 2014 and career average revalued earnings (CARE) for membership from 1 April 2014.

State Pension provision and the Pensions Act 2014

In May 2014, the Pensions Act 2014 introduced a fundamental change to the provision of state pension in the UK alongside a number of significant changes for private pensions.

From 6 April 2016, the State Pension system in the UK has changed with the introduction of a new single tier State Pension. The new system will apply to individuals who reach their State Pension Age on or after 6 April 2016. The changes to the State Pension also heralds the abolition of contracting out for Defined Benefit schemes such as the EAPF from April 2016.

The Act also legislates for the acceleration of State Pension Age from age 66 to 67 for both men and women between 6 April 2026 and 5 April 2028.

Changes to the Local Government Regulations during 2019/20

There was one Order made by HM Treasury and two amending regulations laid during 2019/20 by Ministry for Housing, Communities and Local Government (MHCLG) that made changes to the Local Government Pension Regulations 2013:

- The Finance Act 2004 (Specified Pension Schemes) Order (SI 2019/1425)

  This amendment expanded the definition of a public service pension scheme to include a pension scheme established by or under any enactment of a country or territory other than the United Kingdom.

- The Local Government Pension Scheme (Amendment) Regulations 2019 (SI 2019/1449)

  This amendment covered the extension of civil partnership to opposite-sex couples and ensured that the pension payable was aligned to the pension payable to the survivor of an opposite-sex marriage.

- The Local Government Pension Scheme (Amendment) Regulations 2020 (SI 2020/179)

  This amendment created a discretion for administering authorities to determine the amount of exit credit that should be payable to an employer leaving the Local Government Pension Scheme and applies to any exit credit that is to be paid on or after 20 March 2020.

LGPS responsibilities

The regulations give specific responsibilities to scheme employers and pension fund administrators, each of whom must make decisions in relation to some matters and can exercise their discretion in relation to others.

The Environment Agency Board delegates responsibility for management of the Fund to a Pensions Committee. The Pensions Committee is assisted by an Investment Sub Committee, and our Pension Board which was created from 1 April 2015. Both employees and employers contribute to the LGPS, employees' contributions are fixed within the Scheme regulations, while employers' contributions vary depending on how much is needed to ensure benefits under the Scheme are properly funded.

The Fund Actuary sets each employer's contribution rate as part of the actuarial valuation of the Fund's assets and liabilities every three years. The next triennial valuation is due as at 31 March 2022.

Environment Agency Pension Fund (EAPF) governance

Introduction

The Environment Agency is the administering authority responsible for maintaining and managing the Environment Agency Pension Closed and Active Funds (the Funds), which are part of the Local Government Pension Scheme (the Scheme) in England and Wales.

Flexibility is provided for each Administering Authority to determine their own governance arrangements relating to how they maintain and manage their Fund. Our Governance Policy provides high level information in relation to those arrangements and how we govern the Funds. This, and our other policies, can be found at **www.eapf.org.uk/trustees/governance-policies**

Objectives

Our main governance objectives are to:

- act in the best interests of the Fund's members and employers;
- have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies;
- understand and monitor risk;
- deliver our services through people who have the appropriate knowledge and expertise, and ensure that this knowledge and expertise is maintained within the continually changing LGPS and wider pensions landscape; and
- ensure those persons responsible for governing the EAPF have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage any potential conflicts of interest.

Regulatory background

The Local Government Pension Scheme (LGPS) is a statutory scheme, established by an Act of Parliament. The Local Government Pension Scheme Regulations 2013, the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 outline the key responsibilities of administering authorities in managing the Scheme.

Our Governance structure

The EAPF is one of around 90 Administering Authorities responsible for managing LGPS Funds in England and Wales. Our Funds were created at the time of the privatisation of the water industry in England and Wales in 1989 and were established as the National Rivers Authority Pension Fund.

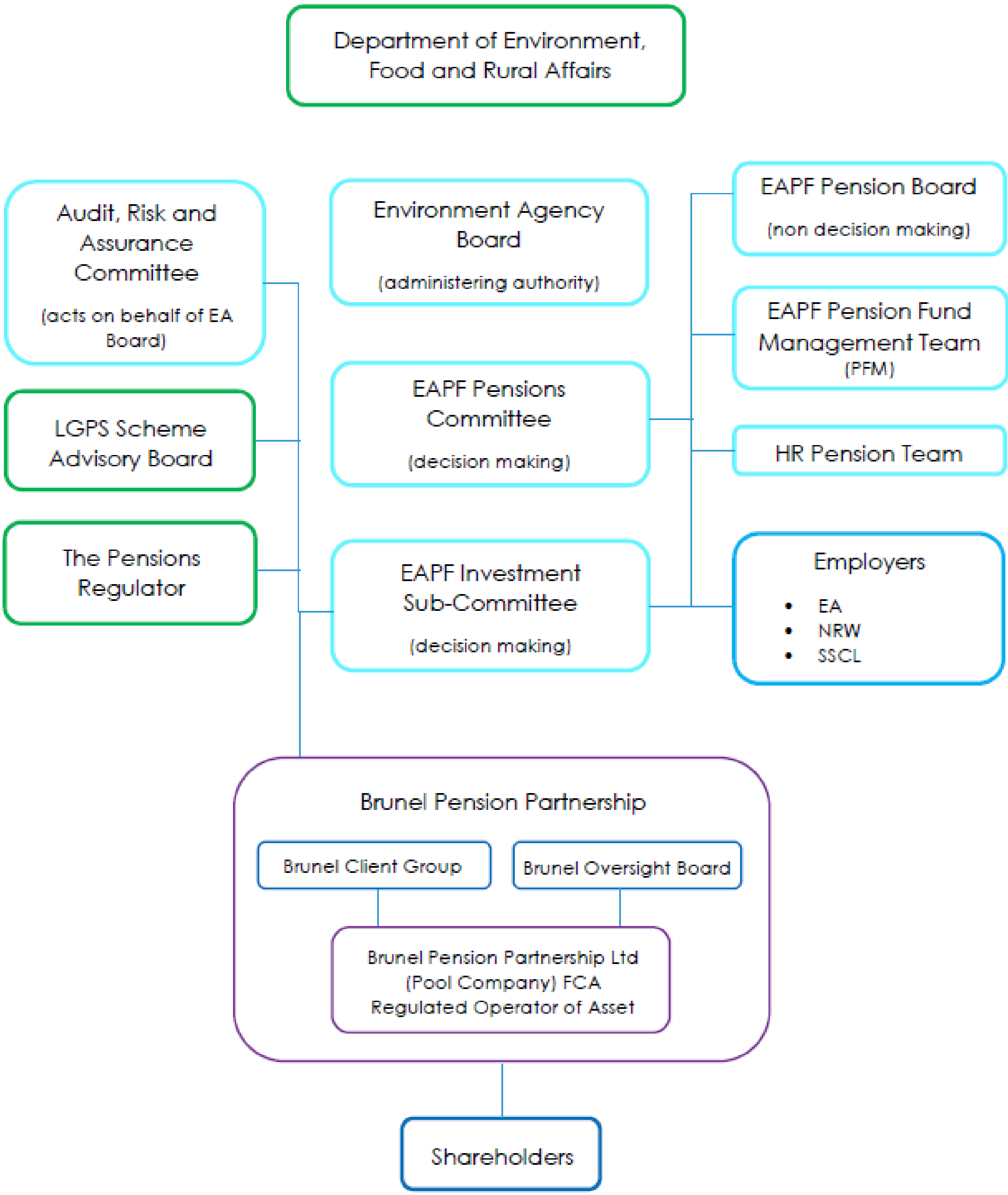
The former Water Authorities Superannuation Fund was divided in three ways: company schemes for employees transferring to the new water companies; the Active Fund for employees joining the then National Rivers Authority (the predecessor to the Environment Agency); and the Closed Fund for deferred and pensioner members at that time.

The Active Fund inherited active members' accrued liabilities from its predecessor pension arrangements, but no pensioner or deferred pensioner liabilities. In 1996 it transferred to the Environment Agency and became the Environment Agency Active Pension Fund.

The EAPF is now a multi-employer Fund: Environment Agency, Natural Resource Wales (NRW) and Shared Services Connected Limited (SSCL). It is open to all eligible Environment Agency employees, but is closed to new employees of NRW and SSCL. The EAPF is also responsible for administering some unfunded benefit payments.

EAPF Pensions Committee and summary governance structure

The Environment Agency Board delegates the management and oversight of the Fund in the main to a Pensions Committee, an Investment Sub-Committee and a Pension Board. The EAPF governance structure, role of the Pensions Committee and interaction with stakeholders is illustrated at a high level in the following diagram:



Our Pension Fund membership

Unless they have elected in writing, all full and part time Environment Agency employees, whether permanent or temporary (over 3 months), become active members of the Fund.

The 12 months ended 31March 2020 has seen a 5% increase in the Fund's active members (2019: increase of 2.9%). Deferred membership has fallen by 5.1% (2019: increase of 0.1%) and there has been a 3.9% increase in pensioners (2019: increase of 3.9%).

Movement in number of members and pensioners

	Active members	Deferred members	Current pensioners	Total
As at 1 April 2019	**10,932**	**8,463**	**6,940**	**26,335**
Adjustment for late notifications	189	(25)	26	190
Revised opening balance	**11,121**	**8,438**	**6,966**	**26,525**
Add:				
New active members	1,031			1,031
New deferred members		316		316
New pensioners - retirement			405	405
	1,031	**316**	**405**	**1,752**
Less:				
Deferred benefits	(316)			(316)
New retirement pensions	(163)	(170)		(333)
Deaths in service	(5)			(5)
Refunds of contributions	(84)			(84)
Options pending	(74)			(74)
Non-member status	(17)			(17)
Refund/Transfer option	(1)			(1)
Transfer out – bulk		(438)		(438)
Transfers out - individual	(10)	(109)		(119)
Deaths in deferment		(5)		(5)
Commutation of pension		(1)	(6)	(7)
Death in retirement			(138)	(138)
Suspended/Ineligible pensions			(15)	(15)
	(670)	**(723)**	**(159)**	**(1552)**
As at 31 March 2020	**11,482**	**8,031**	**7,212**	**26,725**

Summary of active member retirements

	2020	2019
Ill Health Retirements (all ages) Tier 1	11	9
Ill Health Retirements (all ages) Tier 2	0	3
Ill Health Retirements (all ages) Tier 3	0	0
Early Retirements - efficiency/redundancy over age 55	6	9
Early Retirements - with employer consent	22	18
Flexible retirements - over age 55	32	34
Early Retirements - age 60 and under age 65	58	48
Normal Retirements - age 65	1	25
Late Retirements - over age 65	33	15
Total retirements	**163**	**161**

For more details on ill health retirement, flexible retirement and retirement in general, please visit the member section of our website **www.eapf.org.uk**

Age profiles of members and pensioners

Age profile of active members as at 31 March	2020		2019	
	No.	%	No.	%
15-19	7	0.1	8	0.1
20-24	328	2.9	316	2.9
25-29	957	8.3	849	7.8
30-34	1,310	11.4	1,232	11.3
35-39	1,621	14.1	1,682	15.4
40-44	1,841	16.0	1,752	16.0
45-49	1,693	14.7	1,631	14.9
50-54	1,726	15.0	1,664	15.2
55-59	1,281	11.2	1,167	10.7
60-64	590	5.1	535	4.8
65-69	111	1.0	88	0.8
70-74	17	0.2	8	0.1
Total	**11,482**	**100**	**10,932**	**100.0**

Age profile of deferred members as at 31 March	2020		2019	
	No.	%	No.	%
20-24	11	0.1	22	0.2
25-29	156	1.9	204	2.4
30-34	600	7.5	721	8.5
35-39	1,210	15.1	1,420	16.8
40-44	1,541	19.2	1,594	18.8
45-49	1,511	18.8	1,544	18.2
50-54	1,580	19.7	1,595	18.8
55-59	1,108	13.8	1,082	12.8
60-64	273	3.3	244	2.9
65-69	35	0.4	33	0.4
70-74	5	0.1	3	0.1
75-79	1	0.1	1	0.1
Total	**8,031**	**100**	**8,463**	**100.0**

Age profile of current pensioners at 31 March	2020		2019	
	No.	%	No.	%
Child dependents	63	0.9	70	1.0
Pensioners and spouses				
Under 50	46	0.6	46	0.7
50-54	61	0.8	62	0.9
55-59	278	3.9	260	3.7
60-64	1,219	16.9	1,239	17.9
65-69	1,800	24.9	1,803	25.9
70-74	1,724	23.9	1,643	23.7
75-79	1098	15.2	999	14.4
80-84	635	8.8	572	8.2
85-89	240	3.3	205	3.0
90-94	47	0.7	41	0.6
95-99	1	0.1		
Total	**7,212**	**100**	**6,940**	**100.0**
Total membership	**26,725**		**26,335**	

Pensions increase

LGPS pensions in payment and deferred benefits are reviewed under the provisions of the Pensions (Increase) Act 1971 and Section 59 of the Social Security Pensions Act 1975, and linked to the change in the Consumer Prices Index (CPI).

Our pensions in payment and deferred pensions received an increase from 6 April 2020 of 1.7% (8 April 2019: 2.4%).

The following table shows the rate of increases that have applied to pensions in payment and deferred pensions since 2011:

April	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
% increase	3.1	5.2	2.2	2.7	1.2	0.0	1.0	3.0	2.4	1.7

Key Governance documents

The following are the key documents relating to the governance of the Fund. These can all be found here: **www.eapf.org.uk/trustees/governance-policies**

Title	Description
The Environment Agency's Framework Document	This is issued to the Environment Agency by Defra and sets out the Environment Agency's responsibilities with respect to pensions.
The Pensions Committee, Investment Sub-Committee and Pension Board Terms of Reference and Standing Orders	As defined by the Environment Agency Board, this details the delegated responsibilities of the PC, ISC and Pension Board as well as detailing the membership and meeting procedures such as frequency, quorum and reporting.
Committee and Board Operational Guidance	Approved by the Pensions Committee, this provides more information relating to how the PC and Pension Board will operate and items of business they may wish to consider.
Statement of delegation	The Environment Agency's Scheme of Delegation is approved by the Environment Agency Board. This prescribes the scope of the delegation of powers beyond those included in the PC, ISC and Pension Board Terms of Reference. In particular it details specific delegations to officers and the third party administrators relating to the management of the Scheme. The statement of delegation details the pension extract from the Environment Agency's Non-Financial and Financial Scheme of Delegation; day to day management by Pension Fund Management team; and employing authorities' responsibilities and discretions.
Governance Compliance Statement	Approved by the Pensions Committee, this is required by regulation 55 of the Local Government Pension Scheme Regulations 2013. It states how the EAPF complies with Secretary of State guidance. A copy of this can be found on page 42.
Training Policy	Approved by the Pensions Committee, this outlines the EAPF's approach to ensuring all key decision makers have the appropriate knowledge and skills.
Conflicts of Interest Policy	Approved by the Pensions Committee, this outlines how potential and actual conflicts of interest will be managed in relation to EAPF matters.

Committee members must make an annual declaration of any conflicts of interest and prior to each meeting. These are recorded and held on the register of interest by our Secretariat. The Chair reviews the register annually and a further review is undertaken by Internal Audit as part of their annual pension compliance review.

Monitoring governance of the EAPF

The Fund's governance objectives are monitored as follows:

Objective	Monitoring Arrangements
Act in the best interests of the EAPF's members and employers.	The PC, ISC and Pension Board include representatives from all categories of scheme member and employers in the EAPF and NRW with equal voting rights.
Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.	The Risk and Governance Adviser undertakes a regular review of the effectiveness of the EAPF's governance arrangements, the findings of which are reported to the PC and the Environment Agency Board. In line with the Regulations the Governance Compliance Statement will be filed with the Ministry of Housing, Communities and Local Government (MHCLG).
Understand and monitor risk.	A Risk Management Strategy is in place and integral to day to day management of the EAPF. An annual risk and compliance internal audit is carried out and reported to the Pension Board and Environment Agency Audit and Risk Assurance Committee. Ongoing consideration of key risks at PC and ISC meetings.
Deliver our services through people who have the appropriate knowledge and expertise, and ensure that this knowledge and expertise is maintained within the continually changing LGPS and wider pensions landscape.	Outsourced providers selected for their expertise, professional knowledge and capabilities to deliver quality and value for money services. Agreed measures, as part of robust contract management, are in place to ensure our objectives are achieved through third parties as appropriate. A Training Policy is in place together with appropriate measures to ensure its objectives are being achieved.
Ensure those persons responsible for governing EAPF have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage any potential conflicts of interest.	A Training Policy and Conflicts of Interest Policy are both in place together with appropriate measures to ensure their objectives are being achieved.

EAPF Governance

Pensions Committee, Investment Sub Committee and Pension Board membership

The Environment Agency Board appoints members in accordance with our Governance Compliance Statement. Membership of the Pensions Committee (PC) will normally be 14 including the Chair of the PC. Members of the PC will comprise:

- 4 Non-Executive Board members of the Environment Agency, one of whom will be the Chair.
- 2 Executive members of the Environment Agency.
- 1 Non-Environment Agency employer representative member.
- 5 Active Scheme member representatives.
- 2 Pensioners or 1 Pensioner and 1 Deferred member representatives.

Membership of the Investment Sub Committee (ISC) will be appointed by the Environment Agency Board and will normally be 7 Committee members as follows:

- 2 Non-Executive Environment Agency Board members (one of whom should be nominated as Chair of the ISC by the PC).
- 2 from the Executive Environment Agency and Employer representative members (or deputies).
- 3 Scheme member representatives (active, pensioner or deferred).

Membership of the Pension Board is covered below under the Annual Statement from the Chair of the EAPF Pension Board.

Changes to Pensions Committee, Investment-Sub Committee and Pension Board membership

During the year, we had one change in our Environment Agency Board appointed members. Maria Adebowale-Schwartz resigned from Pensions Committee in June 2019 and was replaced on the Pensions Committee and Pension Board by John Lelliott in October 2019.

There was one change to our Active member representative nominees during the year. Veronica James was appointed Active member representative in May 2019. Additionally, Greg Black was appointed as a Shadow Active member representative.

Pensions Committee (PC), Investment Sub-Committee (ISC) and Pension Board (PB) membership

As at 31 March 2020	Membership	Date of appointment	Length of service	End of current appointment	Residual period of current appointment
Board members					
Robert Gould	PC, ISC, PB	18/10/2018	1 yr 6 mth	31/01/2021	0 yr 10 mth
Emma Howard Boyd	PC, ISC, PB	18/10/2012	7 yr 6 mth	18/09/2022	2 yr 5 mth
Caroline Mason	PC, PB	03/12/2018	1 yr 4 mth	31/03/2021	1 yr 0 mth
John Lelliott	PC, PB	12/12/2019	0 yr 4 mth	31/01/2021	0 yr 10 mth
Maria Adebowale-Schwarte	PC, PB	01/08/2016	3 yr 8 mth	18/06/2019	2 yr 3 mth
Administering Authority Executive manager nominees					
Peter Kellett	PC	01/02/2018	2 yr 2 mth	N/A	N/A
Phil Lodge	PC, ISC	16/05/2018	1 yr 11 mth	N/A	N/A
Non-Environment Agency Executive Employer representative					
Kevin Ingram	PC, ISC, PB	07/07/2009	10 yr 9 mth	06/07/2021	1 yr 3 mth
Contributing member nominees and representatives					
Colin Chiverton	PC, ISC, PB	01/04/2013	7 yr 0 mth	31/03/2022	2 yr 0 mth
Ian Brindley	PC, ISC, PB	01/11/2014	5 yr 5 mth	31/10/2020	0 yr 7 mth
Will Lidbetter	PC, PB	01/08/2019	0 yr 8 mth	31/07/2022	2 yr 4 mth
Danielle Ashton	PC	01/02/2018	2 yr 2 mth	31/01/2021	0 yr 10 mth
Veronica James	PC	16/05/2019	0 yr 11 mth	15/05/2022	2 yr 1 mth
Greg Black (shadow)	PC	16/05/2019	N/A	N/A	N/A
Pensioner members					
Peter Smith	PC, PB	14/05/2015	4 yr 11 mth	13/05/2021	1 yr 1 mth
Hywel Tudor	PC, PB	14/05/2015	4 yr 11 mth	13/05/2021	1 yr 1 mth

Committee member biographies

The biographies of Committee members included below demonstrate the past and current experience of the membership and form the basis for decisions on future training needs as part of our adoption of the CIPFA Knowledge and Skills Framework for LGPS funds.

Robert Gould was appointed to the Board of the Environment Agency in 2018. As well as chairing the Pensions Committee he also sits on the Board's Flood and Coastal Risk Management Committee and Audit and Risk Assurance Committee. He has a background in local government and was Leader of Dorset County Council from 2014 to 2017 and Leader of West Dorset District Council from 2004 to 2014. He was a vice chair of South West Councils and a member of the Local Government Association's Improvement and Innovation Board from 2015 to 2017. He previously managed the family farm after working in industry and property management. He is a deferred member of the LGPS (Dorset County Fund).

Emma Howard Boyd is the Chair of the Environment Agency, an Ex officio board member of the Department for Environment, Food & Rural Affairs, and the UK Commissioner to the Global Commission on Adaptation. Emma has spent her 25 year career working in financial services, initially in corporate finance, and then in fund management, specialising in sustainable investment and corporate governance. As Director of Stewardship at Jupiter Asset Management until July 2014, Emma was integral to the development of their reputation in the corporate governance and sustainability fields. This work included research and analysis on companies' environmental, social and governance performance, engaging with companies at board level and public policy engagement. She currently serves on various boards and advisory committees including Menhaden PLC, The Prince's Accounting for Sustainability Project and the European Climate Foundation.

John Lelliott was appointed to the Board of the Environment Agency in 2018. John became Chair of the Audit and Risk Assurance Committee in August 2018, is a member of the Flood and Coastal Risk Management Committee and is the Area Board member for East Midlands. John is currently a Board member of the Covent Garden Market Authority where he chairs the Audit and Risk Committee. He is also Chair of the Natural Capital Coalition and Non-Executive of the Royal Bournemouth and Christchurch Hospital Foundation Trust where he chairs the Finance Committee and is a member of the Audit Committee. John is a member of H.R.M the Prince of Wales AHS Advisory Council and is also a chair of the A.C.C.A. Global Forum of Sustainability.

Caroline Mason CBE is Chief Executive at Esmée Fairbairn Foundation. Before joining Esmée, Caroline was Chief Operating Officer at Big Society Capital and preceding that, Charity Bank. Caroline was also the co-founder of Investing for Good, a social investment advisory firm and one of the first Community Interest Companies. Before joining the social sector, Caroline had an eighteen-year track record of creative and innovative product development in the financial services sector. With Reuters, she managed the global development of real-time news and television services and then pioneered the introduction of web technology products. She also had her own consulting company, working with several financial institutions to develop new business and products including an electronic brokering service and a global wealth management business for a private bank. Caroline is a Board member of the Environment Agency.

Peter Kellett is a solicitor and Director of Legal Services for the Environment Agency. He attends the Environment Agency's Executive Directors Team and is an Executive nominated member of the Pensions Committee. Peter has a Masters in Environmental Law and works on environmental regulation from its design to implementation. He has worked on the creation of Natural Resources Wales, Environmental Permitting, Civil Sanctions and the creation of Brunel Pension Partnership. He leads a legal team providing legal advice and litigation services to the Environment Agency. He is a former trustee and Chair of the UK Environmental Law Association and of St Werburghs City Farm in Bristol. Peter is both a deferred and also an active member of EAPF.

Kevin Ingram has been a member of the Fund since 2007. He is a qualified accountant (ACA) with a background in audit and financial management in both the public and private sectors. From 1 April 2013 Kevin has taken on the role of Executive Director of Finance and Corporate Services for Natural Resources Wales. Kevin has been a member of the Committee since 2009 and during this period has received training on the LGPS and pension fund management.

Colin Chiverton has been a member of the Committee since 2013. He is an Area Environment Manager in Thames Area and has been an active member of the EAPF for 29 years. Colin has attended many training events on the LGPS and completed the Pensions Regulator’s Public Service training. He has developed his knowledge on pension fund investment and management. He is the Pensions Representative of Prospect Union’s Environment Agency Branch.

Ian Brindley has been a member of the local government scheme since 1987, and a member of the Committee since 2014. He is employed by the Environment Agency as a senior advisor in the Environment and Business directorate. He has received training in many areas of pensions and investment, completing courses provided by the Environment Agency, the Local Government Association, Unison and other third party providers. Ian is active in the responsible investment arena, engaging with companies to drive improvements in their environmental, societal, governance and financial performance. Ian has been treasurer of his local Unison branch since 1997.

Danielle Ashton has been a member of the LGPS for 20 years. She is a contributing member representative of the committee since 2017 following open recruitment. She is employed by the Environment Agency as a Research Manager in Environment and Business working on land and soil issues. She has attended a series of training events run by the LGPS and will continue to develop her knowledge on pension management and investment. Danielle has attended a company AGM on behalf of the Pension Fund to raise the issue of their approach to climate change.

Will Lidbetter has been an active member of the Fund since 1992, and an active member nominee since July 2016. He has attended the induction training events on the LGPS and a number of other courses and conferences. Will is currently a specialist in data governance and strategy. He leads on Pensions for the Unison Thames branch and has dealt with pension issues on behalf of his members.

Peter Smith is a qualified solicitor (retired) and his appointments included Chief Executive of Malvern Council and Regional Solicitor to the Severn Trent Water Authority. Peter entered The Salvation Army Training College in 1978 and was commissioned and ordained in 1980. Following church appointments, in April 1989 Peter was transferred to International Headquarters and became the Legal and Parliamentary Secretary, a post which he held until retirement on 1 December 2009. In this capacity Peter advised The Salvation Army worldwide on a very wide range of legal issues and continued in the role of Director of Legal Services until February 2011. During this time Peter served as a Director/Trustee of The Salvation Army Trustee Company, The Salvation Army International Trustee Company and was a member of the Board of Management of The Salvation Army Housing Association. These positions and appointments have all given Peter a wide experience of law and administration of charitable bodies both in the United Kingdom and internationally. He currently serves on the Boards of two other charities, Bethany Kids and Guideposts.

Hywel Tudor is the deferred pensioner member of the EAPF having previously worked for the NRA and Environment Agency in Wales. He joined the Pensions Committee and Pension Board in 2015, having previously gained over 15 years’ experience as a Pension Trustee on the Board of the Arts Council Retirement Plan. Hywel attended the three day LGPS Trustee Training Fundamentals course, and a number of other seminars and PMI conferences. A qualified accountant (FCMA, CGMA) with senior experience in the public, private and charity sectors, he was prior to retirement the Director of Finance & Resources for the Arts Council of Wales. He currently sits as the independent member of National Library of Wales Financial Planning Committee.

Phil Lodge has been an active member of the LGPS since 1992 and joined the Pensions Committee in 2018. He has received general pension management training. Phil is currently Deputy Director of National Operations where he leads the planning, performance management, audit and risk programmes for the operational business. Phil has been a trustee of a number of charities and sat on the General Council of the Chartered Institution of Wastes Management (CIWM) for 12 years, and was South West Chair from 2005-2008, and elected a Fellow in 2012. He holds an Honours Degree in Science and Master's Degree in Business Administration. Phil represents the Environment Agency's Executive on the Pensions Committee.

Veronica James was appointed to the Pensions Committee as a member representative in May 2019. She has been a member of the LGPS since 2012 and is also a deferred member of LGPS from a previous employment. Veronica is currently a Planning Specialist in Thames Area and is Planning Manager for the Oxford Flood Alleviation Scheme. She attended a series of LGPS induction training courses run by the Local Government Association in autumn 2019 which increased her understanding of her role on the Pensions Committee and her responsibilities. This will help her carry out her duties effectively and she looks forward to continuing to develop her knowledge and understanding as a new Trustee.

Greg Black (Reserve Active member representative) joined the committee in 2019 and is looking forward to increasing his knowledge of pension funds and investments. He is a Senior Nuclear Regulator with a PhD in Nuclear Engineering and strong background in data analysis. Greg is already getting involved by attending AGM's of companies we invest in to raise questions related to our responsible investment policy.

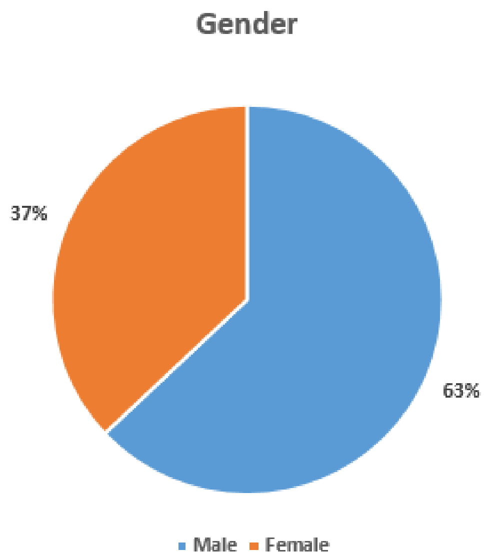
Attendance at Pensions Committee, Investment Sub-Committee and Pension Board meetings

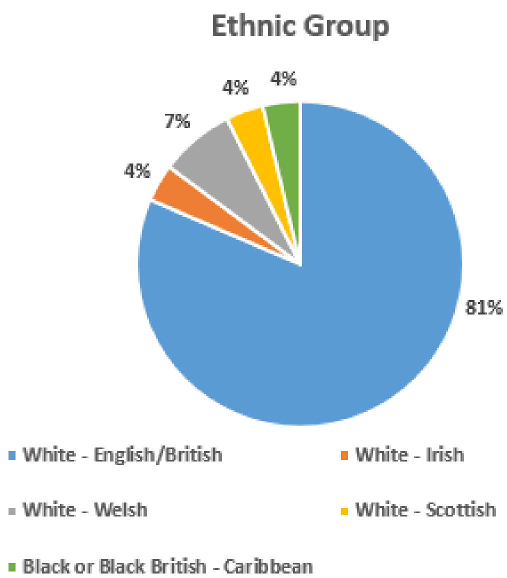
During the past year, the Pensions Committee met on 5 occasions. The Investment Sub-Committee met on 5 occasions and the Pensions Board met on 1 occasion.

	Pensions Committee meeting 5 in total	Investment Sub-Committee 5 in total	Pension Board meeting 1 in total	Total attendance
Board members				
Robert Gould (Chair)	5/5	5/5	1	11
Emma Howard Boyd	3/5	3/5	1	7
John Lelliott	1/3	-	0	1
Caroline Mason	3/5	-	1	4
Maria Adebowale-Schwarte	1/1	-	-	1
Executive members				
Peter Kellett	5/5	-	1	6
Kevin Ingram	3/5	3/5	1	7
Phil Lodge	5/5	3/5	-	8
Active members				
Danielle Ashton	5/5	-	-	5
Ian Brindley	5/5	5/5	1	11
Colin Chiverton	5/5	4/5	1	10
Veronica James	5/5	-	-	5
Will Lidbetter	5/5	5/5	1	11
Greg Black (Shadow)	4/5	-	-	4
Pensioner members				
Peter Smith	4/5	-	1	5
Hywel Tudor	5/5	4/5 (observer)	1	10

Diversity

The Fund is a member of the 30% Club Investor group, which promotes gender diversity on the Boards and Executive committees of (UK) listed companies, and promotes wider diversity and inclusion in the companies in which we invest. To demonstrate best practice in the Fund's own approach we have disclosed our own performance on diversity below relating to combined personnel within the Pension Committee, Pension Board and Officers.





Pensions Committee business during 2019/20

The Pensions Committee made a number of key recommendations and decisions throughout the year on significant issues that will have a long term impact on the performance of the Fund. These decisions have been made in a timely and informed manner, in line with our policies, taking appropriate legal, financial and investment advice, when necessary.

Our key activities included:

a) Management of EAPF related risks from the ongoing coronavirus pandemic.

From early 2020, the Pensions Committee has been managing the EAPF risks from the coronavirus global public health crisis. The Pension Fund Management team implemented their business continuity arrangements and focused on business critical activities, in line with Environment Agency and Pensions Regulator guidance. We have also reviewed business continuity arrangements with all our providers and investment managers.

Our principle concern at this time has been looking after our members. We continue to work closely with Capita, our pension administrator and the HR Pensions team to manage the situation. We would like to thank Capita for their proactive involvement. We have focussed on the payment of pensions, retirements and dealing with bereavements. We meet regularly with Capita to manage the developing situation, and explore how we can both support each other.

In addition, the volatility in the global markets has negatively impacted both our funding positon and assets. The Investment Sub Committee have been regularly monitoring and taken appropriate investment and funding advice. Both Mercer and Hymans Robertson are not proposing any action at present. We set long term strategies to manage our risks, and enter this period of uncertainly in a very positive position. We will keep things under review and provide updates via **www.eapf.org.uk**.

A more detailed update is provided under the section 'Significant events impacting the EAPF during 2019/20'.

b) National Audit Office and the oversight and assurance from other audits

The Environment Agency Pension Fund is audited by the National Audit Office (NAO), which is different to the other local authority LGPS Funds. Our annual report and financial statements link into both the Environment Agency reports and Defra reports, and wider all of government reports.

Due to our size and the scope of change, we are currently seen as one of the highest audit risks for the Environment Agency. The changes referred to include pooling through the Brunel Pension Partnership, the corporate services bulk transfer, our actuarial valuation and the McCloud judgment, all of which are covered below.

The Pensions Committee has spent time this year working with our investment managers, our third party administrator and pooling through the Brunel Pension Partnership Limited.

An independent external assessment of our governance was undertaken in September by our governance and risk advisers. Aon found "that the effectiveness of the governance arrangements were of an extremely high standard". It recommended actions in 3 areas: decision making responsibilities on pooling (Brunel), communications and training. We are reviewing these during 2020.

We are also audited by the Environment Agency's internal audit team. An internal audit of the EAPF was undertaken in May 2019, including a review against the Pensions Regulator code. It found that the framework of governance, risk management and control is adequate and effective, and gave an overall risk score of 92%, up from 83% in the prior year.

It identified a significant number of areas of good practice and found the pension team were providing a high quality service. It found some opportunities to refine existing controls, which are in the process of being addressed.

c) Investment strategy review

We agreed a new investment strategy at our September meeting. In line with the investment advice we received, we agreed to remove some risk from our portfolio, exiting our Emerging Market managers during the year and agreeing an allocation to Liability Driven Investment and a sustainable Multi Asset Credit (MAC). We also reduced strategic allocations to private markets and managed any risks from Brexit.

More information can be found in our investment summary on page 56, our investment strategy statement in Annex 3 and on **www.eapf.org.uk**.

d) Continuing the development, engagement and promotion of our Responsible Investment approach which remains at the core of the EAPF. We are leaders in Responsible Investment and have been so for over 15 years.

Brunel is a key partner in helping us to manage our investments responsibly and develop debate on this issue more broadly. As part of this work, we continued to promote and expand the work of the Transition Pathway Initiative (TPI), which we co-founded in 2016 and which goes from strength to strength.

Following agreement at the September Pensions Committee meeting, we launched our new Responsible Investment Strategy in October 2019.

Building on our impressive achievements to date, our priorities for the next 5 years include:

1. We invest to build a better future by:

- investing significantly in sustainable and low carbon assets
- calculating the impact on, and impact of, our fund on climate change
- exploring opportunities for investing responsibly in all asset classes and in particular in fixed income

2. We work with the investment community to help build a better future by:

- supporting the development of the Transition Pathway Initiative (TPI)
- raising the importance of managing the physical risks from climate change
- challenging company boards directly on their performance
- taking part in campaigns to deliver changes in company and investor behaviour

3. We make our members proud of their Pension Fund by:

- telling members about the positive impact their Pension Fund is making
- encouraging members' feedback on how our responsible investment approach can be improved

For more detailed information on our approach and how we will implement this strategy, please see our Responsible Investment section below, our **Responsible Investment Policy** and our **Policy to Address the Impacts of Climate Change** at **www.eapf.org.uk.**

e) Funding level and our triennial actuarial valuation at 31 March 2019

Our funding level at 31 March 2019 following the official triennial valuation was 106% (2016: 103%). This is an excellent position and will remain amongst the highest across the LGPS. The valuation process lasts around 18 months to include training, assumption setting and data gathering before results are known.

Our employers recognise how much their employees value their pension benefits and see it as a vital part of their overall reward package. We have agreed revised contribution rates with both the Environment Agency (EA) and Natural Resources Wales (NRW) and both remain committed to funding the EAPF, as recommended by our actuary. The EA is contributing 19% of pay from 1 April 2020 with NRW continuing to contribute a fixed rate of £7m p.a. Shared Service Connected Limited continues to contribute 22.7%.

In making their final employer contribution rate recommendation, our actuary has considered the following additional factors which were not allowed for explicitly in their overall modelling work, but increase future risks:

a) 'McCloud' judgment, an age discrimination case that the government lost during 2018 that affects the protections offered to staff when the public sector scheme changed back in 2014/15. In July 2020, MHCLG issued a consultation which proposed the qualifying member criteria. There is no need for members to take any action.
b) Brexit – the Brexit uncertainty means that there is still significant volatility in financial markets.
c) Climate change – Our actuary's analysis shows that the impact on the EAPF could be severe in adverse climate scenarios, supporting the idea of building more prudence into funding plans.

Our Funding Strategy statement was approved at the December meeting and can be found in Annex 2 and on **www.eapf.org.uk**.

We continue to regularly monitor the funding level of the EAPF, particularly with the volatility and uncertainty through coronavirus. A more detailed update is provided under the section 'Significant events impacting the EAPF during 2019/20'.

f) We agreed a new Administration strategy in March 2020 and Capita, our current administrators, have regularly attended our meetings to update the Pensions Committee. We continued to improve our member annual benefit statement delivery and member communications in general through our ongoing commitment to Customer Service Excellence (CSE). We have also rolled out improvements to our website, **www.eapf.org.uk**.

g) Defra Corporate Service review – Over 950 Environment Agency corporate services staff transferred to the Defra on 31 October 2017 as part of the Defra led corporate services review. We worked with a number of stakeholders to protect the EAPF and both existing and transferring members and completed the members 'bulk transfer' of pension benefits from the Active Fund to the Civil Service Pension Scheme in July 2019. A total of 438 deferred members transferred their EAPF pension benefits with a transfer value being paid of £63.8m.

A more detailed update is provided under the section 'Significant events impacting the EAPF during 2019/20'.

h) Ongoing Implementation of the Government's requirement to pool our assets with other LGPS Funds.

Along with nine other Administering Authorities, we established the Brunel Pension Partnership in 2017 to implement the Government's requirement to pool the management and investment of our assets with other LGPS Funds. Our pooling company, the Brunel Pension Partnership Ltd (Brunel Ltd) became operational in April 2018. We own a 10% shareholding in Brunel Ltd.

During 2018/19, we started to transition the management of our assets to Brunel Ltd. This continues to be a huge governance, investment and operational challenge for officers, Pensions Committee and the Fund in general. Following changes to our investment strategy during 2019/20, we have not transitioned any further assets this year. Given the ongoing COVID-19 coronavirus positon, we will be pausing any allocations until the situation is clearer, we have reviewed our strategic position and can be comfortable as a Pensions Committee making further allocations. During 2020/21, the next key portfolios for us will be Sustainable Equities, Multi Asset Credit, Corporate Bonds, Index Linked Gilts and Private Markets.

We have included a more detailed summary of our participation in the Brunel Pension Partnership in the section below: Asset pooling and the creation of the Brunel Pension Partnership. More information can also be found on the **Brunel Ltd website.** Our participation and the ongoing transition of our assets into the Brunel Pension Partnership will continue to be a key focus for the Committee during 2020/21.

Significant EAPF changes and projects during 2019/20

Covid-19 (coronavirus) pandemic

At the time of writing this report, we are in unprecedented times. The public health crisis of COVID-19 and the health, safety and wellbeing of our employees, Pension Fund members and wider partners and stakeholders remain our primary concern. We know that members of the EAPF have been directly impacted and we pass on our sincere condolences to all those affected.

From early 2020, the Pensions Committee has been managing the EAPF risks from the coronavirus global public health crisis. The Pension Fund Management team implemented their business continuity arrangements and focused on business critical activities, in line with Environment Agency and Pensions Regulator guidance. We have also reviewed business continuity arrangements with all our providers and investment managers.

Our principle concern at this time has been looking after our members. We continue to work closely with Capita, our pension administrator and the HR Pensions team to manage the situation. We would like to thank Capita for their proactive involvement. We have focused on the payment of pensions, retirements and dealing with bereavements in serving of our member's needs. We meet regularly with Capita to manage the developing situation, and explore how we can both support each other in serving needs of our members.

Since February 2020 there has been significant volatility in the financial markets as the world responds to the pandemic. There has been an immediate impact on the Fund's assets, whose value has fallen by around 10% since 31 December 2019. As at 31 March, the situation had not yet stabilised so the values reported in this year's financial statements are likely to have changed considerably by the time the AR&FS is published. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Some of our Level 3 investments particularly Real Estate have valuations that are reported on the basis of 'material valuation uncertainty'. Consequently, less certainty – and a higher degree of caution – should be attached to our Fund's valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we continue to liaise with our Fund Managers and keep the valuation of these properties under frequent review. Whilst the Real Estate market valuation uncertainty existed at the 31 March 2020 it has been released by RICs in September 2020. We have seen an improvement in asset performance and funding level since March.

There has also been a considerable impact on the Fund's obligations as the challenging market conditions have affected the way the obligations are calculated. In line with the relevant accounting standard, the value of the obligations reported in Note 19: Actuarial present value of promised retirement benefits on page 111 depends on the yield on high-quality corporate bond yields on 31 March 2020. These yields increased sharply in March due to investors' concerns about companies' financial strength in the wake of the social distancing measures being used to combat the spread of the virus. This has had a positive impact on the figures reported in Note 19, though this is arguably more related to the accounting methodology rather than a genuine improvement in the Fund's position. In the longer-term the pandemic will also sadly have a more real impact on the Fund's members, with mortality rates over the period to the 2022 valuation likely to be higher than in previous years. It will take time for this to be properly understood and the impact will likely not be reflected in the ARFS until 2023, after the next actuarial valuation.

Despite the volatile conditions and the fall in asset values, the Fund remains a long-term investor whose participating employers have strong government backing, and it is well-placed to ride out the current period of uncertainty. The Fund's advisors have recommended no knee-jerk reaction to the pandemic, for example no changes to employers' contribution rates and no forced sale of fund assets. Benefits payable to members are guaranteed and are not linked in any way to stock market performance. We are working closely with our administrator to ensure benefits continue to be paid accurately and on time, so that the impact on members is minimised. The impact of the pandemic and the measures taken to contain it is being monitored closely at the highest levels, including the Pensions Committee.

Corporate Services transfer

On 1 November 2017, approximately 950 Environment Agency (EA) Corporate Services staff (of whom around 800 were members of the EAPF) transferred their employment to Defra. From this date, these members ceased to be active participants in the EAPF and were offered membership of the Civil Service Pensions Arrangements (CSPA).

Subsequently, around 440 of them elected to transfer to the CSPA the benefits they had built up in the EAPF prior to this point, calculated in accordance with benefit transfer terms agreed with the Government Actuary's Department (GAD).

Given the large number of members involved, and the large potential impact on the EAPF's assets and liabilities, the transfer process was subject to an additional Memorandum of Understanding (MoU) between Defra and the EA to ensure that the EAPF would not be left worse-off following the transfer of assets and liabilities. Overall, the following payments to/from the EAPF were agreed:

1. The transfer payment from the EAPF to the CSPA in relation to the transferring members, based on terms agreed between the actuaries to each Fund (Hymans Robertson and GAD, respectively). The transfer payment was based on the value of the transferring liabilities (calculated on the EAPF's basis), adjusted for the EAPF funding position on the transfer date. This adjustment ensured that the liabilities of the transferring members were not funded in preference to the liabilities left behind in the EAPF.

2. A potential payment to the EAPF to ensure that the non-transferring liabilities left behind in the EAPF were fully-funded. This payment is referred to as Shortfall 3 in the MoU. In the event this payment was not required thanks to the strong funding position of the EAPF on the transfer date.

The terms of the transfer payment, and the additional protection offered by Shortfall 3, ensured that the EAPF was well-protected against any possible adverse impact from the transfer, regardless of the financial conditions and funding position on 31 October 2017.

The transfer took place on 1 November 2017, but it took time to contact members, process their option forms, extract and validate data, and agree calculations between the two actuaries. The final transfer payment of £63.8m was paid on 29July 2019 and is being allowed for in the 2019/20 IAS19 results as a Settlement (see Note 19: Actuarial present value of promised retirement benefits on page 111). The approach to allowing for the transfer on the assets and obligations has been agreed between the Scheme actuaries on both sides.

In the IAS19 results, the transfer payment is shown on the assets side as a negative value of £63.8m, equal to the payment made on 29 July 2019. The value of obligations discharged (£69.1m) is equal to the value of transferring benefits on 31 October 2017, recalculated on IAS19 assumptions and with interest added to 29 July 2019. On an accounting basis, therefore, there has been a 'gain' from the transfer of £5.3m because the value of obligations removed from the balance sheet is greater than the value of assets paid out.

The 'McCloud' case

On 21 December 2018, the Court of Appeal held that transitional protections that protected older judges and firefighters from the public sector pension scheme changes in 2015 were unlawfully discriminatory. This case is known as the 'McCloud case'.

On 27 June 2019, the Supreme Court refused the Government permission to appeal the McCloud case in respect of age discrimination and pension protection, and the **Government announced** it would work with employment tribunals to find a solution. On 26 March 2020, a **ministerial statement** confirmed that detailed proposals for removing the discrimination will be published later in 2020 and be subject to public consultation. It is likely that the remedy applied to the LGPS will involve extending the transitional protections to younger members in some way. The LGPS England & Wales Scheme Advisory Board (SAB) maintains a **McCloud page** on its website with regular updates, and is engaging with the Government and with Administering Authorities to discuss the remedy and its implementation. We will await further details to confirm the next steps in the process, and continue to keep members informed through newsletters and **www.eapf.org.uk**. In the meantime we are taking steps to prepare for the remedy by collecting data on part-time hours and service breaks that will be needed to recreate 2008 scheme benefits.

Last year, the Fund actuary's central estimate for the potential impact of the McCloud judgment on the Pension Fund liabilities as at 31 March 2019 was an increase of £32m. Following the MHCLG consultation in July 2020 and more certain information about the affected population, the prior year liability was revised and the liability as at 31 March 2020 is now reduced to £22m.

Further details on the impact estimate can be found in Note 19: Actuarial present value of promised retirement benefits on page 111. The estimate will be refined in future as new details about the potential remedy come to light. As well as the liability impact the remedy to the McCloud judgment will have a significant impact on administration costs and complexity, for potentially many decades to come. We have not sought to quantify these costs at this stage.

McCloud impact on LGPS Cost Management process

On 30 January 2019 the Government published a **written statement** that paused the Her Majesty's Treasury (HMT) cost management process for public service pension schemes, pending the outcome of the Government's application to appeal the McCloud case to the Supreme Court. On 8 February 2019, LGPS England & Wales Scheme Advisory Board confirmed it had no option but to **pause its own cost management process** pending the outcome of McCloud. The **ministerial statement** of 26 March 2020 noted that, alongside its proposals for addressing the McCloud case, the Government will also provide an update on the cost management mechanism.

The cost management process is designed to ensure that the cost for providing public sector workers with a pension remains within prescribed limits for both the members of those schemes and tax payers. The initial results of the LGPS cost management process pointed towards a small package of benefit improvements for members which should have come into effect from 1 April 2019. These changes remain on hold until the final outcome of the McCloud case. We have not estimated the cost impact associated with them, given the lack of detailed information and the possibility that they will be reduced or cancelled depending on the McCloud remedy.

The 'Goodwin' case

In June 2020 a legal discrimination case, namely the Goodwin case, which related to unequal death benefit provision for male dependents of female scheme members was deemed successful. Whilst this case occurred in the Teacher's Pension Scheme, it does read across to other public sector schemes including the LGPS. From initial analysis this has affected a very small population of our membership and about a 0.1% increase in liabilities which for completeness has been included in our IAS19 valuation this year.

The 2019 actuarial valuation

The Fund's actuary carried out the Fund's triennial valuation as at 31 March 2019 during 2019/20, with the results being signed off by the Pensions Committee in December 2019 and formal valuation reports issued in March 2020.

At each valuation the actuary receives a fresh extract of membership data and reviews the assumptions used to calculate the liabilities. The March 2020 figures in in Note 19: Actuarial present value of promised retirement benefits on page111 are based on the updated membership data and assumptions used for the 2019 valuation. The previous year's figures were ultimately based on the 2016 valuation, so there is a 'step change' in 2020 when the new data and assumptions are introduced. The 2019 valuation will be used as the basis for the next three years until 2023, when the 2022 valuation will be introduced, and the process will continue. This is the standard method that has been used for many years.

The main changes as a result of moving to the 2019 valuation results, and the impact on the liabilities in Note 19, are as follows:

Item	Impact on March 2020 obligations	Comment
Actual membership experience since 2016	Decrease	Previous results were based on a rollforward from the 2016 valuation, which assumes that membership experience is in line with assumptions. The March 2020 results reflect all actual experience for the period to 31 March 2019, for example salary increases, ill-health retirements, individual transfers in and out, etc. The net effect is a small reduction to the obligations.
Change in longevity assumptions	Decrease	At the 2019 valuation the longevity assumptions were updated to reflect the latest analysis and latest projections for future improvements. Life expectancies are expected to improve at a slightly slower rate than previously assumed, leading to a reduction in the value of the obligations.
Change in other demographic assumptions	Increase	Assumptions were reviewed as part of the 2019 valuation and updated where there was sufficient evidence to do so. The main change at the 2019 valuation was a reduction to the assumed rate that active members become deferred. The net impact is a small increase in the value placed on the obligations.

Other changes, notably the change in financial assumptions, are not related to the move to the 2019 valuation and would have happened regardless.

Scheme Advisory Board (SAB) issues statement on Supreme Court boycotts judgment

On 29 April 2020, the Supreme Court handed down its judgment in the case of R (on the application of Palestine Solidarity Campaign Ltd and another) (Appellants) v Secretary of State for Housing, Communities and Local Government (Respondents). The case was originally heard on 20 November 2019. The Supreme Court found in favour of the appellants and would appear to take the position that the Government has the power to direct authorities on the approach they take to investment decisions, but not on the investments they make.

The following statement was issued on the SAB website **http://www.lgpsboard.org/**:

“The SAB welcomes the clarity brought by the judgment of the Supreme Court in the case of R (on the application of Palestine Solidarity Campaign Ltd and another) Appellants) v Secretary of State for Housing, Communities and Local Government (Respondent). In seeking to restrict the outcome as well as the considerations taken account of by an LGPS administering authority when developing its responsible investment policy, the government has been judged to have overstepped its powers. It is the Board’s view that Responsible Investment policy decisions belong at the local level reflecting: the need to pay pensions both now and in the future; local democratic accountability and the views of scheme members; and that outcomes of policy developments should not be subject to restrictions based on unrelated matters.”

We await further detail on the judgment to see if there are any future implications for the LGPS or EAPF.

Asset pooling and the creation of the Brunel Pension Partnership

Background

Since 2015, we have been working with nine other Administering Authorities to implement the Government's requirement to pool the management and investment of our assets with other Local Government Pension Scheme (LGPS) Funds.

The 2015 LGPS Investment Reform Criteria and Guidance set out how the Government expected LGPS funds to establish asset pooling arrangements and the objectives from pooling including: benefits of scale, strong governance and decision making, reduced costs and excellent value for money, and an improved capacity and capability to invest in infrastructure. The Guidance was clear that responsibility for setting the detailed Strategic Asset Allocation would remain with each Administering Authority.

In conjunction with nine other LGPS Funds, we established the Brunel Pension Partnership to meet this Government guidance and the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Our pooling delivery operator, the Brunel Pension Partnership Ltd (Brunel Ltd) was launched on 18 July 2017 as a new company wholly owned by the ten Administering Authorities, including the EAPF. We own a 10% shareholding in Brunel Ltd.

Brunel Ltd obtained authorisation from the Financial Conduct Authority (FCA) in March 2018 to act as an investment manager and an investment advisor. Brunel Ltd met the Government's requirement for the Pool to become operational from April 2018 thus enabling the transition of assets to begin. Regular reports have been made to Government on progress towards the pooling of investment assets reflecting that fee savings for the partnership as a whole are positive so far.

Importantly, the EAPF, through the Pensions Committee, retains the responsibility for setting the detailed EAPF Strategic Asset Allocation and allocating investment assets to the portfolios provided by Brunel Ltd.

Responsibility for implementing our detailed Strategic Asset Allocation and those of the other nine partner Funds rests with Brunel Ltd. It is required to provide and implement a suitable range of outcome focused investment 'portfolios' to meet the needs of each of the ten partner funds. We are able to, and actively do, suggest new portfolios to Brunel Ltd and engage with Brunel Ltd on the structure and nature of existing portfolios in order that the EAPF is able to deliver its Strategic Asset Allocation and properly maintain our long-standing and widely recognised approach to Responsible Investment.

In particular, Brunel Ltd researches and selects the professional external investment managers responsible for making the day to day investment decisions on the portfolios. In some cases, a portfolio will have a single external manager who provides the fund structure for a portfolio. In other cases, Brunel Ltd will allocate to a number of different externally managed funds. For active equities, Brunel Ltd has sponsored the creation of an authorised contractual scheme (ACS), in conjunction with an external fund operator (Fundrock), as this structure in these markets offers significant cost and tax benefits. Brunel Ltd is the investment manager of the ACS.

Governance and oversight

The EAPF is both a shareholder and a client of Brunel Ltd. As a client, we have the right to expect certain standards and quality of service. To enable this, a detailed service agreement was put in place setting out the duties and responsibilities of Brunel Ltd, and our rights as a client. It includes a duty of care of Brunel Ltd to act in its clients' interests.

The Pension Committee recognises that the governance of the partnership is of the utmost importance to ensure our assets are invested well and our needs and those of our beneficiaries are protected. We were instrumental in establishing governance controls at several levels within Brunel Ltd as follows:

As shareholders in Brunel Ltd, we entered into a shareholder agreement with the company and the other shareholders. This agreement gives shareholders considerable control over Brunel Ltd – several matters, including significant changes to the operating model and budget, are special reserved matters requiring the consent of all shareholders, with other reserved matters requiring agreement across a majority of shareholders. Each of the ten participating Pension Funds has a 1/10th shareholding in Brunel Ltd. We have summarised the reserve and special reserve matters agreed during 2019/20 in the next section. Draft pooling guidance, issued in January 2019 by the MHCLG as part of an informal consultation process, included reference to the need to establish and maintain a governance body to set the direction of the pool and "hold the pool company to account".

- An Oversight Board comprising representatives from each of the ten Funds' Pensions Committee's has a primary monitoring and oversight function. Meeting at least quarterly, it reviews and challenges papers from Brunel Ltd and its management. However, it cannot take decisions requiring shareholder approval, which are remitted back to each Fund individually. Our Chair of Pensions Committee, or nominated Pensions Committee deputy, represents the EAPF on this Board. Two members representing Pension Fund members from the participating Funds also attend Oversight Board meetings.

- The Oversight Board is supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Funds, but also drawing on finance and legal officers from time to time. Whilst essentially an officer working group, it has a leading role in reviewing the implementation of pooling by Brunel Ltd, and provides a forum for discussing technical and practical matters, confirming priorities, resolving differences and improving relationships and operational issues. Client Group is also supported by a number of sub-groups, to delve deeper into detail. The EAPF chairs the responsible investment sub-group and sits on the services, investment and financial sub-groups. The Client Group is also responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.

- A separate level of governance is provided by the Board of Directors at Brunel Ltd, which are appointed by shareholders. It comprises four highly experienced and independent Non-Executive Directors, chaired by Denise Le Gal and four Executive Directors. A Shareholder Non-Executive Director (SNED) represents shareholder views at the Brunel Ltd Board. Further information can be found here: **www.brunelpensionpartnership.org/people**.

- Finally, as an authorised firm, Brunel Ltd has to meet the extensive requirements of the Financial Conduct Authority, with cover areas such as training and competency, policy and process documents, and internal controls.

Shareholder reserve matters during 2019/20

During 2019/20, we agreed the following reserve and special reserve matters in consultation with our partner Funds and Brunel Ltd. The Pensions Committee holds the shareholder responsibility for the EAPF and we bring these reserve matters to appropriate meeting. If this is not practical due to time limitations, we use agreed urgency delegations with appropriate assurance.

- Special Reserve Matter 11: we agreed the request to carry forward of approved expenditure to a further financial year (subject to a 5% cap and oversight by Client Group).
- Reserve Matter 12: we agreed the suggested minor governance and clarity changes to the Remuneration Policy.

- Reserve Matter 13: we agreed that Brunel Ltd could enter into a Memorandum of Understanding with Norfolk County Council and the other founders of the LGPS framework for legal services to support the framework tender.
- Reserve Matter 14: we agreed that Brunel Ltd could enter into a remote access services agreement with State Street Bank & Trust Co to support better operational processing.
- Reserve Matter 15: Following the resignation of Freddie Pierre-Pierre as a Non-Executive Director, we agreed the appointment of Patrick Newberry as a replacement Non-Executive Director to the Brunel Ltd Board.
- Special Reserve Matter 16: Following the resignation of Dawn Turner as Chief Executive Officer (CEO) on 30 September 2019, we agreed changes to the Remuneration Policy including an increase in the CEO compensation cap and updates to reflect BIPRU (the prudential sourcebook for Banks, Building Societies and Investment Firms) regulations. Following open competition, Laura Chappell was subsequently appointed as the new Brunel Ltd. CEO from January 2020, having previously been Chief Compliance and Risk officer interim CEO.
- Special Reserve matter 17: In line with the annual process, including Client Group and Oversight Board engagement and presentation at the December 2019 Pensions Committee meeting, we agreed the Brunel Ltd business plan for 2020/21. The budget was consistent with the forecast provided with the 2019/20 budget.

Brunel Ltd operational delivery

Brunel has made good progress since it went operationally live in April 2018 including:

- Portfolio launches for listed markets: Passive global and UK Equities/Smart Beta/Low Carbon, UK Equities, Low Volatility Equities, Emerging Markets and High Alpha Global Equities. Liability Driven Investment and wider risk management tools have also been implemented.
- Selecting Fundrock as the platform provider for their Authorised Contractual Scheme (ACS) platform.
- Appointment of State Street as Custodian and Administrator of the partnership. The EAPF transitioned from Northern Trust to State Street on 1 April 2018.
- Bringing forward the offering of Private Market's portfolios by appointing Colmore as a middle and back office provider and launching secured income, infrastructure, private equity and property options.
- Establishing its Responsible Investment policy and being the first LGPS pool to join the UN-backed Principles for Responsible Investment. In January 2020, Brunel Ltd published their Climate policy, after extensive client engagement. Brunel Ltd are recognised within the investment community for their positive and innovative approach to Responsible Investment. We are pleased that this provides the opportunity for the leadership work the EAPF Pensions Committee has undertaken in successfully promoting Responsible Investment over the last 15 years to continue to move forward.

Transition timetable

In accordance with a revised timetable agreed across the partner Funds as part of the 2019/20 Brunel Ltd business plan process, it was anticipated that investment assets would be transitioned across from our existing investment managers to the portfolios managed by Brunel Ltd between July 2018 and October 2021. Partner Funds and Brunel Ltd agreed at the end of March 2020 to pause further transitions until the position with the coronavirus pandemic has become clearer. We meet regularly to discuss and agree appropriate next steps and expect Brunel Ltd to recommence transitions during the autumn of 2020.

As previously reported, the first EAPF assets transitioned into Brunel portfolios during 2018/19. In July 2018, we transitioned into the passive low carbon global equity portfolio through Legal and General Investment Management (LGIM). We subsequently transitioned into the active low volatility equity portfolio in March 2019. Due to changes to our strategic asset allocation and the agreed timetable, we did not transition any assets during 2019/20, with our next transition likely to be our sustainable equities investments portfolio during 2020/21. For those EAPF assets which have yet to transition, we will continue to maintain the relationship with our current investment managers and oversee their investment performance, working in partnership with Brunel Ltd where appropriate.

Following the eventual completion of the transition plan, we envisage that the majority of our assets will be invested through Brunel Ltd. However, the Fund has certain commitments to long term illiquid investment funds which will take longer to transition across to the new portfolios which will be set up by Brunel Ltd. We will continue to manage these in partnership with Brunel Ltd until such time as they are liquidated, and capital is returned.

Delivery against original pooling business case

One of the key objectives for Brunel Ltd is to deliver, on a timely basis, the fee savings included in the original business case (OBC) agreed across the ten partner Funds.

The Environment Agency Board, following recommendation from the Pensions Committee, approved our participation in the Brunel Pension Partnership in July 2017, based on the detailed original business case and supported by appropriate legal and financial assurance. Overall, undiscounted potential fee savings across the pool were estimated at £550 million over the 20 year period (to 2036), of which the EAPF's savings were projected to be around £53 million. We recognised that the project would incur initial set up costs, with the business case showing that the EAPF case would break even on a cumulative basis by 2022. For the overall pool, the breakeven date is 2023.

The expected costs and savings for the EAPF through to 2036, as per the original approved business case submitted to Government, are as follows:

Original Business Case (agreed in 2016)

EAPF	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026-36 £000	Total £000
Set up costs (Note 1)	117	1,092	-	-	-	-	-	-	-	-	-	1,209
Ongoing Brunel costs (Note 2)	-	-	545	716	740	764	789	815	841	869	10,426	16,505
Client savings (Note 3)	-	-	(843)	(869)	(895)	(922)	(949)	(978)	(1,007)	(1,037)	(12,248)	(19,748)
Transition costs (Note 4)	-	-	1,078	2,210	11	-	-	-	-	-	-	3,299
Fee savings (Note 5)	-	-	(114)	(876)	(1,661)	(1,878)	(2,116)	(2,370)	(2,533)	(2,703)	(40,241)	(54,493)
Net costs / (realised savings)	**117**	**1,092**	**666**	**1,182**	**(1,805)**	**(2,036)**	**(2,277)**	**(2,533)**	**(2,698)**	**(2,871)**	**(42,063)**	**(53,227)**

In the sections below, we have included a more detailed breakdown of each area of the original business case with costs/savings built up to 31 March 2020. We are working with Brunel Ltd and the Pensions Committee during 2020 to reforecast certain parts recognising changes to our strategic assets allocation and internal team since 2016.

Brunel Ltd 2019/20 actual spend against original business case

Reflecting the EAPF original business case budgets. The table below shows actual spend against these original budgets. We have provided more detailed analysis under each individual cost note below:

EAPF	2019/20				2018/19			
	OBC Budget		Actual		*OBC Budget*		Actual	
	In Year	*Cumulative to date*	In Year	Cumulative to date	*In Year*	*Cumulative to date*	In Year	Cumulative to date
	£000	*£000*	£000	£000	*£000*	*£000*	£000	£000
Set up costs (Note 1)	*0*	*1,209*	-	**1,073**	*0*	*1,209*	**0**	**1,073**
Brunel costs (Note 2)	*716*	*1,262*	**1,207**	**2,215**	*545*	*545*	**1,008**	**1,008**
Client savings (Note 3)	*(869)*	*(1,712)*	**(175)**	**(270)**	*(843)*	*(843)*	**(95)**	**(95)**
Transition costs (Note 4)	*2,210*	*3,288*	**0**	**12**	*1,078*	*1,078*	**12**	**12**
Fee savings (Note 5)	*(876)*	*(990)*	**(211)**	**(239)**	*(114)*	*(114)*	**(28)**	**(28)**
Net costs / (realised savings)	***1,181***	***3,057***	**821**	**2,791**	***666***	***1,875***	**897**	**1,970**

Note 1: Set up costs

As reported in our 2018/19 annual report and financial statements, included in the original business case were set up costs for 2016/17 and 2017/18, recognising that Brunel Ltd would go operationally live from April 2018. We are pleased that the set up costs came in around budget, which is a great achievement given the creation of a completely new company and investment platform. A summary of our EAPF share of the previously reported actual set up costs for 2018/19 are included below:

Asset pool set up and administration costs 2018/19	Cumulative £000
Set up costs:	
Share purchase	840
Legal	133
Consulting, Advisory and Procurement	82
Recruitment	18
Total actual set up costs	**1,073**
Projected costs per original business case	**1,209**

Our 10% share purchase investment in Brunel Ltd is valued at £427k (2019: £395k). This is an increase of £32k (2019: decreased by £445k) using latest available valuation from the Brunel Ltd Annual Report and Accounts at 30 September 2019.

Note 2: Ongoing Brunel Ltd costs

The ongoing Brunel Ltd fees for 2019/20 and 2018/19 as summarised below:

EAPF	2019/20				2018/19			
	OBC Budget		Actual		*OBC Budget*		Actual	
	In Year	*Cumulative to date*	In Year	Cumulative to date	*In Year*	*Cumulative to date*	In Year	Cumulative to date
	£000	*£000*	£000	£000	*£000*	*£000*	£000	£000
Brunel costs (Note 2)	*716*	*1,262*	**1,207**	**2,215**	*545*	*545*	**1,008**	**1,008**

The Brunel Ltd costs across both our Active and Closed Funds of £1,207k (2019: £1,008k) reflect the service charge of £1,130k (2019: £736k) less a deduction of £26k in respect of costs allocated to portfolios (Passive Low Carbon: £711 and Low Volatility: £24,812) plus an accrual for the excess performance reporting charge (£103k). The portfolios deduction is in recognition of Brunel Ltd carrying out an investment management function and is reported separately as part of our investment management Cost Transparency Initiative report.

Our £716k 2019/20 OBC budget (2019: £545k) for Brunel Ltd from the original business case includes custody costs of £192k (Active and Closed Funds). We understood these would be paid by Brunel Ltd but, in practice, we pay these direct to State Street for our legacy assets. We paid State Street £108k (Active: £89k Closed: £19k) (2019: £130k) for custodian services during 2019/20. As we transition further investments into Brunel Ltd portfolio's the custodian fee payable to State Street will reduce. Any custodian fees included through Brunel Ltd underlying investment managers will be accounted for through the cost transparency code.

Performance reporting is included as part of the Brunel Ltd fee. Performance reporting includes access to monthly performance analytics online, quarterly and yearly reporting. Performance measurement services also provide return calculations at total asset, manager and asset class levels and comparison to relevant benchmarks encompassing our total portfolio. Our total performance reporting costs across both Funds for 2019/20 are £156k (Active: £125k Closed £31k) (2019: £143k)

As per the agreed Pricing Policy, client Invoicing is done on the budgeted position and charged to Clients based on the anticipated cost drivers in advance, e.g. assets transferred into portfolio for launch costs / actual AUM in portfolios for monitoring costs. In order to reflect the 'true-up' position, Brunel Ltd use the actual cost drivers and reallocate some of the costs between Clients. The final invoice, when eventually received, may therefore be higher or lower than originally charged. However, any change is unlikely to be material. A 'true up' payment of £38k was paid during 2019/20 in respect of 2018/19. This payment is reflected in Note 11 Management Expenses.

The additional variance (of £1,008k) between original business case budget and actual Brunel Ltd fee reflects special reserve matters agreed during 2018/19 in respect of budget variance and private markets. Brunel's operating costs have increased above the OBC level mainly due to the additional operational requirements of being a FCA regulated entity (that were not foreseen as part of the OBC), along with the increased costs around the operating of the ACS, development of the private markets back and middle office function and increased governance requirements .

Shareholders agreed additional resource for 2019/20 to allow delivery of a partnership wide revised transition plan which included some re-ordering to meet Funds' priorities. Brunel Ltd have undertaken additional recruitment of staff and extensive resource modelling of the investments team time required to complete implementation for the remaining portfolios and ensure the required due diligence, quality and assurance takes place. This is explained in further in our 2018/19 annual report and financial statements on **www.eapf.org.uk**.

We, along with the Brunel Oversight Board and other Shareholders, will continue to carefully monitor these changes and the impact on the savings targets.

The budget proposed by Brunel Ltd for 2020/21 is in line with the variance agreed as part of these special reserve matters, and therefore remains above the budget for 2020/21 as set out in the original business case.

Note 3: Client Savings

Client savings for 2018/19 and 2019/20 are summarised below:

EAPF	2019/20				2018/19			
	OBC Budget		Actual		*OBC Budget*		Actual	
	In Year	*Cumulative to date*	In Year	Cumulative to date	*In Year*	*Cumulative to date*	In Year	Cumulative to date
	£000	*£000*	£000	£000	*£000*	*£000*	£000	£000
Client savings (Note 3)	*(869) (Inc custody £147)*	*(1,712) (Inc custody £290)*	**(175)**	**(270)**	*(843) (Inc custody £143)*	*(843) (Inc custody £143)*	**(95)**	**(95)**

Overall Client Savings includes potential internal savings to the Environment Agency Pension Fund Management team, environmental reporting, investment advice, custody fees and other items. Our original business case (OBC) assumed estimated internal savings of £843k for 2018/19 and £869k for 2019/20 giving a cumulative figure of £1,712k.

Our client savings included in the OBC assumed savings in respect of actual custody costs of £135k (Active Fund £108k and Closed Fund £27k) in 2016. We understood these would be paid by Brunel Ltd as reflected in the Brunel Ltd business case budget. In practice however, we are required to pay these direct to State Street and have not therefore been reflected as an internal client saving. We have not corrected the Original Business Case figures.

We have however seen internal client savings in respect of financial performance and risk measurement. In the 2016 OBC, we had assumed savings of £77k p.a. We have recognised an actual saving in the table above of £65k (Active and Closed Funds). £65k accurately reflects the comparable performance fee we were paying Northern Trust in 2017/18 prior to our transition to State Street and Brunel Ltd. As stated in Note 2, the current performance reporting fee of £156k forms part of our core Brunel Ltd service fee.

We have also achieved internal savings through our Hermes environmental reporting contract. Whilst we still pay for our carbon foot-printing, we have recognised £30k p.a. for 2018/19 and a further £110k p.a. in 2019/20 (cumulative saving £140k p.a.) compared to the assumed saving of £110k p.a. in the OBC in respect of the Hermes contract.

The largest assumed internal saving in the original business case was £226k in respect of the anticipated loss of 3 internal staff as work transferred to Brunel Ltd. However, only 15% of our assets are currently managed by Brunel Ltd for our passive low carbon equity and low volatility mandates. We had anticipated transitions to occur sooner, but due to strategic investment changes made by the EAPF and the agreed change to the transition plan, we have not transitioned as many assets to Brunel Ltd as originally forecast in the original business case by this point.

Our internal Pension Fund Management has seen significant change from the creation of the Brunel Pension Partnership. During 2017, out of our team of 12 staff covering all areas of pension fund management, we saw 7 staff leave, including the departure of 5 internal staff to Brunel Ltd. We have had to review our internal staffing requirements and structure for the new pooling environment recognising the significant and unexpected level of internal oversight, governance and operational requirements that pooling and our shareholder responsibilities have created. We are therefore not recognising any internal staff savings compared to the original business case and, at this point, we do not anticipate recognising any internal staff savings in the future.

We had also budgeted for savings through investment, governance and legal advice and extraordinary projects. In practice, these costs have increased as we have relied on additional external support to manage staff departures, transitions and to assist with the governance issues.

We continue to review these costs very closely and will reforecast our client savings- achieved and projected - with the Pensions Committee during 2020/21 to facilitate a clearer budget going forward.

Note 4: Transition costs

Transition costs are summarised in the tables below:

EAPF	2019/20				2018/19			
	OBC Budget		Actual		*OBC Budget*		Actual	
	In Year	*Cumulative to date*	In Year	Cumulative to date	*In Year*	*Cumulative to date*	In Year	Cumulative to date
	£000	*£000*	£000	£000	*£000*	*£000*	£000	£000
Transition costs (Note 4)	*2,210*	*3,288*	**0**	**12**	*1,078*	*1,078*	**12**	**12**

Due to changes to our strategic asset allocation, and the agreed revised transition timetable set by Brunel Ltd, we have not transitioned any assets during 2019/20. Our next transitions are likely to be our sustainable equities portfolio. We are therefore significantly below the OBC budget for transition costs due to the timing of the transitions, but anticipate these increasing during 2021/22. The transition costs for 2018/19 for our passive low carbon equity and low volatility were lower than estimated in the original business case.

Transition costs 2018/19:	**Direct £000**	**Indirect £000**	**Total £000**	**Cumulative £000**
Transition fee	-	-	-	-
Other transition costs	-	8	8	8
Tax	-	4	4	4
Total transition costs:	**-**	**12**	**12**	**12**

We have made 2 strategic investment changes since the original business case, which has meant we did not transition assets into Brunel Ltd portfolios as anticipated in the original business case.

These 2 portfolios are: Smart Beta equities and Emerging Markets. If we had transitioned these with our other partner Funds, the following estimated transition costs would have been paid:

Transition costs summary (actual and estimated)	**Total £0**
Low Carbon passive equity	7
Low Volatility equity	5
Total actual costs	12
*Estimated Smart Beta	53
*Estimated Emerging Markets	348
Total transition costs:	**413**

*Estimated transition costs provided by Brunel Ltd August 2020

Note 5: Fee savings

Fee savings for both 2018/19 and 2019/20 are included in the table below:

EAPF	**2019/20**				**2018/19**			
	Budget		**Actual**		***Budget***		**Actual**	
	In Year	***Cumulative to date***	**In Year**	**Cumulative to date**	***In Year***	***Cumulative to date***	**In Year**	**Cumulative to date**
	£000	***£000***	**£000**	**£000**	***£000***	***£000***	**£000**	**£000**
Fee savings (Note 5)	*(876)*	*(990)*	**(211)**	**(239)**	*(114)*	*(114)*	**(28)**	**(28)**

A significant part of our original business case savings rested on securing material investment management fee savings, after set up costs and Brunel Ltd operating costs. We remain below the original business case assumption for fee savings due to agreed changes to the original transition timetable, and as result of strategic asset allocation changes we have made since the business case, including moving out of Smart Beta during 2017 and Emerging Markets during 2019.

During 2018/19, the first EAPF assets transitioned into Brunel portfolios. In July 2018, we transitioned into the passive low carbon global equity portfolio through Legal and General Investment Management (LGIM). We subsequently transitioned into the active low volatility equity portfolio in March 2019. In 2018/19, fee savings of £28k were achieved against our original business case assumption of £114k.

These 2 portfolios have produced fee savings of £211k during 2019/20 against the original business case assumption of £876k. Our cumulative position is that we have made £239k of savings (based on price variance) against our business case assumption of £990k. We are continuing to incur investment management fees for the assets that have yet to transition and these are disclosed within Note 11 Management Expenses under our financial statements.

Due to changes to our strategic asset allocation and the reviewed transition timetable, we have not transitioned any assets during 2019/20. Our next transitions are likely to be our sustainable equities portfolio during 2020.

A summary of fee savings on the assets that we have transitioned to Brunel Ltd portfolios compared to the original EAPF business case is provided below.

Brunel portfolio	**Value in OBC 31.03.16**	**Value as at 31.03.20**	**Price variance**
	£000	**£000**	**£**
Low Carbon Passive Equities	195,278	205,822	50,287
Active Low Volatility Equities	247,220	296,236	188,297
Total			**238,584**

NB: OBC means Original Business Case

As discussed under Transition costs in Note 4 above, we did not transition to the Brunel Ltd Smart Beta and Emerging Markets portfolios. We estimate the Smart Beta saving could have been £51,000 and for Emerging Markets, £140,000 cumulative to 31 March 2020. If we had transitioned to these in line with the partner Funds that did, we would have seen the following overall fee savings:

EAPF	**2019/20**				**2018/19**			
	Budget		**Potential**		***Budget***		**Potential**	
	In Year	***Cumulative to date***	**In Year**	**Cumulative to date**	***In Year***	***Cumulative to date***	**In Year**	**Cumulative to date**
	£0	***£0***	**£0**	**£0**	***£0***	***£0***	**£0**	**£0**
***Potential Fee savings**	*(876)*	*(990)*	**(381)**	**(430)**	*(114)*	*(114)*	**(49)**	**(49)**

*Estimated fee savings provided by Brunel Ltd August 2020

During 2020/21, we have potential to look to obtain further fee savings through Brunel Ltd portfolios for our property and private market funds. As the EAPF, we have managed to reduce investment fees on the assets under our control since 2016.

Ongoing monitoring of Brunel Ltd against business case

Now that Brunel Ltd has been operational for 2 years, ensuring that the financial performance of the pool is monitored and that Brunel Ltd is delivering on the key objectives of investment pooling is vital. This includes reporting of the costs associated with the appointment and management of Brunel Ltd (our pool company) including set up costs, investment management expenses and the oversight and monitoring of Brunel Ltd by the client funds. This is reinforced through CIPFA, the accounting standards body, which has published recommended guidance for disclosing these costs. We have reported using this guidance above.

The Pensions Committee takes its role as both Shareholder and Client of Brunel Ltd extremely seriously, as part of its fiduciary and legal obligations to act in the best interests of members. Progress on the implementation of Brunel Ltd, our asset transitions and the business case/business plan are discussed at every Pensions Committee and Investment Sub Committee meeting. The Committee obtains specialist legal and investment advice on specific matters where required.

Ensuring that Brunel Ltd deliver against the original business case, as a minimum, is of critical importance to the Pensions Committee. We have highlighted above how the EAPF is represented through the governance of Brunel Ltd and how we work with our other partner Funds to achieve this. At all stages and levels there is monitoring and assurance processes around cost control. Regular financial reporting is provided through Client Group and the Oversight Board.

We are pleased that Brunel Ltd has signed up to the Cost Transparency Initiative during 2019, and the Pensions Committee are keen to ensure that this is implemented fully, effectively and quickly, to improve disclosure and transparency. We were pleased to note that CIPFA has recognised the EAPF as an example of best practice on cost transparency, along with several of our partner Funds.

In addition, we are undertaking an internal review of the original business case and updated business case to ensure that the level of savings delivered, and forecast for future years, by Brunel Ltd as a minimum achieve the assumptions we signed up to in the original business case.

We are also working closely with Brunel Ltd and our partner Funds on a governance review to ensure that we can continually ensure that we learn from experience so far, and ensure that it continues to deliver for partner Funds.

The ongoing transition of our assets, management of costs and working closely with our partner Funds and Brunel Ltd will continue to be a key focus for the Committee throughout 2020/21.

Pensions Committee training

As an administering authority of the LGPS, the Committee recognise the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge those responsibilities. The Pensions Committee seeks to ensure that its membership is both capable and experienced and provides training so the members can acquire and maintain an appropriate level of expertise, knowledge and skills.

We revised our Training Policy in 2019. One key change was to put a greater emphasis on personalised training plans for each member of the Pension Committee and each officer, based on an initial self-assessment of their knowledge. This self-assessment will be undertaken at least every 3 years to ensure individual training plans remain up to date.

Another focus in the revised Training Plan was on new starters to the committee. The policy requires officers to arrange induction session within 1 month for all new members joining the PC, and in addition, members are expected to complete 4 days of LGPS pension training in the first 12 months of being on the PC.

As well as individual training, there remains a strong emphasis on joint training for all members of the Pension Committee on topics which are key to the business plan. In 2019/20, training focused on issues which were relevant to the revision of the Investment Strategy. These joint training sessions can be undertaken as part of committee meetings or as part of the dedicated Training Day held every March. Unfortunately, the training day which was due to have been held in London on 24 March had to be cancelled due to Coronavirus. We will be rolling out the planned training instead through a series of webinars in 2020/21.

PC Training Log 2019/20	Actuarial Valuation 17 June 24 Sept	Investment Strategy 17 June 24 Sept	Investment (Multi Asset Credit) 17 July	Investment Markets 28 Nov 26 Feb 20	Wider Pension Conferences & Training
EA Board members					
Robert Gould – PC Chair	✓	✓	✓	✓	✓
Emma Howard Boyd - ISC Chair			✓	✓	
Caroline Mason					✓
John Lelliott					
Maria Adebowale-Schwarte	✓	✓			
Executive members					
Kevin Ingram - Natural Resources Wales				✓	
Peter Kellett	✓	✓			
Phil Lodge	✓	✓	✓	✓	
Active member nominees					
Danielle Ashton	✓	✓			
Colin Chiverton	✓	✓	✓	✓	
Ian Brindley	✓	✓	✓	✓	✓
Will Lidbetter	✓	✓	✓	✓	
Veronica James	✓	✓			✓
Greg Black (shadow)	✓	✓			✓
Pensioner members					
Peter Smith	✓	✓			✓
Hywel Tudor	✓	✓	✓	✓	✓

Professional advisers to the Committee

The Pensions Committee uses the services of the providers tabled below to make informed decisions.

Actuarial Adviser	Hymans Robertson
Bankers	National Westminster
Benefit Adviser	Hymans Robertson
Custodian	State Street Global Services
External Auditor	The Comptroller and Auditor General - NAO
Governance and Risk	Aon Hewitt
Investment Consultants	Mercer
Independent Investment Adviser	Investment Adviser and Trustee Services Ltd
Legal Adviser	Osborne Clarke
Pensions Administrator	Capita Employee Services

Annual Statement by Chair of the EAPF Pension Board

Role of Pension Board

From April 2015, the Ministry of Housing, Communities and Local Government (MHCLG) introduced further governance requirements for Local Government Pension Schemes. Each administering authority had to establish a Pension Board to provide oversight and assurance to the administering authority (scheme manager i.e. the EAPF Pensions Committee) of effective governance of their Pension Fund.

The Pension Board is a non-decision making body responsible for assisting the administering authority in:

a) Securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator.

b) Ensuring the effective and efficient governance and administration of the LGPS by the Environment Agency Pension Funds.

Membership

Membership of the EAPF Pension Board is normally the members of the Pensions Committee less the 2 Executive members of the Environment Agency and 2 Active Scheme Members. The Pension Board is therefore the 10 remaining Pensions Committee members as follows:

Employer representatives

- 4 Non-Executive Environment Agency Board members.
- 1 Non-Environment Agency Employer representative (or deputies).

Member representatives

- 3 Active Scheme member representatives.
- 2 Pensioner or 1 Pensioner and 1 Deferred Scheme member representatives.

Chair of the PC is also Chair of the Pension Board. Where absent, the Chair is another Environment Agency Board member.

Pension Board business 2019/20

The Pension Board met once during 2019/20 (on 25 March 2020) after the Pensions Committee meeting. In addition, some or all of the Pension Board members participated in meeting reviews at the end of all five Pensions Committee meetings and 5 Investment Sub-Committee meetings during 2019/20.

The Pension Board reviewed the Pensions Committee meetings that took place in 2019/20, and covered areas such as;

- The significant changes and challenges that have arisen over the past year (e.g. Brexit, adverse weather and flooding, Corporate Services bulk transfer). The Board concluded that the EAPF Team and the Pension Committee have managed these very effectively.

- The level of excellent support provided to the Pension Committee by the EAPF team. In particular, the Board observed that papers are very clear, and this helps the Pension Committee to successfully cover a range of complex and difficult issues.

- The excellent flexibility of Pension Committee members to make themselves available for additional meetings, teleconferences or videoconferences. The Board noted this ongoing flexibility was particularly positive given the ongoing challenges relating to Covid-19.

- The structure of the Pension Committee, which has high-quality urgency delegations in place allowing them to make decisions very quickly when necessary. The Board were made aware that this is not the same across all other Funds in LGPS.

- The excellent knowledge and expertise of Pension Committee members, which enables them to understand the issues and decisions being made. The Board acknowledged that members have been willing to commit to additional activities e.g. attending AGMs and a procurement working group.

- The Board noted that, although the Pension Committee training day has been postponed due to the Covid-19 situation, the EAPF team had committed to exploring ways of sharing and updating members throughout the year.

- The Board also commended Robert Gould, who took over the role of Chair of the Pension Committee in 2019. The amount of time and effort he has put into the role was recognised, as well as some of the challenging matters he has had to deal with during that period.

A review of the effectiveness of the Fund's governance arrangements was another key work area during 2019/20. Aon (the Fund's governance and risk advisers) undertook the third iteration of their Governance Effectiveness survey and report, and the results were considered by the Board and Committee members.

This report's findings highlighted the effectiveness of the EAPF governance arrangements were of an extremely high standard, including a number of areas showing improvement since the last survey in 2016. As is expected, there were some areas where further improvements or ongoing monitoring has been recommended, but the main areas for further attention had already been identified for ongoing work by the EAPF Team or the Pensions Committee.

The Board recognises the following as areas that should remain high on the agenda for the Pension Committee going forward:

- ongoing development of the EAPF's responsible investment policy and approach, and in particular, how this can be achieved within an asset pooling environment.

- ensuring training of Pension Committee members continues to be a high priority and high quality.

- consideration of the risks and impact of the Coronavirus pandemic on the EAPF Fund, and how this is identified and communicated to the Pensions Committee.

Governance Compliance Statement

Introduction

Under Regulation 55 of the Local Government Pension Scheme Regulations 2013 (as amended) an administering authority must, after consultation with such persons as it considers appropriate, prepare, publish and maintain a Governance Compliance Statement.

This statement is required to set out:

a) whether the administering authority delegates its functions, or part of its functions, under these Regulations to a committee, a sub-committee or an officer of the administering authority.

b) if the authority does so

> i) the terms, structure and operational procedures of the delegation
> ii) The frequency of any committee or sub-committee meetings
> iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights.

c) the extent to which a delegation, or the absence of delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reason for not complying and

(d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4) (Scheme managers).

The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to above.

This Statement is made and approved by the Environment Agency Pensions Committee on 30 September 2020 and reflects the governance up to 31 March 2020.

The EAPF has had a local Pension Board since 1 April 2015 and the Governance Compliance Statement that is effective from 1 April 2019 was also approved by the Environment Agency Pensions committee on 30 September 2020. It is reviewed at least annually to ensure it remains up to date and meets the necessary regulatory requirements. This includes the statements showing our compliance with statutory guidance, governance standards and principles.

A current version of this Governance Compliance Statement will always be available on our website at **www.eapf.org.uk** and paper copies will be available on request.

Any enquiries in relation to this Governance Compliance Statement should be sent to:

Pension Fund Management
Environment Agency
Horizon House
Deanery Road
Bristol
BS1 5AH

Email: **eapf@environment-agency.gov.uk**

Statement

Full details relating to our governance structure can be found in the Environment Agency Terms of Reference and Standing Orders for the Pensions Committee, Investment Sub-Committee and Pension Board and explained in our Governance Policy. The key elements are summarised below:

Details to be provided	EAPF
Whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority	All key pension fund management responsibilities are delegated to the Pensions Committee (PC) other than implementing the Fund's investment strategy which is delegated to the Investment Sub-Committee (ISC).
If the authority does so (i) the terms, structure and operational procedures of the delegation	See the Terms of Reference for specifically delegated responsibilities. PC has 14 members and ISC has 7 members.
(ii) the frequency of any committee or sub-committee meetings	The ISC and PC meetings are scheduled quarterly.
(iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights	The EAPF has three employers. The PC includes 1 Non EA Employer representative, 5 Active Scheme member representatives and 2 Pensioner or 1 Pensioner and 1 Deferred member representatives. The ISC includes 3 Scheme member representatives and potentially the 1 Non EA employer representative. All members have voting rights.
The extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying	See Compliance Statement below.
Details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4) (Scheme managers).	The Pension Board is a non-decision making body responsible for assisting the administering authority in: a) securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator b) ensuring the effective and efficient governance and administration of the LGPS by the Environment Agency Pension Funds. Membership of the Pension Board comprises of 10 members of the Pensions Committee which excludes the 2 Executive Directors members of the Environment Agency and 2 Active Scheme Members. Further information is in the Terms of Reference and Standing Orders and the Operational Guidance.

Statement of Compliance with Secretary of State Guidance

Compliance status – we are compliant with all 20 standards.

Statutory Guidance Governance Standards and Principles	Our compliance status	Evidence of compliance and justification for non-compliance
A – Structure		
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	The responsibilities of the Pensions Committee (PC) are set out in the Pensions Committee Terms of Reference and Standing Orders approved by the EA Board.
b) 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.	Compliant	Our PC has 14 members, appointed by the EA Board and includes: 4 Non-Executive EA Board members 2 EA Executive members 1 Non EA Employer representative 5 Active Scheme member representatives 2 Pensioner or 1 Pensioner and 1 Deferred member representatives. 3 Scheme member representatives and the 1 Non EA Employer representative are also members of the Investment Sub-Committee (ISC)
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	The Chair of the Pensions Committee reports to each EA Board meeting. Reports of the ISC meetings are available to all PC members. The Chair of the ISC provides a summary report and draft minutes to the following PC meeting.
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Compliant	The membership of our ISC comprises members of the main PC.
B – Representation		
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:		

i) employing authorities (including non-scheme employers, e.g. admitted bodies);	Compliant	The employers of our Closed Fund members no longer exist. Our Active Fund has three employers – EA, NRW and SSCL. We have a non-EA employer member representing NRW and SSCL on the main PC and who may also be on the ISC.
ii) scheme members (including deferred and pensioner scheme members)	Compliant	The main PC has 7 scheme member representatives on it, including 5 active scheme member representatives and 2 pensioner/deferred member representatives, ideally one of each. Our ISC includes 3 scheme member representatives (active, deferred or pensioner).
iii) independent professional observers	Compliant	Our independent investment adviser attends all ISC and PC meetings. Our other professional advisers also regularly attend our PC and ISC meetings.
iv) expert advisers (on an ad hoc basis)	Compliant	We invite our expert advisers to attend our PC and ISC meetings as needed. This includes our actuary, legal adviser, risk and governance advisor and investment consultants, pension fund administration consultants, and external auditors.
v) that where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Compliant	All members of the PC and ISC receive equal access to the papers and training and have full and equal speaking and voting rights in our meetings and decision making processes.
C – Selection and role of lay members		
a) That Committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	New PC members receive an induction and appropriate training that details the role, function and activities of the PC and ISC. Our PC members understand that their primary fiduciary duty of care is our funds' beneficiaries and employers, in whose best interests they are required to act at all times, particularly in terms of investment and financial decisions. They also understand that they are not there to represent or promote their own personal or political interests, and that they must declare any self-interest or conflicts of interest of either a financial or non-financial nature arising from any other roles they may perform and abstain from participation in that item on the agenda. The EAPF has a Conflicts of Interest Policy which is made available to all PC members.
b) 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.	Compliant	Declaration of interests is a standing agenda item at the start of all PC and ISC meetings. A register of interests is also maintained, and annual updates required from all members, audited annually.

D – 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.	Compliant	Our PC makes decisions by discussion and by building and creating a consensus. All members have equal voting rights on our main PC and ISC.
E – Training, facility time and 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.	Compliant	Our PC has a Training Policy which is reviewed regularly. We provide induction training. All members undergo further developmental, specialist, and/or 'top up' refresher training for 2-3 days each year during their terms of office. We maintain a log of all PC member training needs and training undertaken. Members of the main PC and the ISC are reimbursed the cost of travel and overnight hotel expenses. The cost of all PC and ISC training is met from the Pension Fund's budget.
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.	Compliant	The Training Policy applies equally to all PC and ISC members.
F – Meetings (frequency/quorum)		
a) That an administering authority's main committee or committees meet at least quarterly.	Compliant	Our PC usually meets 4 times a year, for normal business and at least once for briefing or training. 8 of the 14 PC members (including at least 1 Board member, 1 EA Executive member and 1 scheme member representative) constitute a quorum.
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 committee sits.	Compliant	Our ISC meetings are synchronised to meet 4 times a year before the PC so it can report to and make recommendations to the full PC. 4 members (including at least 1 Board member, 1 EA Executive member and 1 scheme member representative) constitute a quorum for the ISC.
c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant	We have 7 'lay' members on our main PC, comprising 5 active scheme member representatives and 2 pensioner/deferred member representatives. Due to the geographical spread of our organisation and fund membership across England and Wales we do not hold an AGM but do hold annual briefings which provide a forum for Fund members and stakeholders to be informed about the Fund, particularly about changes to the LGPS. All active fund members are invited to attend regional or webinar pension briefings each year. We also organise an annual briefing for deferred and pensioner members. The briefings

		are generally presented by Capita (Pension Fund Administrator), with administering authority or HR staff. PC members chair or attend some briefings.
G – Access		
a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to Committee papers, documents and advice that falls to be considered at meetings of the main Committee.	Compliant	All members of our PC and ISC receive the same agenda and papers containing information and advice for each meeting, unless there is a conflict of interest. Members of the PC who are not members of the ISC can request full ISC papers and they also receive summary reports of all meetings. All our PC and ISC members can ask questions of our professional advisers who attend the PC and ISC meetings.
H – Scope		
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	Our PC and ISC meetings all have agenda items on wider LGPS scheme issues, future challenges and risks to our funds, as well as information on our funds' recent financial and administrative performance. The ISC review their risks at all meetings. The PC carries out annual reviews of fund performance, key strategic risks, and our statutory governance, administration and communications policy statements. It also reviews its own effectiveness at the end of each meeting and annually.
I – Publicity		
a) 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.	Compliant	We publish our Governance Compliance Statement and all other key governance documents and policies on our website, and they are available in hard copy from our Pension Fund Management Team. The Governance Compliance Statement is also published in our Annual Report & Financial Statements. We have an agreed procedure for appointment of new employee, pensioner and deferred member nominees to our PC when vacancies arise working in conjunction with our Trades Unions and all employers.

Signed on behalf of the Environment Agency

Robert A. Gould.

Robert Gould
Chair
Environment Agency Pensions Committee
04 December 2020

J D. Bevan

Sir James Bevan
Accounting Officer
Environment Agency
04 December 2020

Responsible Investment

Introduction

Responsible investment makes business sense. For over 15 years now we have seen that our Fund generates strong financial returns by investing in companies that contribute to the long term sustainable success of the economy and society. We think the need for responsible and sustainable investment is more pressing than ever to help tackle the climate emergency.

31%[1] of our holdings are in sustainable investments, representing a value of £1.19 billion. Of those, £326m are in are in low carbon investments which represents 9% of our total net asset value (as at 31 December 2019).

The Fund has a strong ambition to keep innovating and driving change.

Our approach
In October 2019, we agreed a new Responsible Investment Strategy. It had 3 areas of focus:

First, our **investments** – how and where we will invest them to make a positive impact but which will also deliver the right returns to make the Pension Fund secure and fit for the long term.

Secondly, **the issues we will work in partnership on across the investment community**, with climate change being the most important and pressing priority.

And thirdly, **engage more with our members** who work tirelessly and with pride to improve the environment in their day job. We want to make them proud of what their Pension Fund stands for.

This section of the annual report sets out what we have achieved in all of these areas over the last year as a fund.

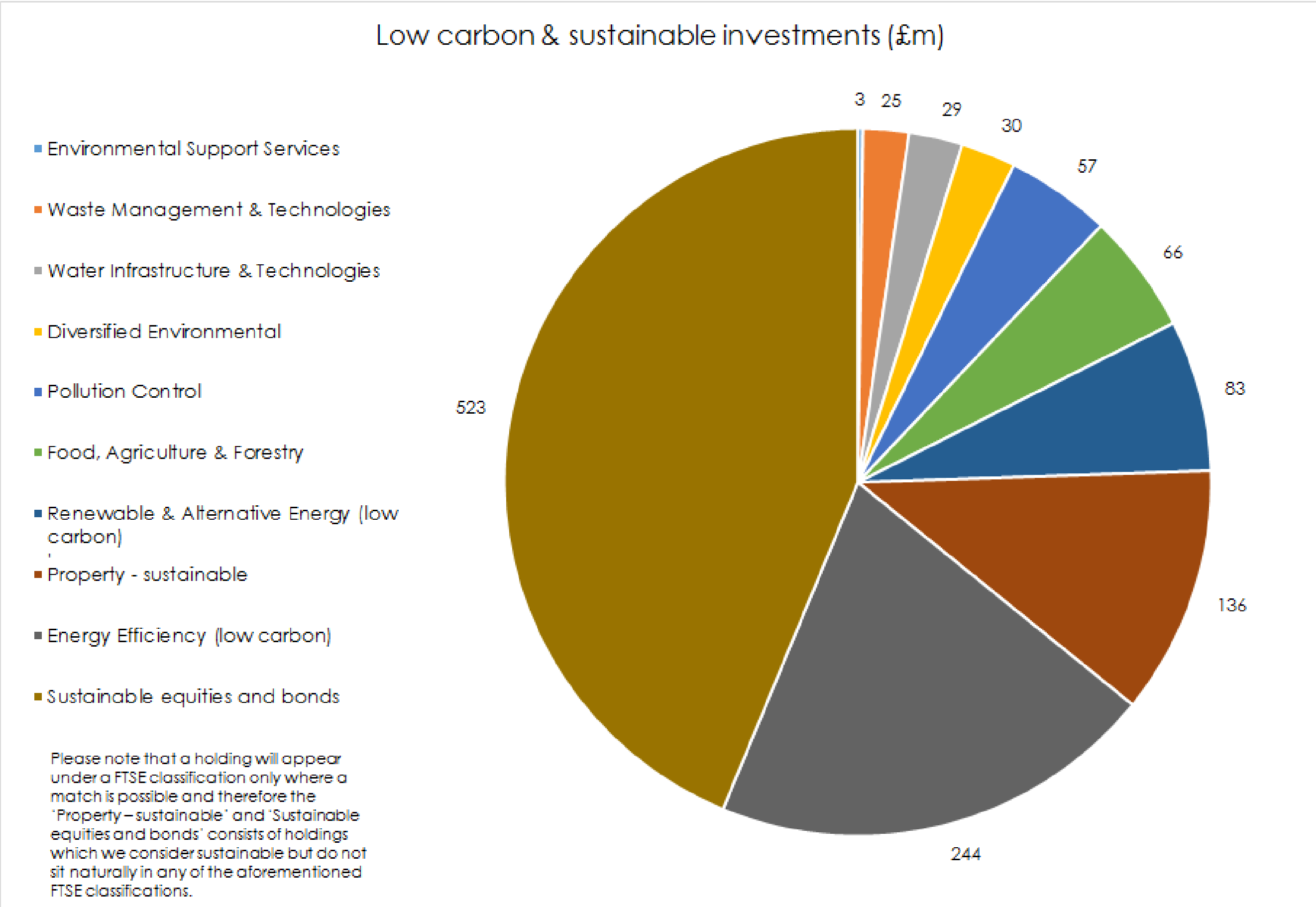
Investing to build a better future

We have set a number of targets for our investments. This is how we have done in the last year in meeting them.

Target: We aim to always have at least 33% of our investments in sustainable assets.

Result: In 2019/20, 31% of our investments were in sustainable assets.

1. Last year we had 39% of investments in sustainable assets. The reduction is due to our evolving classification of which investments we define as sustainable and a change in our Strategic Asset Allocation over the year, where an allocation was moved from equities to fixed income.



In the absence of a common classification system, we have worked with our existing fund managers and investment consultants to define how we determine the sustainability credentials of our investments.

In summary, sustainable investments include those in energy efficiency, alternative energy, water and waste treatment, public transport, property, infrastructure, agriculture or forestry with a low carbon or strong sustainability criteria, and companies with progressive environmental, social or governance practices. More information on how we calculate our sustainable investments can be found in the annex to this section.

Target: By 2025 17% of our investments will directly tackle climate change

Result: In 19/20 9% of our assets directly helped limit climate change.

In 19/20, as with previous years, we calculated those assets which helped limit (or mitigate) climate change, for example renewable energy and energy efficiency. These assets are a subset of our wider sustainable assets.

From next year, we hope to also calculate those investments which help address and manage climate change adaptation.

Target: We will decarbonise our equity portfolio, reducing our exposure to future emissions by 95% for coal and 90% for oil and gas by 2025 compared to the exposure in our underlying benchmark as at 31 March 2015.

Result: In 19/20 we reduced our exposure to future emissions by 99% for coal and 95% for oil and gas compared to 2015.

We calculate this using carbon footprinting data. See below to find out about the carbon intensity of our holdings and more information about our oil and gas holdings.

Climate Change

Even with the huge challenge of tackling Coronavirus, we believe climate change still presents the biggest threat to our economy, environment, health, way of life and our future.

The Chief Pension Officer is the principal lead in managing the risks from climate change for the Fund. They are supported by the Pensions Committee.

Last year climate change was considered at every quarterly Pensions Committee and Investment Sub Committee, with a particular focus on its impact in relation to the review of the strategic asset allocation and the setting of a new responsible investment strategy.

The average member has served on the committee for 3 years and the level of knowledge on responsible investment and climate change is very high. All members have individualised training plans and they are able to ask for training on any issue either as an individual or collectively as a committee.

Over the last year, there has been collective member training on the following issues:

- Responsible approaches across the world
- Climate change scenario analysis
- Modelling the impact of climate change on our future liabilities
- sustainable multi-asset credit
- Transition Pathway Initiative (TPI)
- Understanding beneficiaries' views on responsible investment

The EAPF attended 9 AGMs during the year to ask questions directly of the Board on climate-related issues. Pensions Committee members took part in 7 of these. The AGM initiative was strongly supported by our membership and which we hope to develop this work further in the future.

We consider climate change from both a risk and opportunity lens at a strategic allocation level, and at asset class level. Brunel Pension Partnership or our legacy fund managers consider climate change risk within each portfolio.

Last year, when we reviewed our strategic asset allocation, we modelled the impact of climate change on our portfolio for both transition and physical risks. We did this through Mercer's Investing in Climate Change: The Sequel. This study provided four climate change scenarios and looked at impacts across different asset classes over 10 and 35 year time horizons.

We estimated from our modelling that our portfolio is relatively well positioned to benefit from the opportunities presented by a low carbon transition and withstand the financial risks from climate change. We also know that keeping to a 2°C scenario or lower, is most beneficial from a long term investor perspective, as there are likely to be less physical risks to our investments – which of course is better for the world as a whole. We will continue to monitor this.

For the first time, we also asked our actuaries, Hymans Robertson to consider the impact of climate change on future liabilities as part of our triennial valuation process. We continue to work with them to develop this model.

In terms of opportunities, the EAPF has considered for a number of years the potential for investment that will come from the global response to address climate change.

Last year, a particular focus was on the investment opportunities in managing the physical risks from climate change. Working with one asset manager, Impax, we identified that 26% of our investments held with them produce products that help tackle the physical risks from climate change.

We are also keen to understand the contribution our investments are making in relation to keeping the temperature rise below 2°C. Last year, we started discussions with a number of parties on this issue and we hope to test some methodologies and report on this in future annual reports.

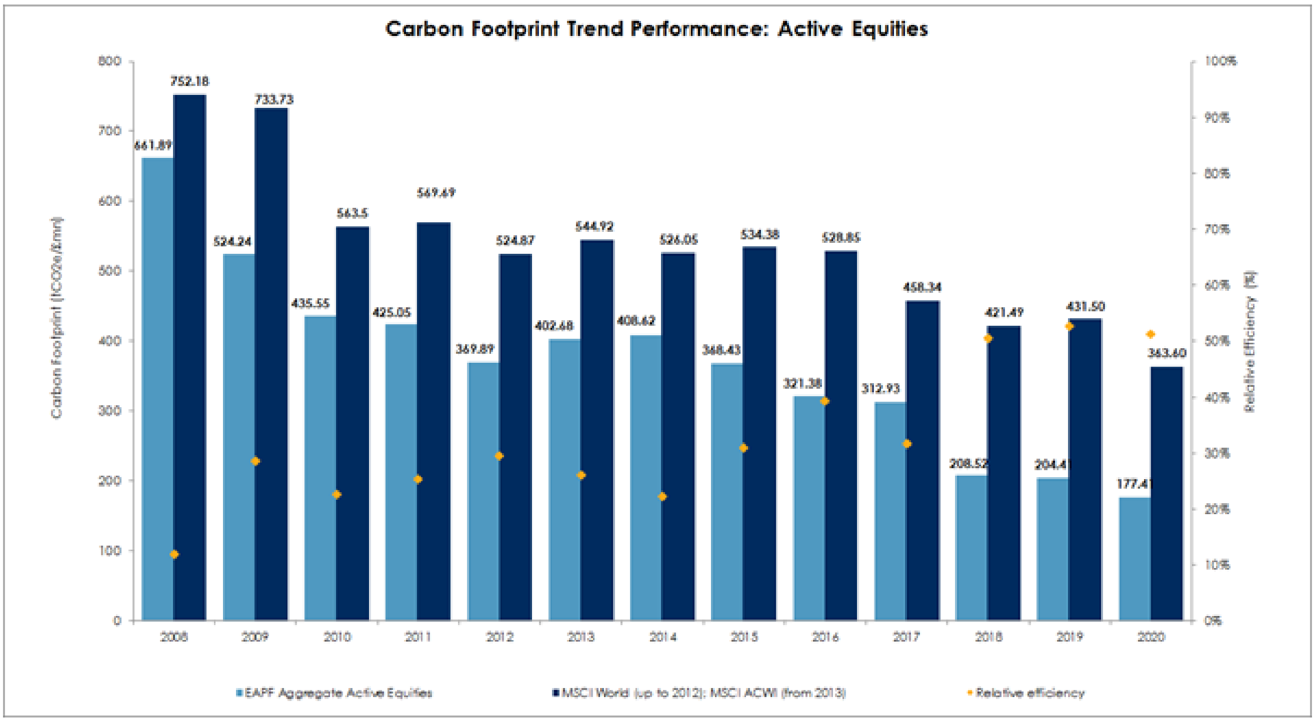
At a portfolio level, the Fund uses a range of tools to help us establish and monitor the level of risk relating to individual mangers and investments. This is provided by Brunel and/or our investment advisers Mercer. Brunel has produced a report showing the **outcomes** of its work on responsible investment in 2019.

The Brunel Pension Partnership published its **Climate Change policy** this year. Its aim is to systematically change the investment industry to ensure that it is fit for purpose for a world where temperature rise needs to be kept to well below 2°C compared to pre-industrial levels. We welcomed the shareholder resolution which Brunel co-filed at the Barclays AGM and are keen to work together to bring forward similar shareholder actions in the future.

Through Brunel, we use an engagement provider, EOS at Federated Hermes to engage specifically with companies to enhance disclosure, integrate actions and policies around climate-related risks and investments.

Every year since 2008, the EAPF has undertaken a full carbon footprint analysis of all our listed equites and those corporate bonds that can be matched to parent companies. This represents 60% of the value of the whole portfolio. The tables are set out below but two headline findings from last year's data shows:

- Our equity portfolio (as measured below) is 59% more carbon-efficient than the benchmark
- Our carbon footprint in active equities has reduced by 73% since we started monitoring it in 2008 (compared to a 52% benchmark reduction)



Progress Against Baseline

	Financed Future Emissions (FFE)	Baseline (2015 Benchmark)	2015	2016	2017	2018	2019	2020	Relative Performance (2020 vs 2019)	Relative Performance (2020 vs Baseline)
EAPF Aggregate All Equities	Absolute FFE, Total (tCO2)	14,849,897	8,112,662	4,166,915	4,150,377	699,891	3,458,808	428,832	87.60%	97.11%
	Of which coal (tCO2)	7,090,810	4,899,427	2,788,273	2,490,954	373,009	3,094,322	54,242	98.25%	99.24%
	Of which O&G (tCO2)	7,759,087	3,213,235	1,378,642	1,659,423	326,881	364,485	374,590	-2.77%	95.17%
	FFE Intensity, Total (tCO2/£m)	9,634	5,263	3,199	2,536	475	2,626	287	89.07%	97.02%
	Of which coal (tCO2/£m)	4,600	3,179	2,141	1,522	253	2,349	36	98.45%	99.21%
	Of which O&G (tCO2/£m)	5,034	2,085	1,059	1,014	222	277	251	9.36%	95.02%
EAPF Aggregate Active Equities	Absolute FFE, Total (tCO2)	9,158,851	3,041,497	2,704,332	2,457,585	49,568	3,120,394	149,370	95.21%	98.37%
	Of which coal (tCO2)	4,288,835	2,159,857	2,023,392	1,897,364	0	3,000,647	0	100.00%	100.00%
	Of which O&G (tCO2)	4,870,016	881,640	680,940	560,221	49,568	119,746	149,370	-24.74%	96.93%
	FFE Intensity, Total (tCO2/£m)	9,184	3,050	2,762	1,987	46	2,832	136	95.19%	98.52%
	Of which coal (tCO2/£m)	4,300	2,166	2,067	1,534	0	2,723	0	100.00%	100.00%
	Of which O&G (tCO2/£m)	4,883	884	696	453	46	109	136	-25.33%	97.21%

Carbon Metrics Table - EAPF Aggregate All Equities

Group	Metric	2015	2016	2017	2018	2019	2020	2020 Benchmark	Relative Performance (2020 vs 2019)	Relative Performance (2020 vs Benchmark)
Carbon Emissions	Absolute Tonnes of Carbon (tonnes CO2e)	394,451	276,981	265,638	166,152	151,778	99,452	241,530	34.48%	58.82%
	Carbon Footprint (tonnes CO2e/GBPm revenue)	388	348	328	197	189	169	374	10.61%	54.80%
Disclosure Rate (Full and Partial)	Share of Scope 1 GHG emissions (%)	94%	92%	79%	70%	84%	86%	95%	-2.46%	9.53%
Potentially Stranded Assets	Exposure (£)	32,153,258	15,558,369	21,328,765	9,685,159	8,399,622	12,028,225	40,448,622	-43.20%	70.26%
	of which coal	7,634,724	3,824,902	4,656,107	1,856,688	2,168,248	982,980	7,793,209	54.66%	87.39%
Fossil Fuel Reserves	Financed Future Emissions (tCO2)	8,112,662	4,166,915	4,150,377	699,891	3,458,808	428,832	4,976,212	87.60%	91.38%
	of which coal (tCO2)	4,899,427	2,788,273	2,490,954	373,009	3,094,322	54,242	1,714,956	98.25%	96.84%
	Exposure (£)	20,535,623	9,151,558	13,617,344	5,971,084	5,151,700	7,930,438	25,940,592	-53.94%	69.43%
	of which coal	3,204,459	1,050,024	1,119,168	665,569	1,079,969	304,346	1,920,697	71.82%	84.15%
Fossil Fuel Power Generation	Exposure (£)	11,617,635	6,406,811	7,711,420	3,714,075	3,247,923	4,097,788	14,508,030	-26.17%	71.76%
	of which coal	4,430,265	2,774,878	3,536,939	1,191,119	1,088,278	678,633	5,872,511	37.64%	88.44%
Renewable Power Generation	Exposure (£)	5,120,654	8,424,963	9,069,070	7,010,785	7,071,933	8,626,359	4,545,554	21.98%	89.78%
Impact	Total Owned Revenue	1,008,775,070	832,957,395	810,332,302	841,805,730	803,389,815	588,876,362	646,409,921	26.70%	8.90%
	of which Fossil Fuels	39,328,372	23,248,544	15,576,385	8,229,487	8,605,036	6,271,958	19,657,775	27.11%	68.09%
	of which Coal Mining and Coal Power	10,470,401	6,256,967	3,753,544	1,310,716	2,354,658	396,190	3,362,092	83.17%	88.22%
	of which Fossil Fuel Power	10,762,952	6,374,058	6,526,505	2,748,687	2,519,273	1,196,000	5,131,123	52.53%	76.69%
	of which Coal Power	4,008,542	2,612,502	2,669,844	860,019	827,693	248,967	2,078,959	69.92%	88.02%
	of which Renewable Power	3,275,827	2,987,746	3,088,617	2,604,908	2,504,820	1,334,948	1,505,295	-46.70%	-11.32%

For private market (unlisted) investments, these investments are still managed through Fund Managers which EAPF has appointed, based on guidelines and due diligence. We positively invest in funds which either focus on low carbon solutions, for example, energy efficiency or those funds with strong sustainability criteria.

One example is in real estate where we require our funds to meet our Responsible Investment criteria, which includes encouraging participation in the Global Real Estate Sustainability Benchmark (GRESB). In 2019, 13 of our real estate funds (representing c. 76% of portfolio value) participated in GRESB, with 12 receiving Green Star status (scoring highly in sustainability for both Implementation & Measurement and

Management & Policy). The total GRESB score for the portfolio was 76, which was above the GRESB average of 72.

Every year we report against the Principles for Responsible Investment (PRI). Last year we achieved a rating of A for overall Strategy and Governance. This was down from the previous year where we scored A+ (we subsequently found a small omission in our response). Of course, our underlying approach remained strong and we were delighted to be named as one of the 47 Funds recognised as a Global Leader in Responsible Investment by PRI in 2019.

Investing responsibly across all asset classes

We have a strong record of investing responsibly across asset classes and working with asset managers to develop innovative solutions where they don't currently exist. We have long standing commitments to sustainable equity funds.

We set up the Targeted Opportunities Portfolio to offer us a broader scope to invest directly in outstanding private market opportunities which have strong financial and sustainability credentials. As of 31 March 2020, the Fund had £94m invested in TOP (nearly 3% of our Fund).

Following our review of the strategic asset allocation last year, we agreed to invest in a new asset class for us: multi-asset credit. These are investments in a broad range of credit asset classes, for example corporate bonds and bank loans. We hope to make these investments to multi-asset credit as sustainable as possible. Last year we started to engage with Brunel and fixed income managers with a view to being able to invest in a truly sustainable multi- asset credit fund. We will report on progress next year.

Working in partnership with the investment community

Investors have the power to bring about change on a global level. We are a small/medium fund but by working with our partners in the Brunel Pension Partnership, other Local Government Schemes and other Pension Funds, we can amplify our voice.

There are a wide range of environmental, social and governance issues which can impact on investments. These are all monitored by Brunel Pension Partnership and our engagement providers on our behalf.

Over many years we have worked with our investment managers on engagement and voting the shares we hold in companies. Our recent voting record can be found **here**.

Last year, as a Fund we chose the following priorities to engage on as part of our Responsible Investment Strategy:

- Climate Change
- Using resources sustainably
- Water

Below is our progress on these issues.

Climate Change

We continued over the year to support the development of the **Transition Pathway Initiative (TPI)**, which we co-founded with the Church of England. The TPI is a free tool to help investors understand how well individual companies are doing in managing their carbon emissions both now and into the future and assesses how this compares to the reductions that are needed globally; it is possible to compare companies with peers in their industry sector.

At the above-mentioned **AGMs** we attended, we focused on raising the importance of managing the physical risks from climate change.

We are members of a number of networks and partnerships to tackle climate change. Over the last year, this has included the following:

- Taking part in **COP 25** events in Madrid to raise the issue of the physical risks from climate change, in part with the **Coalition for Climate Resilient Investment** (CCRI), which we are members of.

- Supporting the work of the **PRI.** We attended a number of PRI meetings over the year, linked to the PRI reporting framework consultation and our respective priorities. We also worked closely with them to transition to them the Secretariat of the UK Pension Scheme RI Roundtable. In December 2019 we signed the PRI's Investor Expectations Statement on Climate Change for Airlines and Aerospace Companies,

- Contributing to the work of the **IIGCC** on managing the physical risks from climate change, and with the same partner, part-sponsoring their work on investing for a 2 degree world.

- Talking at the **Accounting for Sustainability Project (A4S) Assets Owner Network** focusing on addressing the risks from climate change in portfolios.

- Taking part in meetings of Local Authority Pension Fund Forum (**LAPFF**) to address engagement issues of common interest across public sector funds.

Using resources sustainably

In 2019, we supported an initiative to reduce the amount of plastic pellets lost in the supply chain. This will allow the British Standards Institute to put in place an independent auditable and accredited standard which should result in fewer plastic pellets being released to the environment.

To promote responsible mining activities, we support the work of the **Mining and Tailings Dam Initiative**, led by the Church of England. The EAPF and a mining expert from the Environment Agency (EA) attended the Summit on 24 January in London. The EA provided technical support to the development of global standards.

We also welcome the work of LAPFF in standing up for the rights of local people and communities affected by mining activities. The EAPF is providing ongoing support to ensure that the views of local communities, affected by previous mining disasters, including one involving a company which we held shares in, are taken fully into account.

Water

We are a member of the CDP (formerly the Carbon Disclosure Project). It runs a global disclosure platform, which allows individual companies to report on their environmental impact to the investment community and their customers.

In 2019 we took part again in the CDP's non-disclosure campaign for water but for the first time we assisted with the Climate and Forest campaigns. Of the 106 companies we wrote to 15 disclosed to the CDP for the first time, which is a great result.

Engaging our members

In our Responsible Investment Strategy, we set ourselves an aim – to make our members proud of their Pension Fund.

All our members have spent at least part of their career improving the environment, or providing support services to those that do and we want to show them that their Pension Fund is an extension of their work.

Firstly, we want to encourage our members to read our **Responsible Investment Strategy**. So, we wrote it in a way which we hoped they would find engaging – free of slogans and with plenty of individual case studies showing where their money was invested.

We organised member webinars to explain where and how members' money is invested, and we asked members their views on responsible investment.

- In the online survey, we **discovered** that 88% of members think it is important[1] to invest in sustainable and low carbon assets.

- 90% of members want us to influence the behaviour of the individual companies we invests in to bring about better environmental and social outcomes.

- 69% of members think that climate change will present a financial risk to investments in their lifetime.

And generally, the younger our members are, the stronger their views on responsible investment.

Having results like this empowers us to strive further and constantly driver harder. This is only the beginning of the discussion with our members. We asked them if any would like to take part in a focus group to consider issues in more detail. We were delighted when over 500 members signed up to this. We will hold these later in 2020 onwards and report on progress in our next annual report.

Finally, we are not including any case studies in our annual report this year. We are refreshing our **website** frequently with examples of current investments and encourage you to visit our pages to see the breadth of work we are doing to help build a better future.

[1] Results of those who stated it was very important, important or quite important.

APPENDIX 1 EAPF's low carbon and other sustainable assets

Sector	Data classification	Explanation
Diversified Environmental	Clean technology matched from the FTSE Environmental Markets Classification System See - https://research.ftserussell.com/products/downloads/env-mkts-class-sys.pdf?32	The Diversified Environmental sector includes all the various FTSE diversified subsectors, for example Diversified Energy Efficiency.
Energy Efficiency		
Environmental Support Services		
Food, Agriculture & Forestry		
Pollution Control		
Renewable & Alternative Energy		
Waste Management & Technologies		
Water Infrastructure & Technologies		
Property - sustainable	GRESB – Green Star See - https://gresb.com/	These are investments made through our Real Assets manager Townsend that have been awarded GRESB Green star.
Sustainable equities and bonds	Sustainable mandates	We count all our holdings in mandates which we have chosen that invest in sustainable opportunities. All the holdings in this sector are in addition to those categorised above (i.e. not double counted).

Commendations

The Environment Agency Pension Fund (EAPF) has been identified as Best in Class in a report on Responsible Investment (RI) in the LGPS, which was an analysis of the Investment Strategy Statements of Local Government Pension Funds (LGPS) undertaken by ShareAction & UNISON.

In September 2019, the EAPF was recognised as a Global Leader in RI by the Principles for Responsible Investing (PRI).

The PRI use reporting data to assess the breadth of signatories' excellence across the Reporting Framework, using scores taken from a variety of modules to recognise those that are doing great work in implementing responsible investment practices throughout their organisation and across their portfolios, and this identifies the Fund as a global leader.

The EAPF is also recognised for Customer Service Excellence (CSE). To achieve this, evidence was submitted through a desktop review across 57 elements and an onsite visit. The audit consisted of an interview with all staff, the Chair of the Pensions Committee and two key delivery partners.

The EAPF achieved a 'Compliance Plus' scoring across 5 areas, including commitment to delivering excellent services, staff empowerment and customer insight. Also achieving Compliance Plus for the first time in recognition of our responsible investment strategy, national and international awards on climate change and our AGM initiative.

Pension Fund investment

Investment strategy development and implementation

We aim to deliver a truly sustainable Pension Fund that delivers financially to meet the objectives of our scheme employers and members. The Committee has set the overall investment objective for the Fund after consideration of the actuarial valuation, contributions and the maturity profile of its liabilities.

The investment strategy, laid out in the Investment Strategy Statement in Annex 3, is agreed by the Committee to meet the overall investment objective. The strategy remains focused on seeking to generate maximum value from our assets with an appropriate level of risk, ensuring environmental, social and governance considerations, including climate change, are fully integrated, and furthering our commitment to responsible investment. It uses multiple levers to achieve this: active mandates, specialist benchmarks, detailed risk analysis, and a fully diversified range of assets across global markets.

Over 2019/20, the Fund carried out an investment strategy review, which focused on de-risking the investment strategy in order to protect the Fund's strong funding position. As part of this de-risking the allocation to emerging market equities was terminated, and two new allocations were introduced; namely sustainable multi-asset credit & liability driven investments ('LDI'). Multi-asset credit sits within the Diversifying Growth allocation, and will seek to generate returns from a wide range of typically sub-investment grade fixed income assets, in a diversified manner. Liability driven investments will seek to hedge the Fund's liability exposure to changes in interest rates and expected inflation. Work is ongoing to implement this new SAA, while ensuring that Responsible Investment and sustainability remain integrated throughout the portfolio. The investment strategy framework sets allocations to three areas: Growth Assets, Diversifying Growth Assets and Defensive Assets. It allows for some flexibility within and between the sub-asset classes, while managing risk at a total Fund level.

Below we provide a summary of the major changes to the Fund's portfolio over 2019/20.

In July, c.£72m was disinvested from Comgest, one of the emerging market equity managers. This was used to fund a bulk transfer of liabilities to another pension scheme and meet general cashflow requirements. In November, following ratification of the new SAA, the remainder of the Fund's mandate with Comgest was terminated, as was the entirety of our emerging market equity mandate with Stewart Investors. The proceeds of these disinvestments were temporarily held in cash before investing the proceeds into an Over 15 Years Fixed Interest Gilts Fund with LGIM. The Fund's allocation to fixed interest and index-linked gilts will provide broad liability matching, whilst work on a liability matching strategy, bespoke to EAPF's liabilities is ongoing.

Further progress was also made on our real assets portfolio managed by Townsend (property, infrastructure, forestry and agriculture). At year end, investments stood at £417.4m, or 11.7% of the Fund, compared to the 12% SAA target. Investments and undrawn commitments now stand at £533.4m, or 15% of the Fund, which is in excess of the 12% SAA target.

Private equity and private debt managers also continued to make new investments on our behalf. At year end, investments in relation to private equity stood at £123.6m, or 3.4% of the Fund, compared to the 4% SAA target. Investments & undrawn commitments in relation to private equity stood at £198.0m, or c.5.5% of the Fund. In relation to private debt, investments stood at £163.2m, or 4.5% of the Fund, which is lower than the 5% SAA target. Investments and undrawn commitments now stand at £266.5m of 7.4% of the Fund.

Additionally, an interim currency hedging arrangement overlaying the Brunel Low Volatility Equity Fund was terminated over Q1 2020. This had been introduced in mid-March 2019 to broadly maintain currency hedging arrangements already in place under the previous Quoniam Low Volatility Equity mandate. The decision to maintain it was driven by uncertainty surrounding the ongoing Brexit negotiations. Following the UK's formal exit from the EU in January 2020, the decision was taken to unwind this currency hedge.

Consistent with the desire to de-risk the Fund over time, ongoing cashflow requirements, which were not able to be met through existing cash balances, were sourced from the listed equity holdings. In Q4 2019, a new cashflow and rebalancing policy was put in place, to ensure efficient cash management processes are followed.

To ensure the Fund is managed in line with the asset allocation, officers and advisors hold monthly investment meetings. Any deviations in asset allocation are discussed and actions agreed. Cash is maintained within agreed limits. In addition, the Fund has a rebalancing programme that aims to bring the Fund back in line with target weights to listed equities and fixed income assets if market movements cause allocations to breach pre-agreed ranges.

Fund benchmark

Based on the above strategy, the following strategic benchmark had been set for the Fund:

Asset Class	Benchmark Index	% Weight 2019/20	% Weight 2018/19
Global equities	FTSE All World*	36.5	42.0
Emerging market equities	FTSE Emerging Markets	-	5.0
Index-linked gilts	FTSE-Actuaries UK Index-Linked Gilts over 15	-	8.5
Liability Driven Investment **		11.5	0.0
Multi Asset Credit***	*TBD*	8.0	0.0
Corporate bonds	iBoxx Sterling all non-gilt	22.0	20.0
Private equity	MSCI World	4.0	4.0
Real Assets	Retail Price Index	12.0	12.0
Private debt	3 month £ Libor	5.0	3.0
Total return bonds	3 month £ Libor	-	5.0
Cash	3 month £ Libor	1.0	0.5

* The benchmark is adjusted to allow for tax leakage in our equity investments by combining total return indices on the basis of 80% gross and 20% net.

**LDI mandate yet to be implemented. Funds are currently being held in Fixed Interest and Index-Linked Gilts mandates.

***Work is ongoing to select a multi-asset credit manager

Please note these figures may not sum due to rounding

Investment performance

For the 2019/20 financial year the Fund achieved an absolute return of -1.0%, underperforming its benchmark (after fees) by 0.9%. Over three years the Fund has returned 3.7% p.a., 0.6% p.a. above its benchmark.

Performance has been impacted by a sharp and widespread downturn in the final quarter of the year, owing to the coronavirus pandemic. Whilst broad market performance from March - December 2019 was strong, investment returns over the financial year were dominated by the performance seen in the first quarter of 2020 as a result of the COVID-19 pandemic.

The pandemic caused an abrupt halt to business activities and subsequent collapse of corporate earnings, prompting investors to exit equity markets and shift into safe haven assets, with the result being the worst equity sell-off since 2008. Sterling also weakened against the dollar, reducing some of the unhedged overseas losses. In the first quarter of 2020, bond yields fell to very low levels across the globe. In the UK, uncertainty around the future of RPI affected the index-linked gilt market with inflation-linked bonds falling markedly compared to their nominal equivalents. Credit spreads increased materially over the quarter, negatively impacting corporate bond valuations.

As explained above and in previous annual reports, we have taken several actions to reduce equity risk, in addition to the aforementioned strategic de-risking which took place as a result of the 2019 investment strategy review. Primarily, the Fund has chosen managers with a deliberate tilt towards low volatility, high quality companies, with a view to reducing downside risk and volatility. Several of our managers take a benchmark agnostic, long term, absolute return approach. Thus, we expect the Fund's performance to lag in strongly rising markets.

All our active equity managers except Ownership lagged their benchmarks over the year mainly due to poor performance over the first quarter of 2020. The Brunel Low Volatility Equity mandate also underperformed relative to its benchmark. The Wellington Global Total Return fund preserved its value and generated marginally positive returns, in spite of the pandemic. RLAM (UK corporate bonds) and LGIM (global buy and maintain) both generated performance broadly in line with their respective benchmarks, and provided a positive absolute contribution to performance over the year. Our real assets mandate with Townsend contributed positively, as did our Private Debt portfolio. Both Robeco private equity and the Targeted Opportunities Portfolio performed well on an absolute and relative basis, delivering returns of 8.2% and 19.4% respectively. That being said, we would caution that at the time of writing there is considerable uncertainty around private market valuations and the impact the coronavirus pandemic has had on these assets.

Most of our managers have outperformed their benchmarks since inception. The managers/portfolios that outperformed were Generation, Ownership Capital (both sustainable global equities), Brunel Low Volatility Equity, the Targeted Opportunities Private Equity Portfolio, our UK corporate bond manager RLAM, our real assets manager Townsend, our absolute return bond manager Wellington and our Private Debt portfolio. Impax and the Robeco SEVE portfolios, forming part of the Fund's global equity managers, have underperformed since inception. The LGIM corporate bonds mandate has performed in line with benchmark since inception. The allocation to passive low carbon equities also performed broadly in line with its respective benchmark over the 12 months to 31 March 2020 and since inception.

Fund performance over Q1 2020

The events of Q1 2020 were extraordinary in both an economic and political sense, as COVID-19 became a global pandemic and oil prices collapsed simultaneously amid an oil price war between Russia and Saudi Arabia. Over the first quarter of 2020 global equities fell by c.16% in sterling terms. Safe haven assets performed well, with fixed interest UK government bonds returning c.6% and Index-linked government bonds returning c.2% over the quarter.

Positive returns from our gilt portfolio managed by LGIM and our total return bond fund managed by Wellington both helped to offset the falls in growth assets over the quarter. The Fund's performance benefitted on a relative basis from the 2019de-risking exercise which saw the transition of assets from emerging market equities into fixed interest gilts. Over the 1-year period to 31 March 2020 the Fund therefore returned -1.0%, which is a pleasing result in the context of the high levels of volatility experienced in Q1 2020. We continue to monitor the investment impact of COVID-19 on our private market holdings as this may take some time to materialise.

Financial Performance	**2020** **%**	**2019** **%**
1 year		
Fund performance	-1.0	+8.0
Benchmark performance	-0.1	+6.9
Active fund relative performance	-0.9	+1.1
3 year		
Fund performance	+3.7	+10.5
Benchmark performance	+3.1	+9.9
Active fund relative performance	+0.6	+0.6

Investment management

By year end, responsibility for the day to day management of the Fund's investments was delegated to nine managers, including Brunel Pension Partnership, and nine private equity and private debt specialists.

Our investment managers are responsible for selecting individual investments, and operate at arm's length from the Fund, with full discretion over the management of their portfolios, subject to IMAs where relevant, complying with statutory limits and the Investment Strategy Statement and taking due regard of the Active Fund Responsible Investment policy and supplementary guidance, for example on environmental issues or voting. Each manager has been set a specific benchmark that reflects the asset class being managed, and in the case of segregated managers has a performance target they are aiming to achieve. Details of the managers, their benchmarks, targets and performance is available on pages 60 to 61.

We seek to work with our managers on a long term basis, as we believe this is the best way to achieve positive results for the Fund. We support the findings of the Kay review on long term decision making in investments. As our contribution to this discussion we review our arrangements with managers, identifying where we may be recreating short term pressures on them. To address these pressures, we have developed a standard investment management agreement for managers, and supplemented it with a covenant laying out our expectations and our commitment to managers more broadly. In particular, the covenant makes clear that we are more likely to be concerned about team instability or changes in approach than short term performance.

As a Fund we remain very conscious of costs and value for money. We continue to move forward with asset pooling as part of Brunel Pension Partnership, which will have greater scale to negotiate fee reductions or concessions with investment managers.

Custody arrangements

State Street Bank & Trust Company ('State Street') were appointed as the Funds Global Custodian from 1 April 2018. This was as a result of a competitive tender exercise within the Brunel Pension Partnership in 2017. State Street are independent to the investment managers, and as part of their normal procedures, hold the assets in safe custody, are responsible for the settlement of all investment transactions, collection of dividend income and interest, provide data for corporate actions, liaises closely with the investment managers and report on all activity during the period.

State Street is a strong company that is rated by Standard and Poor's as 'A' for long term / senior debt and 'A-1' for short term / deposits. The Fund's assets are not held in the name of State Street and so are segregated from those of State Street Bank & Trust Company, safeguarding them in the event of company failure. Where appropriate, cash held by the Fund at State Street in Sterling, Euros and United States Dollars are invested in State Street Liquidity Funds, which would not be affected in the event of a failure by State Street. The State Street Liquidity Funds are rated 'Aaa' by Moody's and are invested in short term money instruments to preserve capital and liquidity. Only small amounts of cash are left on deposit at State Street.

Regular service reviews are held with State Street to monitor service commitments, plus custodial monitoring is reported to Officers by an independent organisation. Other procedures and controls are reviewed by an independent reporting accountant via the Service Organisation Control (SOC1) Report.

Funding level

The funding level of the Active Fund is estimated to be 100% as at 31 March 2020, based on a roll-forward from latest triennial valuation as at 31 March 2019. The historical funding level and asset allocation for the last five triennial valuations are shown in the table below:

Valuation results	**2007**	**2010**	**2013**	**2016**	**2019**
Value of assets £m	1,521	1,589	2,118	2,730	3,646
Value of liabilities £m	1,455	1,684	2,351	2,641	3,435
Funding level %	105	94	90	103	106
Asset Allocation %					
Equities	67	58	63	60	47
Bonds	9	12	20	20	23
Gilts	14	15	9	8	13
Property	5	3	3	8	9
Private equity	2	5	4	4	5
Cash	3	7	1	<1	3
Total	**100**	**100**	**100**	**100**	**100**

It is very important that it is recognised that the funding level will vary over different time periods, as the value of the Fund's assets changes, and the value of the Fund's liabilities is sensitive to financial and other assumptions used, as well as the maturity of the Fund. The Active Fund Funding Strategy recognises that the funding objective is to achieve and maintain assets equal to 100% or more of the present value of projected accrued liabilities over the long term. In the short term, recent events demonstrate that the funding level can be very sensitive to changes in the real yield on fixed interest gilts as well as to the level of the equity markets.

The Active Fund also has positive cash flows, as the employer and members' contributions should continue to exceed Fund outgoings, which gives the Fund time to build its Fund level. The future size of the Active Fund will also be affected by the long term return of the Fund's assets, which should be related to the amount of risk the Fund is prepared to take, as over the long term investing in riskier assets should yield higher returns.

The table below shows the performance of the total fund and the individual managers:

Manager	Date appointed	Value at 31 Mar 2020 £m	Fund %	Asset class/ Mandate	Benchmark	2019/20 Performance				2018/19 Performance		
						Target %	Fund return %	Benchmark return %	Relative to bench mark %	Fund return %	Benchmark return %	Relative to benchmark %
Private equity & TOP												
Targeted Opportunities Fund	Apr-14	93.7	2.6	Private Equity (active pooled)	Absolute Return 8.0% pa	+8.0	+19.4	-5.3	+24.7	+29.6	+12.6	+17.0
Robeco	Oct-05	30.3	0.8	Private Equity (active segregated)	MSCI World (Gross)	+5.0	n/a	n/a	n/a	n/a	n/a	n/a
Global equities												
Generation	Aug-08	402.5	11.2	Global Equity (active segregated)	MSCI AC World (80% GD, 20% ND)	+3.0	-9.5	-6.3	-3.2	+18.3	+10.9	+7.4
Brunel Passive Equities	Jul-18	205.8	5.7	Global Equity (passive pooled)	MSCI World Low Carbon Target	+0.0	-4.5	-4.5	0.0	+12.3	+12.4	-0.1
Ownership Capital	Jun-14	186.6	5.2	Global Equity (active pooled)	MSCI Kokusai (World ex Japan) GD	+3.0	+1.5	-5.6	+7.1	+21.2	+13.9	+7.3
Brunel Low Volatility	Mar-19	296.2	8.2	Global Equity (low volatility - active pooled)	c50% MSCI AC World NDR (hedged to GBP) & c50% MSCI EM NDR (unhedged)	>0.0	-9.1	-8.7	-0.4	+10.7	+11.1	-0.4
Robeco SEVE	Oct-17	113.1	3.1	Global Equity (active pooled)	MSCI World GDR	>0.0	-25.1	-5.3	-19.8	+10.7	+11.1	-0.3
Impax	Aug-08	104.9	2.9	Global Equity (active segregated)	MSCI AC World GDR	+3.0	-8.4	-6.2	-2.2	+8.6	+11.1	-2.5
Diversifying Growth Assets												
Townsend	Mar-13	439.2	12.2	Real Assets (active segregated & pooled)	RPI (target RPI + 4% over rolling 5 years)	+4.0	+3.8	+2.6	+1.2	+6.9	+2.4	+4.5

Wellington	Mar-15	297.0	8.3	GTR Bonds (active pooled)	3 Month Sterling LIBOR	+1.0	+0.9	+0.8	+0.1	+5.2	+0.8	+4.4
Private Lending	Mar-15	162.7	4.5	Private Lending (active pooled)	3 Month Sterling LIBOR	+5.8	+4.5	+0.8	+3.7	+2.8	+0.8	+2.0
Bonds **Corporate Bonds**												
Royal London	Jul-07	348.7	9.7	Corporate Bonds (active segregated)	iBoxx £ Non Gilt all bonds	+1.3	+1.4	+1.4	0.0	+3.7	+3.7	+0.0
Legal & General	Oct-15	335.7	9.39	Corporate Bonds (passive pooled)	iBoxx £ Non Gilt all bonds	+0.0	+1.4	+1.47	0.0	+3.5	+3.7	-0.2
Legal & General	Dec-19	175.3	4.9	UK Fixed Interest Gilts (pooled fund)	FTSE Index Linked Gilt > 15 Years	+0.0	n/a	n/a	n/a	n/a	n/a	n/a
Index Linked Gilts												
Legal & General	Nov-09	365.7	10.2	UK Index Linked Gilts (passive seg)	FTSE Index Linked Gilt > 15 Years	+0.0	+2.4	+2.0	+0.4	+5.5	+5.7	-0.2
Cash & Other												
Other net assets		33.9	0.9									
Total Fund		**3,591.3**	**100.0**		**Strategic Benchmark**	**+0.9**	**-1.0**	**-0.1**	**-0.9**	**+8.0**	**+6.9**	**+1.1**

Notes:

These performance numbers are based on bid price valuations and the performance relative to benchmark is shown as Fund return less Benchmark return (arithmetic basis).

No comparative figures are applicable for L&G Buy and Maintain Corporate Bonds.

Robeco's Private Equity return is included in Total Fund performance but excluded from this table as it is measured differently to the main asset classes and managers above who manage over 99% of the Fund's assets.

Wellington use the Merrill Lynch 3-Month T-Bill Index hedged to £ as their benchmark but the 3 Month Sterling LIBOR benchmark is used for performance reporting purposes.

For Townsend, private lending and some of our Low Volatility equity we have currency hedging in place which is reflected in the performance numbers.

L&G UK Fixed Interest gilts pooled fund was newly invested in December 2019 so does not have a 1 year performance figure.

Portfolio analysis

Distribution of net investment assets by market value as at 31 March 2020, in millions (Note: May not add up exactly due to roundings):

	Private lending	Private equity	UK direct equities inc. pooled	Overseas equities including pooled equities						UK fixed interest	Overseas fixed interest	Pooled fixed interest	Pooled property, infrastructure, agriculture & timberland	Cash	Other net investments including derivatives	£m Total
				North America	Europe (exc UK)	Emerging Markets & other areas	Asia Pacific (exc Japan)	Japan	Total							
Legal & General										365.7		511.0		0.1	0.2	**877.0**
Townsend													412.2	26.4	0.3	**438.9**
Generation			16.0	326.7	36.6	10.9	2.7	2.7	379.6					8.6	-1.7	**402.5**
Royal London										125.0	208.0	6.8		4.6	4.3	**348.7**
Wellington												297.0				**297.0**
Brunel Low Volatility			22.2	161.5	40.4	1.8	15.4	23.0	242.0					31.2	0.9	**296.3**
Brunel Low Carbon			9.2	129.9	33.1	1.1	6.6	17.3	188.0					8.6		**205.8**
Ownership				158.7	13.0				171.5					15.1		**186.7**
Illiquid Credit	162.7															**162.7**
Robeco SEVE			8.0	64.4	18.0	0.5	3.7	18.3	104.9						0.2	**113.1**
Impax			11.0	45.3	30.0	4.5	11.3	1.6	92.8					0.8	0.4	**104.9**
Targeted Opps		70.9											22.4		0.4	**93.7**
Cash & Other														24.9	8.8	**33.7**
Robeco PE		28.4												1.9		**30.3**
£m Total	**162.7**	**99.3**	**66.5**	**886.3**	**171.1**	**18.7**	**39.7**	**62.9**	**1,178.7**	**490.6**	**208.0**	**814.8**	**434.6**	**122.2**	**13.8**	**3,591.3**
% of Fund	4.5	2.8	1.9	24.7	4.8	0.5	1.1	1.8	32.8	13.7	5.8	22.7	12.1	3.4	0.4	**100.0**

Top 20 holdings of the Fund as at 31 March 2020

Holding	Asset Class	2020	
		£m	% of Fund
L&G TSDD Buy & Maintain Corporate Bonds Fund	Pooled fixed interest - Overseas corporate bonds	335.7	9.3
WELLINGTON GLOBAL TOTAL RETURN	Pooled fixed interest - Overseas corporate bonds	297.0	8.3
FP BRUNEL LOW VOLATILITY FUND	Pooled equities - Global	296.2	8.2
L&G GPBT MSCI WORLD LOW CARBONTARGET INDEX FUND	Pooled equities - Global	205.8	5.7
THE OWNERSHIP CAPITAL GLOBAL E	Pooled equities - Global	186.6	5.2
L&G AF OVER 15Y GILTS INDEX	Pooled fixed interest - UK index linked gilts	175.2	4.9
LF ROBECO QI GLOBAL DEVELOPED	Pooled equities - Global	112.9	3.1
PERMIRA CREDIT SOLUTIONS III S	Private Lending - Partnerships	53.7	1.5
BARINGS NORTH AMERICAN PRIVATE	Private equity - Partnerships	31.2	0.9
DIRECT LENDING UK FUND SLP	Private Lending - Partnerships	31.0	0.9
GENERATION IM CLIMATE SOLUTION	Private equity - Partnerships	31.0	0.9
UK Government 1.25% index-linked 22/11/55	Fixed interest - UK index linked gilts	30.7	0.9
SENIOR LOAN FUND I C SLP SUB	Private Lending - Partnerships	30.2	0.8
UK Government 0.375% index-linked 22/03/62	Fixed interest - UK index linked gilts	27.8	0.8
UK Government 0.125% index-linked 22/03/68	Fixed interest - UK index linked gilts	27.7	0.8
ALPHABET INC CL C	Equities - Global	27.5	0.8
SCHWAB (CHARLES) CORP	Equities - Global	25.8	0.7
UK Government 1.125% index-linked 22/11/37	Fixed interest - UK index linked gilts	25.6	0.7
UK Government 0.5% index-linked 22/11/50	Fixed interest - UK index linked gilts	25.2	0.7
UK Government 0.75% index-linked 22/11/47	Fixed interest - UK index linked gilts	25.0	0.7
Total		**2,001.8**	**55.8**

Top 20 holdings of the Fund as at 31 March 2019

Holding	Asset Class	2019	
		£m	% of Fund
L&G TSDD Buy & Maintain Corporate Bonds Fund	Pooled fixed interest - Overseas corporate bonds	330.8	8.9
FP BRUNEL LOW VOLATILITY FUND	Pooled equities – Global	322.1	8.7
Wellington Global Total Return Bond IV GBP T Acc Fund	Pooled equities – Global	291.1	7.9
L&G GPBT MSCI World Low Carbon Target Index Fund	Pooled equities – Global	215.5	5.8
Ownership Capital Global Equity Fund Class A	Pooled equities – Global	185.6	5.0
Robeco Sustainable Enhanced Value Equities	Pooled equities – Global	150.9	4.1
Stewart Investors Global Emerging Markets Sustainability Fund	Pooled emerging markets equity	101.4	2.7
Permira Credit Solutions III Senior GBP L.P.	Private Lending – Partnerships	53.1	1.4
Taiwan Semiconductor Manufacturing Co Ltd	Direct equity	31.0	0.8
BlueBay Direct Lending UK Fund	Private Lending – Partnerships	27.7	0.7
UK Government 0.125% index-linked 22/11/55	Fixed interest - UK index linked gilts	27.3	0.7
UK Government 0.125% index-linked 22/03/68	Fixed interest - UK index linked gilts	27.0	0.7
UK Government 0.375% index-linked 22/03/62	Fixed interest - UK index linked gilts	27.0	0.7
DENTSPLY SIRONA INC	Direct Equity	25.1	0.7
UK Government 1.125% index-linked 22/11/37	Fixed interest - UK index linked gilts	24.6	0.7
UK Government 0.5% index-linked 22/03/50	Fixed interest - UK index linked gilts	24.5	0.7
Analog Devices Inc	Direct Equity	24.1	0.7
UK Government 0. 75% index-linked 22/11/47	Fixed interest - UK index linked gilts	23.9	0.6
Bridges Property Alternative Fund III LP	Private equity – Partnerships	23.8	0.6
BARINGS NORTH AMERICAN PRIVATE	Private equity – Partnerships	23.8	0.6
Total		**1,960.3**	**52.7**

Geographical distribution of quoted and pooled equity investments

Geographical distribution	2020		2019	
	£m	% of total	£m	% of total
North America	886.3	71.2	970.2	60.6
Europe (excluding UK)	171.1	13.7	215.7	13.4
United Kingdom	66.4	5.3	84.6	5.3
Japan	62.9	5.1	66.6	4.2
Asia Pacific (excluding Japan)	39.7	3.2	110.8	6.9
Emerging Markets and other areas	18.7	1.5	154.3	9.6
Total	**1,245.1**	**100.0**	**1,602.2**	**100.0**

Top 20 direct equity holdings

Company	Country	2020 £m	% of Fund	Company	Country	2019 £m	% of Fund
Alphabet Inc CL C	United States	27.5	0.8	Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	27.0	0.7
Schwab (Charles) Corp	United States	25.8	0.7	Analog Devices Inc	United States	24.5	0.7
Baxter International Inc	United States	19.5	0.5	Dentsply Sirona Inc	United States	23.9	0.6
Dentsply Sirona Inc	United States	17.0	0.5	Alphabet Inc	United States	21.4	0.6
Cognizant Tech Solutions A	United States	16.0	0.4	Schwab Charles Corp	United States	20.5	0.6
Henry Schein Inc	United States	16.0	0.4	DEERE + CO	United States	17.7	0.5
Thermo Fisher Scientific Inc	United States	12.9	0.4	Thermo Fisher Scientific Inc	United States	16.0	0.4
Cooper COS Inc/The	United States	11.8	0.3	Cooper Cos	United States	15.6	0.4
Jones Lang LaSalle Inc	United States	11.6	0.3	Jones Lang LaSalle Inc	United States	15.3	0.4
TE Connectivity Ltd	United States	11.2	0.3	Henry Schein	United States	15.3	0.4
Illumina Inc	United States	10.8	0.3	LeGrand SA	France	12.9	0.3
Informa Plc	UK	10.1	0.3	Sensata Technologies Holding NV	United States	12.2	0.3
LeGrand SA	France	10.0	0.3	Automatic Data Processing	United States	11.1	0.3
Palo Alto Networks Inc	United States	9.7	0.3	Texas Instruments Inc	United States	10.7	0.3
Unilever NV	Netherlands	9.6	0.3	Microsoft Corp	United States	10.4	0.3
Gartner Inc	United States	9.3	0.3	Indusind Bank Ltd	India	10.3	0.3
Becton Dickinson and Co	United States	9.2	0.3	Mercadolibre Inc	United States	10.0	0.3
Taiwan Semiconductor Manufacturing	Taiwan	8.6	0.2	Acuity Brands Inc	United States	9.4	0.3
Texas Instruments Inc	United States	8.6	0.2	TE Connectivity Ltd	United States	8.5	0.2
Trimble Inc	United States	8.5	0.2	Ingersoll-Rand PLC	United States	8.3	0.2
Total		**263.7**	**7.3**	**Total**		**301.0**	**8.1**

Pension Fund administration

Administration arrangements

The Environment Agency Pension Fund (EAPF) is responsible for administering the current and future pension benefits for just under 26,800 members of the Active Pension Fund.

While the Committee provides strategic direction and regular oversight, day to day pension Fund administration is delivered through our third party pension administrator, Capita Employee Benefits (a subsidiary of Capita Group Plc). We do this because it involves specialist knowledge, complex activity and significant investment in IS/IT which is considered beyond the core business of the Environment Agency.

The breadth and volume of work delivered by Capita is significant, and includes administering members' historical records, handling all Fund members' queries, distributing newsletters and annual benefit statements, issuing monthly pension payslips, making lump sum and pension payments, fraud prevention and debt collection, undertaking all HMRC returns, producing audited annual accounts for Parliament, provision of LGPS technical advice and a wide range of other tasks.

Performance measurement

The Committee measures the performance of Capita through monthly, quarterly and annual reports showing progress against the contractual Service Level Agreement (SLA). The perspectives by which the Committee assesses the performance include accuracy, timeliness, quality, helpfulness, feedback, service improvements and complaints.

We would like to express our thanks to Capita for resolving 35,444 (2019: 34,018) Active and Closed Fund member requests/queries and for paying pensions to over 7,000 Active Fund pensioners. Over the year, Capita achieved service levels for 92.08% of all casework processed.

The 5 largest case types processed by Capita for the Active Pension Fund during 2019/20 were:

Case type	2020	2019
Leavers with deferred pensions	635	494
Retirement estimates	1374	1143
Joiners	1349	918
Transfers out including quotations	690	453
Retirements	452	381

Active Fund administration costs for the year to the 31 March 2020 were £640k (2019: £557k) including member communications and postage costs. For 2019/20 the CIPFA average was £21 per member. Across both our Active and Closed Funds, our average cost for 2019/20 was £23 (2018/19: £23) per member.

The total number of staff allocated by Capita to the EAPF administration contract is 23, of which 14 deal solely with pension benefits administration. Based on a membership of 38,969 across both the Active and Closed Funds at 31 March 2020, this represents an average of 2,455 members per administrator.

We take a value for money approach looking for appropriate balance between cost, service and quality in pension administration delivery.

Internal controls

The EAPF system of internal controls is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Fund's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Environment Agency and in the operation of the Fund for the year ended 31 March 2020, in accordance with LGPS and Treasury guidance and best practice.

Two independent reviews by Environment Agency Internal Audit on the adequacy and effectiveness of internal controls and Pension Fund Risks were conducted in accordance with Government Internal Audit Standards during the year. The Pension Fund compliance audit concluded that we showed strong compliance with the provisions of the Pensions Schedule of the Financial Memorandum and the requirements from the Pensions Regulator's public sector Code of Practice. The Risk Management audit also concluded positive feedback on our risk management process. In terms of future actions, we are currently considering the recommendation to 'deep dive' into a specific risk area at each committee meeting.

Our annual pension benefit statements were issued to 100% of our active members on 23 August 2019, within the statutory 31 August 2019 deadline. Following our Process to Report Breaches of the Law, we made no reports to the Pensions Regulator during 2019/20.

Capita produce an audited AAF 01/06 Assurance Report on internal controls which is reviewed annually by Officers. In considering the effectiveness of the internal controls for the Fund, account has been taken of the findings of the reporting accountants (Grant Thornton UK) in their assurance report for Capita Employee Benefits Ltd (CEBL) for the year ending December 2019. The EAPF has sought additional information from Capita to aid its consideration of the issues involved and has concluded that, where the issues have any relevance to the Fund, risks are suitably mitigated by the control arrangements in place.

Data quality

Good quality data is vital to the efficient and accurate payment of retirement benefits and general administration of the Active Pension Fund. This is achieved primarily through the use of electronic interfaces between Fund employers and Capita on a weekly and monthly basis. Guidance issued by the Pensions Regulator (TPR) recommends that the Fund regularly assess the quality of EAPF member data.

Common data is defined by TPR as the key data items that are essential to the identification of the member's identity and are common to all schemes including items such as National Insurance number, surname, gender and address. The guidance recommends that Common data is 95% complete (in compliance with the tests specified by TPR) for data created prior to June 2010 and 100% for new data post June 2010.

Data quality testing is carried out for the Active Fund annually and a certificate issued reflecting compliance with TPR guidance. The latest available results from our November 2019 certificates showed our post June 2010 data as 99.69% (August 2018: 99.5%), with pre June 2010 data at 89.78% (August 2018: 91%). The missing data for both categories relates to members moving house and not informing our administrators. We continue to carry out exercises to trace these members and will update their records accordingly.

More member specific data called 'Scheme Specific Data' has also been reviewed with positive results, and is reviewed on a regular basis. We expect our current review to reach its conclusion by end of June 2020 with the results ready for submission to TPR in November 2020. We continue to work with The Pensions Regulator (TPR) and the Scheme Advisory Board (SAB) on the methodology of reporting.

Data security

The Environment Agency Pension Fund and Pensions Committee take data security very seriously. Ownership and accountability for the transmission of employees' pensions related data to Capita is assigned to the human resources and payroll functions of our participating employers. This is mainly through the secure transmission of monthly and weekly electronic data interface files.

Capita hold member data in line with the requirements of the Data Protection Act and complies with the Cabinet Office Security Policy Framework. All Capita employees are required to undertake annual data protection training which covers 'Personal Data' and actions required to protect this data.

Capita are managing Information security and cyber risks through adherence to Capita Group policy requirements and Baseline Information Security Standards.

We had no incidents involving loss of personal data in 2019/20 which were required to be reported to the Information Commissioner.

National Fraud Initiative/mortality checks

The Fund has a formal policy and procedure for handling fraud linked to the unreported deaths of pensioners. As part of this policy it participates in the Audit Commission's biennial National Fraud Initiative (NFI) and undertakes life certificate exercises for pensioners who live overseas. In addition, from November 2012 monthly mortality screening has been implemented to help reduce overpaid pensions and potential fraud.

As a general principle, where we investigate cases and if fraud is suspected, we will pursue the case and will seek to agree a repayment plan or, if necessary, take legal action or involve the police. Our monthly mortality checks are in place to help reduce potential fraud on the Fund. There are no reported cases for 2019/20.

Communications

The Fund continues to develop and enhance its communication program which started with the introduction of an easily recognisable brand and writing style. This was aligned to a restructured website using rich media (which included the use of calculators, flowcharts and audio and visual presentations) to help enhance member experience and encourage regular use. The website continues to be developed to keep up with technology and demands in the digital area.

Both our public facing website and web portal facility, EAPF Online are 'device enabled' which means they allow users to access information on any mobile phone or tablet in an easily readable format, so our members can look up information or access online tools in their own time.

We continue to engage with members through a number of channels to establish a view on how our members prefer to communicate and interact with the Fund.

We have introduced tailored, themed topic webinars and consult with members and Fund employers on content and introducing new sessions which are informed through customer surveys and focus groups.

These sessions are supported by newsletter, a poster campaign, E Shots and promotion through our Fund employers' internal communication channels. The EAPF has successfully transitioned to using webinars. Members are based nationwide across England & Wales, so it provides an opportunity for all to participate, and helps those who are unable to make the time commitment or can't get to a location depending on where they are based.

Introducing webinars allows us to:

- reach a wider audience nationwide
- remove the need for travel and time out of the office
- deliver more sessions based on demand and more choice

All topics are recorded and the recorded presentation slides are made available on our website.

Our Communications strategy

As part of our long term strategy, 2019 saw us continue our move to digital communications by using our 5 segmented groups to ensure the way we engage remains relevant and tailored to our different members.

Our segmented groups are:

- Adventure
- Protection
- Relaxed
- Detail and focus
- Companionship

The use of segmented 'E Shots', ensures we test different imagery, and messaging with our different groups to establish preferences. We have completed three years of digital campaigns with specific messages being targeted to the 5 main groups. Each communication has a 'call to action' (CTA) which may be to complete a form, or to click and watch a video etc. We are able to monitor how many messages are sent, how many are opened and how many complete the CTA, and this information is then made available in our Communication dashboard.

We monitor the feedback from members carefully, and will continue to collate responses to enable us to focus our messaging.

Here's an example

We regularly receive questions about the pension scheme and the options available to members to make the most of the money they are able to invest. At the same time, we also receive questions about the scheme in general.

We created a campaign using the analysis done on our segmented groups so get some key messages and information out targeted at the different kinds of member. This was done in the form of an email which invited members to identify with one of the people in the 'case studies'.

There were 4 different members for the reader to identify with. These were written in a way that made it easy to choose which member the reader identified with. Each member profile directs the reader to various links including information about what they can do to identify any gaps in their pension, options for paying more or less in to their pension as well as where they can do some retirement modelling tor a different retirement date.

Our campaign objectives were to:

- Be inclusive and helpful, showing that we act on feedback
- Encourage members to register on the online portal and use the tools available
- Drive members to useful pages on our public website for more information

The campaign was a success and attracted over 1,340 members to the website, 1,100 of which were new users. Each of these spent an average time of 2:49 minutes engaging with the content and viewed on average 6.18 pages. This data will be used to better inform and progress our member communications going forward.

Further details on our publications and other services from the Fund can be found at **www.eapf.org.uk**

Complaints

The Fund has a formal process for dealing with complaints. The Committee defines a 'complaint' as any expression of oral or written dissatisfaction from members, the EAPF, its employer(s) and/or third parties, with regard to how a service has been carried out.

In addition, the Internal Dispute Resolution Procedure (IDRP) is a formal two stage procedure for settling disputes under the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).

At Stage 1 the dispute will be reviewed by a person nominated by the Environment Agency to investigate complaints regarding decisions made under LGPS regulations, known as the ‘specified person’. If you disagree with the Stage 1 decision you can apply to Stage 2 where the dispute will be reviewed by a representative of the Administering Authority. If you still cannot agree with the decision you can apply to the Pensions Ombudsman who will make a binding decision and who has the power to award compensation if this is justified.

In 2019/20, Capita received 93 (108 for 2019/20) formal complaints from Active Fund members. There were 4 IDRP stage 1 cases, 1 of which is a resubmitted case which was closed following a stage 2 decision. And there are 4 IDRP stage 2 cases raised on the Active Fund during the year and 1 case is currently with the Pensions Ombudsman.

Foreword to the financial statements

The EAPF is a statutory public service pension scheme (as defined by the Pension Schemes Act 1993) under the Local Government Pension Scheme Regulations 2013 (as amended), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 and earlier regulations (saved provisions).

The LGPS was contracted out of the State Earnings Related Pension Scheme (SERPS) and later the State Second Pension (S2P) until 5 April 2016, meaning it provides benefits that are as good as most members would receive if they had been in the SERPS/S2P. Full tax relief is granted on both members' and the Environment Agency's contributions paid to the Fund.

Roles and responsibilities of the Pensions Committee

With a membership of nominated Environment Agency Board members, senior officers, member nominees, two pensioner member nominees, the Committee (which is a sub-committee of the Environment Agency Board) has been delegated the responsibility for Fund matters. It receives advice from its external advisers and is charged with appointing managers and agents required for the effective management of the duties outlined below.

The Committee and Accounting Officer is responsible for obtaining audited financial statements for each financial year which give a true and fair view of the financial transactions of the Fund and the disposition of its assets and liabilities at the year end, other than the liabilities to pay pensions and benefits after the scheme year end. In preparing the financial statements the Committee is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the Accounts
- prepare the Accounts on a going concern basis
- confirm that the Annual Report and Financial Statements as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Financial Statements and the judgements required for determining that it is fair, balanced and understandable.

The Committee and Accounting Officer are responsible for keeping proper accounting records which disclose, with reasonable accuracy, at any time, the financial position of the Fund and to enable it to ensure that the financial statements comply with the Framework Document issued by Defra. However, responsibility for the regulations governing the LGPS lies with the Local Government Pensions Unit at MHCLG.

The Committee and Accounting Officer are responsible for keeping records of contributions received in respect of active members of the Fund and for ensuring that contributions are made to the Fund in accordance with the Pensions Act 1995, the 2008 regulations and with the recommendations of the Consulting Actuary.

The Committee and Accounting Officer are also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of error, fraud and other irregularities. This Annual Report and Financial Statements is available on the Pension Fund's website and the .Gov.uk website. The maintenance and integrity of the website is the responsibility of the Environment Agency. The work carried out by the Auditor and the Scheme Administrator does not involve consideration of these matters. Accordingly, the Auditor accepts no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the websites. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Summary of the financial statements

All investment assets are included in the financial statements on a fair value basis as at the reporting date. The net assets of the Environment Agency Active Pension Fund as at 31 March 2020 have decreased by £92m to £3,605m (2019: increased by £279m to £3,697m). This is due to a decrease in the market value of its investments under management which include the market impact of the Covid-19 pandemic in Q1 2020 and a bulk transfer payment out of the Fund of £63.8m for 438 members to the Civil Service Pension Scheme during the year. We saw about a 10% fall in the market value of our investments between December 2019 and March 2020.

The Fund holds a Long-term investment in the Brunel Pension Partnership Limited, its pooling provider. As at the 31 March 2020 this had a reported fair value of £427k (2019: £395k).

In order to comply with Regulation 4(2)(b) of the Pension Scheme (Management and Investment Funds) Regulation 2009, Additional Voluntary Contributions (AVCs) paid and the AVC assets are not included in the Fund's financial statements. However, the value of the AVCS is disclosed for information purposes only in Note 22.

Total contribution income has increased by £9.1m to £97.7m (2019: decreased by £3.9m to £88.6m). This can primarily be attributed to NRW advanced employer contributions received in the year, along with an increase in normal contributions. The 12 months ending 31 March 2020 have seen a 4.9% increase in active membership (2019: increase of 2.9%).

Net income from all transfer values received in the year has risen on the prior year as a result of individuals transferring from previous arrangements into the scheme. This increased by £1.3m to £6.6m (2019: increased by £1.6m to £5.3m). Retirement benefits and other payments made to or in respect of members during the year have increased by £4.8m to £92.5m (2019: increased by £3.0m to £87.7m). This is primarily attributable to a pension increase rate of 2.4% applied in April 2019 to our pensions in payment and deferred benefits and an increase in our pensioner population.

Management expenses have decreased by £3.8m to £24.0m (2019: increased by £1.5m to £27.8m). This decrease is due mainly to lower performance fees being paid to investment managers during the financial year.

The Fund's net return on investments decreased by £314.6m to a loss of £11.3m (2019: increased by £141.0m to £303.3m). This was due mainly to a fall in the market value of the investments held as at 31 March 2020.

Market valuation uncertainty following outbreak of Covid-19 Pandemic

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a 'Global Pandemic' on the 11th March 2020, has impacted global financial markets. Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value for certain Level 3 assets where a greater degree of estimation and judgment is required in determining a fair value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Some of our Level 3 investments particularly Real Estate have valuations that are reported on the basis of 'material valuation uncertainty'. Consequently, less certainty – and a higher degree of caution – should be attached to our Fund's valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we continue to liaise with our Fund Managers and keep the valuation of these properties under frequent review. Whilst the Real Estate market valuation uncertainty existed at the 31 March 2020 it has since been lifted as markets become stronger and more confidence returns.

Statement by the Consulting Actuary

Environment Agency Active Fund ('the Fund') Actuarial Statement for 2019/20

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. 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 December 2019. In summary, the key funding principles are as follows:

- ensure that sufficient resources are available to meet all benefits as they fall due for payment;
- recover any shortfall in assets, relative to the value of accrued liabilities, over broadly the future working lifetime of current employees;
- enable employer contributions to be kept as stable as possible and at a reasonable cost, whilst achieving and maintaining fund solvency, which should be assessed in light of the risk profile of the fund and the risk appetite of the administering authority and employers;
- manage the employers' liabilities effectively; and
- maximise the returns from investments within reasonable risk parameters.

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 both principal employers, 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 demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 78% likelihood that the Fund will achieve the funding target over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £3,646 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 2019 valuation was £211 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and liability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth 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 for the 2019 valuation were as follows:

Financial Assumptions (% p.a.)	31 March 2019
Discount Rate	3.1%
Salary increase assumption	2.5%
Benefit increase assumption (CPI)	2.0%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Pensioners	Males	Females
Current pensioners	21.9 years	23.8 years
Future pensioners*	22.9 years	25.5 years

*Aged 45 as at 2019 valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced to around 100% versus 106% as reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

Peter MacRae

Peter MacRae
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
11 May 2020

INDEPENDENT AUDITOR'S REPORT TO THE HOUSES OF PARLIAMENT, THE BOARD OF THE ENVIRONMENT AGENCY AND THE SECRETARY OF STATE FOR ENVIRONMENT, FOOD AND RURAL AFFAIRS

Opinions on financial statements

I have audited the financial statements of the Environment Agency Active Pension Fund ("the Fund") for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2020 and of the amount and disposition at that date of the Funds' assets and liabilities; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

Opinion on Regularity

In my opinion, in all material respects, the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom' and Practice Note 15 (revised) 'The Audit of Occupational Pension Schemes in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Fund in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Fund's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Fund have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Accounting Officer of the Environment Agency and the Pensions Committee

As explained more fully in the section entitled Roles and responsibilities of the Pensions Committee, the Accounting Officer and the Pensions Committee are responsible for:

- the preparation the financial statements and for being satisfied that they give a true and fair view.
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- assessing the Fund’s ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless management either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibility for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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 economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- conclude on the appropriateness of the Fund’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Other information

The Accounting Officer and the Pensions Committee are responsible for the other information. The other information comprises information included in the annual report, but does not include the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- in the light of the knowledge and understanding of the Fund and its environment obtained in the course of the audit, I have not identified any material misstatements in the Annual Report; and
- the information given in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit.

Gareth Davies
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SWIW 9SP

Date: 09 December 2020

Financial statements for the year ending 31 March 2020

Fund account	Notes	2020 £000	2019 £000
Dealings with members, employers and			
others directly involved with the Fund			
Contributions receivable	7	97,724	88,565
Transfer values in from other pension funds	8	6,655	5,307
		104,379	**93,872**
Benefits and other payments			
Benefits payable	9	(92,573)	(87,652)
Payments to and on account of leavers	10	(69,072)	(2,769)
		(161,645)	**(90,421)**
Net (withdrawals)/additions from dealings with members		**(57,266)**	**3,451**
Management expenses	11	**(24,112)**	**(27,849)**
Return on investments			
Investment income	12	63,216	63,068
Taxes on income	13	(510)	(645)
Profit and loss on disposal of investments and changes in the value of investments	14a	(74,016)	240,895
Net returns on investments		**(11,310)**	**303,318**
Net (decrease)/increase in the Fund during the year		**(92,688)**	**278,920**
Opening net assets of the Fund at 1 April		3,697,277	3,418,357
Closing net assets of the Fund at 31 March		**3,604,589**	**3,697,277**

The notes on pages 83 to 117 form part of these financial statements.

Net assets statement	Notes	2020 £000	2019 £000
Long-term investments	14a	427	395
Investment assets	14c	3,601,273	3,705,009
Investment liabilities	14c	(9,937)	(7,956)
Net investment assets		**3,591,763**	**3,697,448**
Current assets	20	29,358	20,053
Current liabilities	21	(16,532)	(20,224)
Closing net assets of the Fund at 31 March		**3,604,589**	**3,697,277**

The financial statements summarise the transactions and net assets of the Fund. The financial statements do not take account of liabilities to pay pensions and other benefits that fall due after the end of the Scheme year. The actuarial position of the Fund, which does take account of such liabilities, is dealt with in the statement by the Consulting Actuary on pages 76 to 77 and these financial statements should be read in conjunction with it. The Actuary's statement dated 11 May 2020 is based on a formal valuation as at 31 March 2019. The notes on pages 83 to 117 form part of these financial statements.

Robert A. Gould.

Robert Gould
Chair
Environment Agency Pensions Committee
04 December 2020

J D Bevan

Sir James Bevan
Accounting Officer
Environment Agency
04 December 2020

Notes to the financial statements

1. Description of the Fund

The Environment Agency Active Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by the Environment Agency. The Environment Agency is the reporting entity for this Pension Fund. The Fund is overseen by the Environment Agency Pension Fund Committee.

The following description is a summary only. For more detail, reference should be made to the Funding Strategy Statement (Annex 2).

General

The Fund is governed by the Superannuation Act 1972 and the Public Services Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended);
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended); and
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The Active Fund was established as the National Rivers Authority Pension Fund in 1989 at the time of the privatisation of the water industry in England and Wales. The Fund inherited active members' accrued liabilities from the predecessor pension arrangements, but no pensioners or deferred pensioner liabilities. In 1996 it transferred to the Environment Agency and became the Environment Agency Active Pension Fund. Since then, the Fund has been gradually maturing.

Membership

Unless they have elected in writing not to be members, all Environment Agency employees are eligible for membership of the LGPS (excluding Environment Agency Board members and those employees who are eligible to join another pension scheme) providing they are under the age of 75. Membership of the fund also includes employees of Natural Resources Wales and Shared Services Connected Limited who were employees of the Environment Agency immediately before the transfer of services to those bodies.

Funding

Benefits are funded by employer and employee contributions and investment earnings. Employers' contributions are set based on triennial actuarial funding valuations. During the financial year employer contributions rates were based on 31 March 2016 formal valuation, 18.5% of pensionable pay for the Environment Agency, a fixed annual rate of £7m for Natural Resources Wales and 22.7% of pensionable pay for Shared Services Connected Limited. The latest formal valuation was as at 31 March 2019. This becomes effective from 1 April 2020 and the Environment Agency will contribute 19.0% of pensionable pay per annum, a fixed annual rate of £7m will be payable by Natural Resources Wales and 22.7% of pensionable pay for Shared Services Connected Limited. Employee contributions are made by active members in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020.

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average revalued earnings scheme (CARE), whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is revalued annually in line with the Consumer Prices Index (CPI).

A range of other benefits are also provided as detailed on our website **www.eapf.org.uk**

2. Basis of preparation

The financial statements have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. They are prepared with a covenant from Defra who are the financial sponsors of the Environment Agency under the Environment Agency Act 1995 and the MHCLG as the statutory guarantors of the LGPS. The accounting policies have been drawn up in line with recommended accounting principles within the overall Code of Practice on Local Authority Accounting framework.

3. Summary of significant accounting policies

The following principal accounting policies have been applied consistently in the preparation of the financial statements which are prepared on an accruals basis.

Contribution income

Normal contributions are accounted for on an accruals basis in the period to which the associated wages and salaries relate. Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes, according to pensionable pay. Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Advanced employer contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body.

Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset.

Additional Voluntary Contributions are not included in the accounts in accordance with Regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Transfers to and from other schemes

Individual transfers in and out are accounted for when received or paid. 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, or in the absence of specific terms, on a cash basis.

Refunds of contributions are included from the date the member leaves the Scheme.

Benefits payable

Members can choose whether to take a proportion of their retirement benefits as a pension and/or lump sum. Pensions and lump-sum benefits payable are accounted for on an accruals basis from the date the option is exercised. Lump sum death grants are included from the date of death. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities, providing that payment has been approved.

Management expenses

Administration, oversight and governance costs and investment management expenses are accounted for on an accruals basis. Management expenses are recognised net of any recoverable VAT. The fees of the Fund's external investment managers reflect their differing mandates. Fees are generally linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes.

In cases where administration expenditure relates to both the Active and Closed Pension Fund, we attribute this 80%/20% respectively to reflect the time spent administrating each Fund, as shown below. This apportionment is considered annually.

Apportionment of common expenditure	2019/20 AF/CF %	2018/19 AF/CF %
Custodial arrangements	80/20	80/20
Environment Agency Pension Fund Management	80/20	80/20

Investment income

All interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Accrued interest is excluded from the market value of fixed interest securities but is included in investment income receivable. Income from cash and short term deposits are also accounted for on an accruals basis.

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.

Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.

Income on investments in pooled investment vehicles with accumulation units is reflected in the unit price.

Taxation

The Fund 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. VAT input tax is recoverable on all management expenses. The accounts are exclusive of VAT.

Financial assets

The long-term investment in the Brunel Pension Partnership asset pool has been revalued from £395k in 2019 to £427k as at 31 March 2020. The Brunel Partnership Limited reported a profit for the year in their annual report and accounts. The Environment Agency Pension Fund and its 9 other partner Funds in the pool, collectively agree that the market value of this investment as at 31 March 2020 can be reasonably assessed from the Brunel Pension Partnerships audited Annual Report and Accounts. Therefore, their Statement of Changes of Equity as at 30 September 2019 is therefore deemed an appropriate estimate of fair value.

All other investment assets are included in the financial statements 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 the asset are recognised in the fund account.

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 IFRS 13. 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).

Foreign currency transactions

Where forward contracts are in place for assets and liabilities the contract rate is used. Other assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the year end.

Derivatives

Futures contracts' fair value is determined using exchange prices at the year-end date. The fair value is the unrealised profit or loss at the closing price of the contract. Amounts due from the broker represent the amounts outstanding in respect of the initial margin (representing collateral on the contracts) and any variation margin which is due to or from the broker. The amounts included in change in market value are the realised gains and losses on closed futures contracts and the unrealised gains and losses on open futures contracts.

The fair value of the forward currency contracts is based on market forward exchange rates at the year-end date.

Cash deposits and instruments

Cash comprises cash in hand and on deposit, including any amounts held by the Fund's external investment managers.

Financial Liabilities

A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in market value of investments.

Additional Voluntary Contributions

The EAPF provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from the Pension Fund. The Fund has open arrangements with Prudential and Standard Life as well as closed arrangements with Equitable Life and Clerical Medical. AVCs are paid to the AVC providers by employers and 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.

As mentioned previously, AVCs are not included in the accounts in accordance with Regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, but their valuation is disclosed as a note to the accounts for information.

Contingent assets and contingent liabilities

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.

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.

Where they exist, contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

Standards likely to affect future financial statements

IFRS 16 Leases (effective for the periods beginning on or after 1 January 2020). The new standard replaces IAS 17 Leases and introduces a new single accounting approach for lessees for all leases (with limited exceptions). As a result, there is no longer a distinction between operating leases and finance leases, and lessees will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. As the Fund does not hold any leases this new standard will not apply.

4. Critical judgments in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgments involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2020 was £168.1m (2019: £170.6m).

Material valuation uncertainty on property

The outbreak of the Novel Coronavirus (COVID-19) has impacted global financial markets in many sectors. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Some of our Level 3 investments particularly Real Estate have valuations that are reported on the basis of 'material valuation uncertainty'. Consequently, less certainty – and a higher degree of caution – should be attached to our Fund's valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we continue to liaise with our Fund Managers and keep the valuation of these properties under frequent review. Whilst the Real Estate market valuation uncertainty existed at the 31 March 2020 it has since been lifted as markets become stronger and more confidence returns.

Pension Fund liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology follows CIPFA Code of Practice on Local Authority Accounting in the United Kingdom for 2019/20 and in accordance with IAS19.

Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

Investment in Brunel Pension Partnership Limited - asset pool

This Long term investment in Brunel has been revalued on the basis that the fair value as at 31 March 2020 can be derived from the Brunel Pension Partnerships Annual Report and Accounts. Their Statement of Changes of Equity is therefore deemed an appropriate estimate of fair value. Management review this valuation annually.

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

As disclosed in Note 4 some of our Level 3 investments particularly Real Estate have valuations that are reported on the basis of 'material valuation uncertainty'. We will keep the valuation of these properties under frequent review. Whilst the Real Estate market valuation uncertainty existed at the 31 March 2020 it has since been lifted as markets become stronger and more confidence returns.

The financial statements contain figures that are based on assumptions made by our Private Equity manager. Estimates are made taking into account historical experience, current trends and other relevant factors. The items in the net assets statement at 31 March 2020 for which there is a risk of material adjustment in the forthcoming financial year is as follows:

Item	Uncertainties	Effect of actual results differ from assumptions
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	There is a risk that this investment may be under or overstated in the accounts.

6. Events after the net asset statement date

The financial statements were approved by both the Pensions Committee on 30 September 2020 and Audit and Risk Assurance Committee on 3 December 2020. The financial statements are signed under delegated authority of the Board. They will also be noted at a meeting of the Board on 16 December 2020.

In June 2020 a legal discrimination case, namely the 'Goodwin' case, which related to unequal death benefit provision for male dependents of female scheme members was deemed successful. From initial analysis this has affected a very small population of our membership and the small increase in liability has been calculated and updated in line with IAS19.

In July 2020, the McCloud estimate within the IAS19 calculation was revised from the previous year to allow for the qualifying member criteria proposed in the MHCLG consultation issued in July 2020. This reduced the liability.

Pension Fund liabilities are sensitive to changes in the discount rate and the figures presented in the accounts are based on the assumptions as at 31 March 2020. The discount rate is determined with reference to market yields on high quality corporate bonds at the reporting date as per IAS19. Since the reporting date, the discount rate has changed and figures at the end of September suggest that the liabilities would be much higher were that discount rate used.

As referred to in Notes 4 and 5, Real Estate market valuation uncertainty existed at the 31 March 2020. Royal Institute of Chartered Surveyors (RICs) released the need to have material uncertainty clauses included in property valuations in September 2020.

There are no adjusting events that need to be recognised in the financial statements after the net asset statement date.

7. Contributions receivable

By contribution type	2020 £000	2019 £000
Employer		
Normal	58,754	53,427
Advanced	11,694	9,944
Special	355	386
	70,803	**63,757**

Members		
Normal	26,636	24,474
Purchase of added years	285	334
	26,921	**24,808**
Total	**97,724**	**88,565**

Normal contributions are regular employer and employee contributions paid across by our employers. The advanced contributions were future service contributions paid prior to the year-end by our employers. Special contributions are additional amounts paid by our employers in respect of early retirements.

By employer	2020 £000	2019 £000
Employer contributions		
Environment Agency	58,726	56,598
Natural Resources Wales	12,042	7,089
SSCL	35	70
	70,803	**63,757**
Employee contributions		
Environment Agency	24,830	22,699
Natural Resources Wales	2,081	2,094
SSCL	10	15
	26,921	**24,808**
Total	**97,724**	**88,565**

8. Transfer values received

	2020 £000	2019 £000
Individual transfers from other schemes	5,765	4,279
AVC transfers	890	1,028
Total	**6,655**	**5,307**

Transfer values have been paid (‘cash equivalents’ within the meaning of Part 1 of Schedule 5 to the Pensions Scheme Act 1993), and service credits given for transfers received, calculated in accordance with the method and assumptions on the advice of the Actuary and based on guidelines issued by the Institute and Faculty of Actuaries. No discretionary benefits have been included in the calculation of transfer values. AVC transfers represent amounts disinvested from the AVC arrangements disclosed in Note 22 during the year and subsequently used to fund benefits.

9. Benefits payable

	2020 £000	2019 £000
Retirement and dependants pensions	77,832	74,073
Lump sum retirement grants	13,140	12,231
Lump sum death grants	1,454	1,125
Taxation where annual allowance exceeded	147	223
Total	**92,573**	**87,652**

10. Payments to and on account of leavers

	2020 £000	2019 £000
Bulk transfer to other schemes	63,772	-
Individual transfers to other schemes	5,069	2,607
Refunds of contributions	173	127
AVC transfers	58	35
Total	**69,072**	**2,769**

The bulk transfer is in respect of the transfer of 438 Corporate Services staff from the Fund to the Civil Service Pension Arrangements.

11. Management expenses

	2020 £000	2019 £000
Administration costs		
Scheme administration	**640**	**557**
Oversight and governance costs		
Specialist advice	1,013	1,099
Environment Agency Pension Fund management	640	431
External audit	89	57
	1,742	**1,587**
Investment management expenses		
Management fees	14,151	13,836
Performances related fees	6,933	11,317
Transaction costs	557	448
Custody fees	89	104
	21,730	**25,705**
Total	**24,112**	**27,849**

Environment Agency Pension Fund Management costs were lower in 2018/19 due to reduced staffing levels in the year. During 2019/20 the Fund successfully managed to recruit in required areas, hence the apparent large increase between years. The External audit fees are higher in 2019/20 due to industry recognised complexities and increased resource required in auditing pension funds. Additional work was also required this year to audit the bulk transfer process and payment to the civil service pension arrangements and the formal triennial valuation. The increase in Management fees is primarily due to the increase in assets under management during the financial year and the service cost of pooling.

12. Investment income

	2020 £000	2019 £000
Income from private equity	19,589	14,138
Income from fixed interest securities	15,928	15,911
Dividends from equities	14,517	20,762
Income from pooled property and infrastructure	11,432	10,340
Interest on cash deposits	895	714
Income from pooled investment vehicles	796	756
Other investment income	59	447
Total	**63,216**	**63,068**

13. Taxes on income

	2020 £000	2019 £000
Withholding tax – equities	(510)	(645)
Total	**(510)**	**(645)**

14. Investments

a) Investment movements summary 2019/20

Financial year to the 31 March 2020	Market value at 01.04.19	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value at 31.03.20
	£000	£000	£000	£000	£000
Equities	617,944	478,345	(555,537)	(41,440)	499,312
Fixed interest securities	687,276	84,418	(71,857)	(1,180)	698,657
Pooled equities	1,018,489	5,708	(150,229)	(72,443)	801,525
Pooled fixed interest	629,919	166,641	(7,638)	25,869	814,791
Pooled property and infrastructure	342,509	55,324	(42,299)	10,233	365,767
Private equity	170,560	17,378	(38,046)	18,250	168,142
Private debt	138,119	54,637	(29,262)	(807)	162,687
FX and derivatives	(4,206)	77,728	(65,024)	(13,935)	(5,437)
	3,600,610	**940,179**	**(959,892)**	**(75,453)**	**3,505,444**
Cash deposits and instruments	88,757			1,405	81,747
Other investment balances	7,686			-	4,145
Total	**3,697,053**			**(74,048)**	**3,591,336**

Long-term investments	395			32	427
Total	**3,697,448**			**(74,016)**	**3,591,763**

In response to the requirements of the investment regulations for LGPS funds to pool investment assets, Brunel Pension Partnership Ltd was formed to oversee the investment assets for the Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire LGPS funds. Each fund owns an equal 10th of Brunel Ltd, with share capital invested by each fund of £840k. The fair value of this long term investment, our share has been revalued to £427k (2019: £395k).

The change in the market value of investments 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.

The derivatives in the above table represent futures' contracts and forward foreign exchange contracts. The closing market values represent fair values at the year-end date. In the case of futures' contracts, which are traded on exchanges, this value is determined using exchange prices at the reporting date. Forward foreign exchange contracts are over the counter contracts and are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

All contracts settled during the period are reported within the table as purchases and sales. As all contracts are settled individually, with an amount being paid to or from the broker in respect of all the foreign currency contracts, these transactions need to be disclosed as purchases and sales. As forward foreign exchange trades are settled gross they need to be included as gross receipts and payments and hence the volumes shown are high.

Indirect transaction costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund.

The prior year Investment movement's summary is shown in the table below.

Investment movements summary 2018/19

Financial year to the 31 March 2019	Market value at 01.04.18	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value at 31.03.19
	£000	£000	£000	£000	£000
Equities	833,299	393,559	(699,036)	90,122	617,944
Fixed interest securities	652,415	111,066	(94,381)	18,176	687,276
Pooled equities	677,703	620,296	(368,030)	88,520	1,018,489
Pooled fixed interest	603,503	109	-	26,307	629,919
Pooled property and infrastructure	284,865	73,721	(30,803)	14,726	342,509
Private equity	154,423	22,300	(33,367)	27,204	170,560
Private debt	101,212	55,214	(18,603)	296	138,119
FX and derivatives	436	44,520	(36,295)	(12,867)	(4,206)
	3,307,856	**1,320,785**	**(1,280,515)**	**252,484**	**3,600,610**
Cash deposits and instruments	95,838			(11,144)	88,757
Other investment balances	9,727			-	7,686
Total	**3,413,421**			**241,340**	**3,697,053**

Long-term investments	840	-	-	(445)	395
Total	**3,414,261**			**240,895**	**3,697,448**

b) Investment value details

Investment assets	2020 £000	2019 £000
Equities		
Overseas quoted	473,834	593,457
UK quoted	25,478	24,487
	499,312	**617,944**
Fixed interest securities		
UK index linked gilts public sector	365,660	356,900
UK corporate quoted	258,170	254,462
Overseas corporate quoted	73,640	74,745
Overseas public sector quoted	1,187	1,169
	698,657	**687,276**
Pooled equities		
Overseas unit trusts	762,146	963,173
UK unit trusts	39,379	55,316
	801,525	**1,018,489**
Pooled fixed interest		
UK corporate quoted unit trusts	335,746	330,831
Overseas corporate quoted unit trusts	303,795	299,088
UK government bond unit trusts	175,250	-
	814,791	**629,919**
Private equity		
Overseas unquoted	160,725	132,536
UK unquoted	7,417	38,024
	168,142	**170,560**
Pooled property and infrastructure		
Overseas infrastructure funds	159,623	106,618
UK infrastructure funds	134,523	160,262
Overseas unquoted collective limited partnership investments	71,437	74,956
UK unquoted collective limited partnership investments	184	673
	365,767	**342,509**
Private debt	**162,687**	**138,119**
Derivative contracts		
Forward foreign exchange	**(5,437)**	**(4,206)**
Cash deposits and instruments		
Cash with custodian and fund managers	**81,747**	**88,757**
Other investment balances		
Accrued income	5,578	6,787
Amounts due from trade and currency brokers	904	4,109
Income tax recoverable	787	526
Amounts due to trade and currency brokers	(3,124)	(3,736)
	4,145	**7,686**
Net investment assets	**3,591,336**	**3,697,053**
Long-term investments	**427**	**395**
Total investment assets	**3,591,763**	**3,697,448**

c) Investment assets and liabilities

	2020 £000	2019 £000
Financial assets		
Bonds (includes pooled and gilts)	1,513,448	1,317,195
Equities (includes pooled and private equity)	1,468,979	1,806,993
Pooled property and infrastructure	365,767	342,509
Private debt	162,687	138,119
Cash	81,747	88,757
Other investment assets	7,269	11,422
Derivatives – Futures and forward foreign exchange	1,376	14
Total financial assets	**3,601,273**	**3,705,009**
Financial liabilities		
Derivatives – Futures and forward foreign exchange	(6,813)	(4,220)
Amounts due to trade and currency brokers (including cash margin with brokers)	(3,124)	(3,736)
Total financial liabilities	**(9,937)**	**(7,956)**
Long-term investments	**427**	**395**
Net investment assets	**3,591,763**	**3,697,448**

d) Derivative contracts

	2020		2019	
Derivatives	**Asset** **£000**	**Liability** **£000**	**Asset** **£000**	**Liability** **£000**
Forward foreign currency contracts	1,376	(6,813)	14	(4,220)
Net derivatives	**-**	**(5,437)**	**-**	**(4,206)**

Investment in derivative instruments may only be made if they contribute to a reduction of risks and facilitate efficient portfolio management. A derivative is a financial contract between two parties, the value of which is determined by the underlying asset. Derivatives are used to a limited extent, primarily for efficient portfolio management and reducing currency risk.

Forward over the counter foreign currency contracts

At 31 March 2020 there was an unrealised loss of £5,437,000 on the currency forwards (2019: unrealised loss of £4,206,000). The current position relates to specific hedging undertaken by individual managers.

Currency bought	Local value £000	Currency sold	Local value £000	Settlement dates	2020 Asset £000	2020 Liability £000	2019 Asset £000	2019 Liability £000
Australian Dollar	5,480	US Dollar	3,784	One to six months	-	(346)	-	(17)
Canadian Dollar	8,550	US Dollar	6,539	One to six months	-	(428)	-	(22)
Euro	4,070	US Dollar	4,558	One to six months	-	(72)	-	-
Japanese Yen	1,343,000	US Dollar	12,286	One to six months	135	-	-	(120)
Sterling		Canadian Dollar		One to six months	-	-	-	(141)
Sterling		Swiss Franc		One to six months	-	-	-	(125)
Sterling	84,719	Euro	96,505	One to six months	-	(812)	12	(336)
Sterling	13,233	Japanese Yen	1,784,538	One to six months	-	(124)	-	(434)
Sterling	760	Norwegian Krone	8,800	One to six months	84	-	-	(55)
Sterling	23,466	Australian Dollar	46,596	One to six months	491	-	-	(409)
Sterling	121,515	US Dollar	157,121	One to six months	-	(5,031)	-	(2,390)
US Dollar	5,987	Sterling	4,670	One to six months	155	-	2	-
US Dollar	11,743	Chinese Yuan	81,100	One to six months	246	-	-	(171)
US Dollar	5,895	Indian Rupee	422,000	One to six months	265	-	-	-
				Total	**1,376**	**(6,813)**	**14**	**4,220**

e) Investments exceeding 5% of net investment assets

The following table represents the investments of the Fund that exceed 5% of the net investment assets.

Holding	2020		2019	
	Market value £m	% of net assets	Market value £m	% of net assets
L&G TSDD Buy & Maintain Corporate Bonds	335.7	9.3	330.8	8.9
Wellington Global Return Fund Pooled Bonds	297.0	8.3	291.1	7.9
Brunel Low Volatility Equity Fund	296.2	8.2	322.1	8.7
Brunel Low Carbon Equity Fund	205.8	5.7	215.5	5.8
Ownership Capital Global Equity Fund	186.6	5.2	185.6	5.0

15. Financial Instruments

a) Classification of financial instruments

The 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 carrying amounts of financial assets and liabilities by category and net assets statement heading.

31 March 2020	Financial assets and liabilities held at fair value through profit and loss	Financial assets held at amortised cost	Financial liabilities held at amortised cost
	£000	**£000**	**£000**
Financial assets		**-**	**-**
Pooled fixed interest	814,791	-	-
Pooled equities	801,525	-	-
Fixed interest securities	698,657	-	-
Equities	499,312	-	-
Pooled property and infrastructure	365,767	-	-
Private equity	168,142	-	-
Private debt	162,687	-	-
Cash deposits and instruments	81,747	16,068	-
Derivatives	1,376	-	-
Long-term investments	427		
Other investment assets	-	7,269	-
Debtors (excluding VAT)	-	7,034	-
	3,594,431	**30,371**	**-**
Financial liabilities			
Derivative contracts	(6,813)	-	-
Other investment liabilities	-	-	(3,124)
Creditors (excluding PAYE)	-	-	(15,618)
	(6,813)	**-**	**(18,742)**
Total	**3,587,618**	**30,371**	**(18,742)**

Included within those financial instruments held at fair value through profit and loss, are fixed interest securities that were designated as fair value through profit and loss on initial purchase.

31 March 2019	Financial assets and liabilities held at fair value through profit and loss	Financial assets held at amortised cost	Financial liabilities held at amortised cost
	£000	**£000**	**£000**
Financial assets		**-**	**-**
Pooled equities	1,018,489	-	-
Fixed interest securities	687,276	-	-
Equities	617,944	-	-
Pooled fixed interest	629,919	-	-
Pooled property and infrastructure	342,509	-	-
Private debt	138,119	-	-
Private equity	170,560	-	-
Cash deposits and instruments	88,757	9,206	-
Long-term investments	395	-	-
Derivatives	14	-	-
Other investment assets	-	11,422	-
Debtors (excluding VAT)	-	5,928	-
	3,693,982	**26,556**	**-**
Financial liabilities			
Derivative contracts	(4,220)	-	-
Other investment liabilities	-	-	(3,736)
Creditors (excluding PAYE)	-	-	(19,355)
	(4,220)	**-**	**(23,091)**
Total	**3,689,762**	**26,556**	**(23,091)**

Included within those financial instruments held at fair value through profit and loss, are fixed interest securities that were designated as fair value through profit and loss on initial purchase.

b) Net gains and losses on financial instruments

	2020 £000	2019 £000
Financial assets		
Fair value through profit and loss	(60,081)	253,762
Financial liabilities		
Fair value through profit and loss	(13,935)	(12,867)
Total change in market value	**(74,016)**	**240,895**

16. Fair value – basis of valuation

All investments are held at fair value in accordance with the requirements of the Code and IFRS 13. The valuation bases are set out below. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. There has been no change in the valuation techniques used during the year.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments – equities and exchange traded futures	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Cash deposits and instruments	Level 1	Closing bid value on published exchanges	Not required	Not required
Fixed interest securities - corporate bonds and Government gilts	Level 2	Market value based on current yields	Current yields	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Unquoted pooled investments - unit trusts	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled investments – overseas unit trusts and pooled property and infrastructure funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Pooled property and infrastructure funds	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations could be affected by post balance sheet events, changes to expected cash flows, or by any differences between audited and unaudited accounts, along with the limitations of ease of redemption. Material uncertainty existed over underlying investments - see Notes 4 and 5.
Pooled investments – unquoted collective limited partnership investments	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations are affected by any change in market value of the financial instrument being hedged against
Unquoted equities	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by post balance sheet events, changes to expected cash flows, or by any differences between audited and unaudited accounts

Fair value hierarchy

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

Level 1 - Where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Comprise quoted equities, quoted bonds and unit trusts.
Level 2 - Where quoted market prices are not available, for example or where valuation techniques are used to determine fair value based on observable data.
Level 3 - Where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3 based on the level at which the fair value is observable. Financial assets and liabilities valued at amortised cost, and those that are non-financial instruments, are included in the total column in order to show that all of the Fund's assets have been considered and reconcile back to the total net assets of the Fund.

Values at 31 March 2020	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	581,060	2,316,348	697,023	3,594,431
Financial liabilities				
Financial liabilities at fair value through profit and loss	-	(6,813)	-	(6,813)
Net financial assets at fair value	**581,060**	**2,309,535**	**697,023**	**3,587,618**
Financial assets held at amortised cost				30,371
Financial liabilities held at amortised cost				(18,742)
Non-financial instruments				5,342
Total net assets of the Fund				**3,604,589**

Values at 31 March 2019	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	708,959	2,574,807	410,202	3,693,968
Financial liabilities				
Financial liabilities at fair value through profit and loss	-	(4,206)	-	(4,206)
Net financial assets at fair value	**708,959**	**2,570,601**	**410,202**	**3,689,762**
Financial assets held at amortised cost				26,556
Financial liabilities held at amortised cost				(23,091)
Non-financial instruments				4,050
Total net assets of the Fund				**3,697,277**

Sensitivity of assets valued at Level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, 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 2020.

	Assessed valuation range % (+/-)	Value at 31 March 2020	Value on increase	Value on decrease
		£000	£000	£000
Pooled property and infrastructure	16.3	365,767	425,387	306,147
Private equity	36.5	168,142	229,514	106,770
Private debt	9.2	162,687	177,654	147,720
Long-term investments	10.7	427	473	381
Total		**697,023**	**833,028**	**561,018**

Reconciliation of fair value measurements within level 3

Period 2019/20	Market value 1 April 2019 £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value £000	Market value 31 March 2020 £000
Pooled property and infrastructure	128,157	241,383	-	28,293	(42,299)	10,233	365,767
Private equity	143,531	-	-	17,378	(11,017)	18,250	168,142
Private debt	138,119	6,815	-	47,822	(29,262)	(807)	162,687
Long-term investments	395	-	-	-	-	32	427
Totals	**410,202**	**248,198**	**-**	**93,493**	**(82,578)**	**27,708**	**697,023**

Note to table: Pooled property has been reclassified due to the material uncertainty applied to their underlying valuations.

17. Nature and extent of risks arising from financial instruments

Risk and risk management

FRS 102 requires the disclosure of information in relation to certain investment risks to which the Fund is exposed at the end of the reporting period. These risks are set out by FRS 102 as follows:

1. **Credit risk:** this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

2. **Market risk:** this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk, each of which is further detailed as follows:

   - **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
   - **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.

- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Further information on the Fund's approach to risk management, credit and market risk is set out below. This does not include AVC investments as these are not considered significant in relation to the overall investments of the Fund, though these assets are subject to periodic formal review to ensure ongoing appropriateness.

With regards to the Active Fund, the Pensions Committee is responsible for determining the Fund's investment strategy. The Investment Sub Committee has received delegated responsibility to prepare and recommend the investment strategy to the Pensions Committee and, within the context of the agreed investment strategy, to decide on the structure of mandates and their specification, to appoint fund managers, to monitor the performance of fund managers, and to terminate or alter mandates.

The Fund has exposure to the above risks because of the investments it makes to implement its investment strategy. We manage the investment risks within agreed risk limits which are set taking into account the Fund's strategic investment objectives and are monitored in a Risk Register which includes investment risks. The Fund, working with its advisors, regularly monitors investment risks within the Fund.

The investment objectives and risk limits are implemented through the investment management agreements in place with the Fund's investment managers and monitored by the Pensions Committee and Investment Sub Committee through regular reviews of the investment portfolios. The investment objectives and risk limits of the Scheme are further detailed in the Investment Strategy Statement ('ISS').

The Fund's assets as at 31 March 2020 and 31 March 2019 for the Active Fund are detailed in the table below.

Active Fund	**2020 £000**	**2019 £000**
Equity	**1,439,292**	**1,784,525**
Private Equity inc TOP	123,582	128,914
Emerging Market Equity	28	220,143
Global Equity	1,315,682	1,435,468
Diversifying Growth Assets	**901,130**	**860,615**
Real Assets	440,962	424,183
Absolute Return Bonds	296,964	291,077
Private Debt	163,204	145,355
Matching Assets	**1,225,615**	**1,031,713**
Corporate Bonds	684,444	674,593
LDI	541,171	357,120
UK Index Linked Gilts	*365,921*	*357,120*
UK Fixed Interest Gilts	*175,250*	*0*
Cash*	**25,299**	**20,200**
Total	**3,591,336**	**3,697,053**

Figures may not sum due to rounding. Valuation provided at an asset class level by the Fund's custodian, State Street.
*Excludes monies held in NatWest Trustee Bank Account but includes residual amounts held within the legacy PIV fund.

Investment Strategy

The EAPF Active Fund is an open, defined-benefit Pension Fund with strong employer backing, positive cash-flows and pension obligations stretching to the end of this century. In setting our investment strategy we seek to balance twin objectives: first, to achieve sufficient long-term returns for the scheme to be affordable to employers now and in the future, and second, minimising risk of having to increase the contribution rate in the future. The primary objective of the Pensions Committee is to ensure that members' benefits are payable as they fall due whilst minimising the volatility of the contributions required from the sponsoring employer, the Environment Agency.

To achieve this, the Fund needs to invest in assets that differ from our pension liabilities. We seek to develop an investment portfolio with exposure to these return seeking assets in the most risk efficient way. We look to build a portfolio that has high probability of exceeding the asset outperformance target assumed by our actuary, while minimising the risk of the funding level falling below 90% at future valuations, as this should be effective at substantially reducing the potential need to increase the contribution rate.

The Strategic Asset Allocation for the Fund as at 31 March 2020 and 31 March 2019 is set out as follows:

Asset Classes	2020 (%)	2019 (%)
Private Equity incl TOP	4.0	5.0
Emerging Market Equities	-	5.0
Global Equities	36.5	35.0
Total Equity	**40.5**	**45.0**
Real Assets	**12.0**	**15.0**
Property	5.0	6.0
Infrastructure	5.0	7.0
Timberland & Farmland	2.0	2.0
Private Debt	5.0	7.0
Growth Fixed Income	-	5.0
Multi Asset Credit	8.0	-
Total Diversifying Growth	**25.0**	**27.0**
Total Growth Assets	**65.5**	**72.0**
Sterling Corporate Bonds	22.0	20.0
Passive Index Linked Gilts	-	7.5
LDI	11.5	-
Cash	1.0	0.5
Total Defensive	**34.5**	**28.0**
Total	**100.0**	**100.0**

The actual allocations will vary from the above due to market price movements, legacy holdings not fully redeemed, planned investments being held in investment managers' queues and intervals between rebalancing the portfolio which takes place as stipulated in the Fund's cashflow and rebalancing policy.

1. Credit Risk

The Fund is subject to credit risk because the Fund is invested in pooled funds, has cash balances, directly holds corporate and government bonds as well as financial instruments.

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. This is exhibited primarily through the risk of corporate bond issuers defaulting on the bonds directly held by the Fund. Careful credit quality management by the investment managers helps to mitigate this risk.

The use of a mixture of pooled and segregated investment mandates further reduces the exposure to any particular manager or institution.

Cash Accounts

To minimise credit risk exposure on cash most of the Fund's cash is held in money market funds managed by the Fund's custodian State Street and Legal and General. These funds are invested across a wide range of cash instruments and have limited exposure to any individual institution. Furthermore, these monies are legally separated from EAPF's custodian, which serves to safeguard the investment in the case of default of the custodian. Assets held in both the Trustee bank account and custodian accounts are held in accounts provided by banks that have an investment grade credit rating. The values as at 31 March 2020 and 31 March 2019 are disclosed in the table below.

Fund	Balance as at 31 March 2020 (£000)	Balance as at 31 March 2019 (£000)
Money Market fund: State Street	23,296	17,087
Money Market fund: Legal & General	-	-*
Bank current account: National Westminster Bank plc	16,068	9,206
Total	**39,364**	**26,293**

*The LGIM sterling liquidity fund was incepted during Q4 2019, however currently does not hold any assets.

The Fund also invests in pooled investment vehicles and is therefore directly exposed to credit risk arising from these pooled fund investment vehicles and is indirectly exposed to credit risk arising on the underlying investments held by a number of these pooled fund investment vehicles. These arrangements are covered in a separate section below.

The notes below provide more detail on how credit risk is managed and mitigated for the different asset classes.

Segregated Investment Arrangements

Government bonds: Credit risk arising on bonds held directly through a mandate with LGIM is managed by investing principally in UK government bonds where the credit risk is minimal.

Corporate bonds: Credit risk arising on corporate bonds held directly through a mandate with RLAM is managed by predominantly investing in corporate bonds, which are rated at least investment grade and through limits on exposure to individual issuers. Credit risk management within these portfolios is primarily delegated to the investment manager. Management of such risks is factored into investment manager selection when appointing the investment managers.

Private Debt: Credit risk arising on private debt held through the segregated mandate with Townsend is mitigated by investing with a number of fund manager, minimising exposure to any single position. There is also liquidity risk associated with such investments, as the lack of an active market for the underlying investments makes it difficult to value and find a suitable buyer.

Cash balances: As described above credit risk arising on cash held within financial institutions is managed by ensuring cash is held with a diversified range of institutions which are at least investment grade credit rated.

Derivatives: Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter ('OTC').

- OTC derivative contracts are subject to risk of failure of the counterparty. Forward currency contracts are entered into by the Fund's investment managers; this is particularly relevant to the Fund's currency overlay manager, Russell Investments and a number of private debt managers who hedge their currency exposure as a matter of course. These forward contracts are subject to credit risk in relation to the counterparties of the contracts. The responsibility for managing these contracts and counterparty risk rests with the managers. Counterparty management is evaluated as part of the due diligence process prior to appointing an investment manager.

Pooled Investment Arrangements

The Fund also invests in pooled investment vehicles and is therefore directly exposed to credit risk arising from these pooled fund investment vehicles and is indirectly exposed to credit risk arising on the underlying investments held by a number of these pooled fund investment vehicles. Direct credit risk from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements.

The Fund's holdings in pooled investment vehicles are not rated by credit rating agencies with the exception of the Sterling Liquidity Fund and the SSGA Liquidity Fund. Both seek to obtain and maintain a AAA rating from at least one of the internationally recognised rating agencies – S&P, Moody's and Fitch. Cash held by the pooled managers' custodians is not ring-fenced but the credit risk arising on this is mitigated by the use of regular cash sweeps (typically daily) and investing cash in liquidity funds. The Pensions Committee manages and monitors the credit risk arising from its pooled investment arrangements by considering the nature of the arrangement, the legal structure and regulatory environment.

A summary of the pooled investment vehicles by type of arrangement is as follows:

Fund	Collective Investment Fund type
Stewart Investors Emerging Market Equity	Investment Company of Variable Capital ('ICVC')
Ownership Global Equity	Common Contractual Fund ('CCF')
Brunel Low Volatility Equity	Authorised Contractual Scheme ('ACS')
Robeco SEVE	
Wellington Global Targeted Return Bonds	Luxembourg SICAV
LGIM Low Carbon Equity	Unit-linked insurance policy
LGIM Buy and Maintain Bonds	
LGIM Fixed Interest Gilts	
LGIM Sterling Liquidity Fund	
Palatine Impact Fund	UK Limited Partnership
DBL Partners III	US Limited Partnership

Generation Climate Solutions Fund	Cayman Islands Limited Partnership
Barings North America PL Fund	
Ambienta III	Luxembourg Limited Partnership
Arcmont Direct Lending UK Fund	
Arcmont Senior Lending Fund	
Arcmont Direct Lending III	
Generation Credit Feeder Fund LP III	UK Limited Partnership
Permira Credit Solutions III	Luxembourg Sarl
Bridges Property Alternatives Fund III	UK Limited Partnership
Bridges Property Alternatives Fund IV	UK Limited Partnership
State Street Liquidity Fund	OEIC UCITS

For pooled funds held with Legal & General, investments backing unit-linked insurance contracts are commingled with Legal & General Assurance (Pensions Management) Limited's ('PMC's') own assets; however, PMC is ring-fenced from L&G's wider business including their insurance businesses. Direct credit risk is mitigated by capital requirements and the Prudential Regulatory Authority's regulatory oversight. In the event of default by PMC, the Scheme may be protected by the Financial Services Compensation Scheme ('FSCS') and may be able to make a claim for 100% of its policy value, although noting that compensation is not guaranteed and may not apply to all funds accessed via PMC.

The Pensions Committee carries out due diligence checks on the appointment of new pooled investment managers and, in conjunction with its investment advisor, periodically reviews the investment managers.

Indirect credit risk arises in relation to underlying investments held in the pooled bond investment vehicles including the LGIM Buy and Maintain and Wellington Global Targeted Returns Funds. Indirect credit risk is managed by investing in pooled funds that are well diversified and predominantly invest in at least investment grade corporate bonds.

Credit risk also arises from the private debt, private equity and real asset portfolios. This risk is also mitigated through the use of a range of managers across several funds with the real asset portfolio limiting exposure to any single asset class and issuer. The impact of credit default within each is minimised through the use of multiple managers for each portfolio.

2. Market Risk

a. Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund is subject to currency risk because of an interest in pooled investment vehicles which are denominated or priced in a foreign currency (i.e. a currency other than sterling).

Indirect currency risk arises from the Scheme's investment in sterling priced pooled investment vehicles which hold underlying investments denominated in foreign currency. Most of the Fund's currency risk is through exposure to overseas equities, which are exposed to a complex range of risk factors of which currency is only one. There may also be some indirect currency exposure in the Fund's sterling denominated assets, but these are impossible to quantify. The Fund's currency risk is routinely monitored by the Pensions Committee and its investment advisors.

To manage currency risk the Fund employs Russell Investments to provide currency overlay services for a number of the underlying funds including the Townsend Real Assets portfolio & Generation Credit Feeder Fund III and Barings North America PL Fund. Equity mandates and other mandates with overseas currency exposure may not be hedged as the underlying managers have discretion to use currency exposures as part of the funds' investment strategies.

The Fund is also exposed to direct/indirect currency risk through is holdings of US dollar and euros as part of the State Street cash funds.

The tables below show the high-level fund structures for each mandate and set out the non-GBP currency exposures including which proportion of this is hedged back to GBP.

31 March 2020

Manager and fund(s)	Pooled / Segregated	GBP exposure (%)	Non-GBP exposure (%)	Non-GBP exposure hedged back to GBP (%)	Implied unhedged overseas currency exposure (£m)
Robeco Private Equity	Segregated	-	100.0	-	29.2
Targeted Opportunities Portfolio (see below)	Pooled	41.3	58.7	-	64.6
Comgest Emerging Market Equity	Segregated	-	-	-	-
Stewart Investors Emerging Market Equity	Pooled	-	-	-	-
Generation Global Equity	Segregated	3.3	96.8	0.8	389.3
Impax Global Equity	Segregated	10.5	89.5	-	94.0
Brunel Low Carbon Equity	Pooled	4.9	95.1	-	195.8
Ownership Global Equity	Pooled	-	100.0	-	186.6
Brunel Low Volatility Equity	Pooled	13.1	86.9	-	-
Robeco SEVE	Pooled	7.1	92.9	-	104.4
Townsend Real Assets	Segregated	53.4	46.6	100.0[1]	-
Private Debt portfolio (see below)	Segregated	25.1	74.9	54.5	10.6
Wellington Global Targeted Return Bonds	Pooled	(0.4)	100.4	1.7	9.1
LGIM Buy and Maintain Bonds	Pooled	80.3	19.7	-	-
Royal London Corporate Bonds	Segregated	99.7	0.3	0.3	-
LGIM Index Linked Gilts	Segregated	100.0	-	-	-
LGIM Fixed Interest Gilts	Pooled	100.0	-	-	-
LGIM Sterling Liquidity Fund	Pooled	100.0	-	-	-
Cash*	Pooled	84.6	15.4		3.7
Total		**43.9**	**56.1**	**15.0**	**1,087.3**

[1]Russell Investments provide a currency hedge overlay for 100% of the non-GBP exposure for the Townsend Real Assets.

*Includes the USD, EUR & GBP sub funds of the State Street Liquidity Fund, excludes Natwest bank account.

Targeted Opportunities Portfolio – 2020

Manager and fund(s)	Pooled / Segregated	GBP exposure (%)	Non-GBP exposure (%)	Non-GBP exposure hedged back to GBP (%)	Implied unhedged overseas currency exposure (£m)
Palatine Impact Fund	Pooled	100.0	0.0	00.0	0.0
DBL Partners III LP	Pooled	0.0	100.0	0.0	18.4[1]
Actis Energy Fund IV	Pooled	0.0	100.0	0.0	11.5[1]
Bridges Property Alternatives Fund III	Segregated	100.0	0.0	0.0	0.0
Bridges Property Alternatives Fund IV	Segregated	100.0	0.0	0.0	0.0
Ambienta III	Pooled	0.0	100.0	0.0	4.0
Generation Climate Solutions Fund*	Pooled	(0.4)	100.4	0.0	30.6[1]

[1]Converted at 31 March 2020 GBP-USD exchange rate.

Private Debt Portfolio – 2020

Manager and fund(s)	Pooled / Segregated	GBP exposure (%)	Non-GBP exposure (%)	Non-GBP exposure hedged back to GBP (%)	Implied unhedged overseas currency exposure (£m)
Permira Credit Solutions III	Pooled	43.4	56.6	100.0	0.0
Arcmont Direct Lending UK Fund	Pooled	31.0	69.0	68.0	1.1
Arcmont Senior Loan Fund	Pooled	36.0	64.0	63.0	3.3
Arcmont Direct Lending Fund III	Pooled	8.0	92.0	89.0	6.2
Generation Credit Feeder Fund III[2]	Pooled	10.3	89.7	100.0[1]	0.0
Barings North America PL Fund	Pooled	0.0	100.0	100.0[1]	0.0

[1]There is additional currency hedging of overseas exposure in the Private Debt portfolios which are not hedged at the manager level. These are denoted above.

[2]Provisional figures as at 31 December 2019.

31 March 2019

Manager and fund(s)	Pooled / Segregated	GBP exposure (%)	Non-GBP exposure (%)	Non-GBP exposure hedged back to GBP (%)	Implied unhedged overseas currency exposure (£m)
Robeco Private Equity	Segregated	0.0	100.0	0.0	35.7
Targeted Opportunities Portfolio (see below)	Pooled	38.9	61.1	0.0	46.3
Comgest Emerging Market Equity	Segregated	3.4	96.6	0.0	114.8
Stewart Investors Emerging Market Equity	Pooled	11.9	88.1	0.0	101.4
Generation Global Equity	Segregated	2.3	97.7	0.0	434.0
Impax Global Equity	Segregated	9.8	90.2	0.0	103.0
Brunel Low Carbon Equity	Pooled	3.0	97.0	0	209.2
Ownership Global Equity	Pooled	5.1	94.9	0	176.2
Brunel Low Volatility Equity	Pooled	6.4	93.6	46.8[1]	151.8
Robeco SEVE	Pooled	7.2	92.8	0.0	141.7
Townsend Real Assets	Segregated	51.4	48.6	100.0[1]	0.0
Private Debt portfolio (see below)	Pooled	28.0	72.0	50.8	4.6
Wellington Global Targeted Return Bonds	Pooled	(0.4)	100.4	0.1	0.3
LGIM Buy and Maintain Bonds	Pooled	79.7	20.3	0.0	0.0
Royal London Corporate Bonds	Segregated	99.9	0.1	0.1	0.0
LGIM Index Linked Gilts	Segregated	100.0	0.0	0.0	0.0
LGIM Fixed Interest Gilts	Pooled	-	-	-	-
Cash*	Pooled	98.2	1.8	0	0.4
Total		**36.6**	**63.4**	**17.6**	**1,519.3**

[1]Russell Investments provide a currency hedge overlay for 100% of the non-GBP exposure for the Townsend Real Assets and 50% of the non-GBP exposure for the Brunel Low Volatility Equity Fund.
*Excludes monies held in NatWest Trustee Bank Account

Targeted Opportunities Portfolio – 2019

Manager and fund(s)	Pooled / Segregated	GBP exposure (%)	Non-GBP exposure (%)	Non-GBP exposure hedged back to GBP (%)	Implied unhedged overseas currency exposure (£m)
Palatine Impact Fund	Pooled	100.0	0.0	0.0	0.0
DBL Partners III LP	Pooled	0.0	100.0	0.0	12.6[1]
Actis Energy Fund IV	Pooled	0.0	100.0	0.0	8.4[1]
Bridges Property Alternatives Fund III	Pooled	100.0	0.0	0.0	0.0
Bridges Property Alternatives Fund IV	Pooled	100.0	0.0	0.0	0.0
Ambienta III	Pooled	0.0	100.0	0.0	0.8
Generation Climate Solutions Fund	Pooled	0.8	99.2	0.0	24.6[1]

[1]Converted at 31 March 2019 USD-GBP exchange rate

Private Debt Portfolio - 2019

Manager and fund(s)	Pooled / Segregated	GBP exposure (%)	Non-GBP exposure (%)	Non-GBP exposure hedged back to GBP (%)	Implied unhedged overseas currency exposure (£m)
Permira Credit Solutions III	Pooled	43.3	56.7	100.0	0.0
Arcmont Direct Lending UK Fund	Pooled	41.0	59.0	59.0	0.0
Arcmont Senior Loan Fund	Pooled	43.0	57.0	56.0	1.3
Arcmont Direct Lending Fund III	Pooled	11.0	89.0	87.0	3.3
Generation Credit Feeder Fund III[2]	Pooled	4.4	95.6	100.0[1]	0.0
Barings North America PL Fund	Pooled	0.0	100.0	100.0[1]	0.0

[1]There is additional currency hedging of overseas exposure in the Private Debt portfolios which are not hedged at the manager level. These are denoted above.
[2]As at 31 December 2018 as this Fund only provides reporting on a semi-annual basis.

b. Interest Rate Risk

The Fund is subject to interest rate risk on its assets because some of the Fund's investments are held in bonds and cash, either as segregated investments or through underlying investments held in pooled investment vehicles. Indirect market risk arises if the underlying investments of the pooled vehicle are exposed to interest rate or other price risks. We have considered indirect risks in the context of the investment strategy.

The Fund maintains a strategic allocation of 11.5% to fixed interest and index linked government bonds, as well as an allocation to corporate bonds of 22%. Together these help to match the sensitivities of the liabilities to interest rate and inflation movements. Under the Fund's investment strategy, if interest rates fall, the value of these matching assets are broadly expected to rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, these matching assets are broadly expected to fall in value, as will the actuarial liabilities because of an increase in the discount rate. The Fund plans to introduce a more complex matching strategy through the use of Liability Driven Investments (LDI) going forwards.

At year-end, the defensive portfolio target allocations was 34.5% of the total investment portfolio (for 2019 the equivalent figures was 28%).

Interest Rate Sensitivity Analysis

	Duration	
	As at 31 March 2020	As at 31 March 2019
LGIM Fixed Interest Gilts	21.3	n/a
LGIM Index Linked Gilts	29.5	29.4
RLAM Corporate Bonds	8.2	8.0
LGIM Corporate Bonds	8.1	8.1

c. Other Price Risk

Other price risk arises principally in relation to the Fund's growth asset portfolio which includes listed & private equities, investment property, infrastructure and an absolute return fixed income allocation, held either as segregated investments or through underlying investments held in pooled investment vehicles.

The Fund has set a target asset allocation of 65.5% (2019: 72%) of investments being held in growth investments. The Fund manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

The following is a summary of the risk exposures by Fund:

	Credit Risk	Market Risk		
		Currency Risk	Interest Rate Risk	Other Price Risk
Robeco Private Equity		✓		✓
Targeted Opportunities Portfolio		✓		✓
Comgest Emerging Market Equity		✓		✓
Stewart Investors Emerging Market Equity		✓		✓
Generation Global Equity		✓		✓
Impax Global Equity		✓		✓
LGIM Low Carbon Equity		✓		✓
Ownership Global Equity		✓		✓
Brunel Low Volatility Equity		✓		✓
Robeco SEVE		✓		✓
Townsend Real Assets	✓	✓	✓	✓
Private Debt portfolio	✓	✓	✓	
Wellington Global Targeted Return Bonds	✓	✓	✓	✓
LGIM Buy and Maintain Bonds	✓	✓	✓	
Royal London Corporate Bonds	✓	✓	✓	
LGIM Index Linked Gilts			✓	
LGIM Fixed Interest Gilts			✓	
LGIM Sterling Liquidity Fund	✓		✓	
State Street Liquidity Fund	✓	✓	✓	

Appendix

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisers, the Fund has determined that the following movements in market price risk are reasonably possible for the 2019/20 reporting period. This gives an overall fund volatility of 10.7% (2019: 10.2% using assumptions provided by the investment consultant as at 31 March 2019).

Asset Class	Absolute 1 year expected volatility (+/-)%	% of Fund value	
		2020	2019
Private Equity	36.5	3.5	3.1
Global Equity	21.1	36.5	38.9
Emerging Market Equity	30.3	0.0	6.0
Real Assets	-	12.2*	11.4*
Property	*14.2*	*5.3*	*5.2*
Infrastructure	*17.0*	*4.3*	*4.1*
Commodities	*20.6*	*1.9*	*1.7*
Private Debt	9.2	4.5	4.2
Absolute Return	3.2	8.3	7.9
Corporate Bonds	7.0	19.1	18.3
Index Linked Gilts	9.4	10.2	9.7
Fixed Interest Gilts	13.9	4.9	0.0
Cash	0.0	0.8	0.5
Total Fund Volatility	**10.7**	**100**	**100**

*Includes allocation to cash within the portfolio.

The potential price changes disclosed above are expected one-year absolute standard deviations of the returns of the asset classes.

Had the market price of the Fund investments increased or decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown as well):

	As at 31 March 2020	As at 31 March 2019
Total net investment assets (£000)	3,591,336	3,688,240
Percentage change (%)	10.7	10.1
Value on increase (£000)	3,975,250	4,060,752
Value on decrease (£000)	3,207,422	3,315,728

18. Funding arrangements

In line with the Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019. The next valuation will take place as at 31 March 2022.
The key elements of the funding policy are as follows:

- ensure that sufficient resources are available to meet all benefits as they fall due for payment;
- recover any shortfall in assets, relative to the value of accrued liabilities, broadly over the future working lifetime of current employees;
- enable the employer contributions to be kept as stable as possible and at reasonable cost, whilst achieving and maintaining fund solvency, which should be assessed in light of the risk profile of the Fund and the risk appetite of the administering authority and employers;
- manage the employer's liabilities effectively; and
- maximise the returns from investments within reasonable risk parameters.

The Funding Strategy Statement (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.

At the 2019 actuarial valuation, the Fund was assessed as 106% funded (103% at the March 2016 valuation). This corresponded to a surplus of £211m (2016 valuation: surplus of £89m) at that time.

The following table shows the minimum contributions payable after allowing for discretionary lump sum payments paid to the fund by NRW in March 2020.

Employer name	Minimum contributions for the year ending: 31 March 2021	
	% pay	Monetary amount
EA	14.5	£15,596,000
NRW	0.0	£nil
SSCL	22.7	£nil

Full details of the contribution rates payable can be found in the revised Rates and Adjustment certificate (dated 12 May 2020) and the FSS (dated 18 December 2019).

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

Financial assumptions

Financial assumptions	% per annum	Description
Investment Return (Discount Rate)	3.1	Return estimated to be achieved by the Fund's investments over 20 years with a likelihood of 78%
Adjusted Retail Price Inflation (RPI)	3.0	The difference between yields on fixed and index-linked Government bonds at the valuation date less 0.3% p.a. in respect of the inflation risk premium
Salary Increases*	2.5	CPI inflation plus 0.5% (with the adjustment applied geometrically)
Pension Increases	2.0	CPI inflation (assumed to be 1% less than RPI inflation with the adjustment applied geometrically)

*An allowance is also made for promotional pay increases.

Longevity assumptions

Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2018 model assuming that the current rate of improvement has reached a peak and will converge to the long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

Pensioners	Males	Females
Current pensioners	21.9 years	23.8 years
Future pensioners *	22.9 years	25.5 years

* Figures assume members are aged 45 as at 31 March 2019

Commutation assumption

It is assumed that future retirees will take 50% of the maximum additional tax free lump sum up to HMRC limits.

19. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the Pension Fund liabilities on an IAS19 basis every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18). The actuary has also valued ill health and death benefits in line with IAS19.

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 £3,755m (2019: £4,422m). The figure is only prepared for the purposes of IAS19 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.

The assumptions used are the same as those adopted for the Environment Agency's IAS19 report.

Financial assumptions

Year ended	31 March 2020 % p.a.	31 March 2019 % p.a.
Inflation/Pensions increase rate	1.6	2.2
Salary increase rate	2.1	2.5
Discount rate	2.3	2.4

Demographic assumptions

The demographic assumptions (including longevity) used to determine the actuarial present value of promised retirement benefits as at 31 March 2020 are those adopted for the formal actuarial valuation as at 31 March 2019.

The actuary has estimated the impact of the change of demographic and longevity assumptions to 31 March 2019 as a decrease to the actuarial present value of £105m. The actuary has also estimated the impact of the change of financial assumptions to 31 March 2019 as a decrease to the actuarial present value of £464m.

IAS26: Accounting and reporting by retirement benefit plans

CIPFA's Code of Practice on Local Authority Accounting 2019/20 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. As scheme actuary I have been instructed by the Administering Authority to provide the necessary information for the Environment Agency Active Fund ('the Fund').

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

Present value of promised retirement benefits

Year ended	31 March 2020	31 March 2019
Active members (£m)	1,793*	2,613
Deferred members (£m)	643	631
Pensioners(£m)	1,319	1,178
Total (£m)	**3,755**	**4,422**

* *including £22m for the estimated impact of the McCloud judgement*

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

Note that the above figures at 31 March 2020 include an allowance for the 'McCloud ruling', i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes. This estimate has been revised compared to the previous year to allow for the qualifying member criteria proposed in the MHCLG consultation issued in July 2020. The figures also include an allowance for the 'Goodwin' case which could affect the dependant benefits of female members.

The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the Pension Fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2020 and 31 March 2019. I estimate that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £464m. I estimate that the impact of change in demographic and longevity assumptions is to decrease the actuarial present value by £105m.

Financial assumptions

Year ended	31 March 2020 % p.a.	31 March 2019 % p.a.
Pensions Increase Rate	1.6	2.2
Salary Increase Rate	2.1	2.5
Discount Rate	2.3	2.4

Longevity assumptions

Life expectancy is based on the Fund's Vitacurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.9 years	23.8 years
Future pensioners*	22.9 years	25.5 years

* Assumed to be aged 45 at latest formal valuation

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

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 2008 service and 50% of the maximum tax-free cash for post-April 2008 service.

Sensitivity analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to assumptions 31 March 2020	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% increase in the Pension Increase rate	9	329
0.5% increase in the Salary Increase rate	2	82
0.5% increase in the Real Discount rate	11	416

The principal demographic assumption is the longevity assumption. For sensitivity purposes, the actuary estimates that a 1 year increase in life expectancy would approximately increase the liabilities by around 3%.

20. Current assets

	2020 £000	2019 £000
Debtors		
VAT to be reimbursed to the Fund	6,256	4,919
Contributions due – employers	4,689	3,926
Contributions due – employees	2,162	1,930
Sundry – amount due from Closed Fund/Bank interest	169	72
Overpaid benefits to be refunded to the Fund	14	-
	13,290	**10,847**
Cash at bank	**16,068**	**9,206**
Total	**29,358**	**20,053**

Analysis of debtors

- Employers' and employees' contributions of £4,689,000 and £2,162,000 (2019: £3,926,000 and £1,930,000) respectively outstanding in the normal course of collection at the year end and subsequently paid over within the statutory time limit.
- £169,000 is due from the Environment Agency Closed Fund (2019: £72,000) in respect of administration expenses and VAT reclaimed.

21. Current liabilities

	2020 £000	2019 £000
Creditors		
Administration and investment expenses	(13,895)	(18,341)
Benefits payable*	(1,648)	(1,014)
PAYE	(878)	(857)
Other – amount due to Closed Fund	(75)	-
Tax payable on refunds	(36)	(12)
Total	**(16,532)**	**(20,224)**

*£61,800 is included under benefits payable in respect of members who, after the abolition of Additional State Pension on 6 April 2016, did not have full indexation applied to their Guaranteed Minimum Pensions ('GMP') built up in the period 6 April 1978 and 5 April 1988. These arrears were paid to the members in June 2020 and represent the full amount of backdated benefits due in respect of the period 6 April 2016 to 30 June 2020.

22. Additional Voluntary Contributions

The table below shows information about these separately invested AVCs.

	2020 £000	2019 £000
Standard Life	3,651	3,946
Prudential	4,396	3,701
Clerical Medical	1,808	1,997
Upmost Life (formerly The Equitable Life Assurance Society)*	749	845
Total AVC investments	**10,604**	**10,489**

*On 1 January 2020, AVC investment policies held with The Equitable Life Assurance Society were wholly transferred to Utmost Life and Pensions Limited under a Scheme of Arrangement and Transfer agreement.

In accordance with Regulation 4(2)(b) of the Pension Scheme (Management and Investment Funds) Regulation 2009, the contributions paid and the assets of these investments are not included in the Fund's accounts. The AVC providers secure benefits on a money purchase basis for those members electing to buy AVCs. Members of the AVC schemes each receive an annual statement confirming the amounts held in their account and the movements in the year. The Fund relies on individual contributors to check that deductions are accurately reflected in the statements provided by the AVC provider.

23. Related party transactions

During the year ended 31 March 2020 there have been the following related party transactions:

- Pensions administration costs of £639k (2019: £431k) were recharged to the Active Fund by the Environment Agency;
- Eight members of the Pensions Committee are contributing members of the Active Fund who pay contributions on an arm's length basis;
- One member of the Pensions Committee is a deferred member of the Active Fund;
- One member of the Pensions Committee is in receipt of a pension from the Active Fund which is received on an arm's length basis;
- Payment of unfunded liabilities of £380k (2019: £372k) recharged to the Environment Agency and funded by grant-in-aid from Defra in respect of compensatory added years;
- £169k is due from the Environment Agency Closed Fund (2019: £72k due from the Environment Agency Closed Fund) in respect of administration expenses and VAT reclaimed. The Closed Fund is a sister scheme to the Active Fund and further details about this fund are shown in Annex 6 on page 182;
- Brunel Pensions Partnership Ltd (BPP Ltd) was formed on the 18 July 2017 and will oversee the investment of pension fund assets for Avon, Buckinghamshire. Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire Funds;
- Each of these 10 local authorities, including the Environment Agency own 10% of BPP Ltd represented by the Long-term investment of £427k (2019: £395k). This was increased by £32k (2019: decreased by £445k) using the latest available valuation from the Brunel Pension Partnership Annual Report and Accounts as at 30 September 2019;
- The Environment Agency paid Brunel Pension Partnership £1,013k in the year, for its Investment Management services (2019: £735k); and
- The Environment Agency currently has two portfolio's with Brunel, a Low Carbon passive equities mandate valued at £205.8m (2019) £215.5m and a Low Volatility equity mandate valued at £296.3m (2019: £322.5m).

24. Capital commitments, contingent assets and contingent liabilities

In accordance with authorised investment strategy and mandates, the outstanding Capital commitments at 31 March 2020 are: Real Estate £110.47m (2019: £137.7m), Illiquid Credit £65.6m (2019: £111.3m) and Private Equity £54.3m (2019: £67.2m).

There are no contingent assets or contingent liabilities as at 31 March 2020.

25. Impairment losses

For the year to 31 March 2020 the Fund has recognised an impairment loss of less than £0.1m (2019: less than £0.1m) for the non-recovery of pensioner death overpayments.

26. IAS10: Authorisation for issue

The Environment Agency Active Pension Fund Annual Report and Financial Statements are laid before the Houses of Parliament by Defra. In accordance with IAS10 these financial statements have been authorised for issue by the Accounting Officer on the same date as the Comptroller and Auditor General's audit certificate.

The annexes

The annexes included within this report are unaudited.

Annex 1 – Scheme rules and benefits

On 1 April 2014 the Scheme rules and benefits became subject to the Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

Scheme membership and income

(a) All Fund employees are eligible for membership of the Local Government Pension Scheme (LGPS) (excluding Environment Agency Board members and those employees who are eligible to join another public service pension scheme) providing they are under the age of 75 and have a contract of employment that is valid for at least 3 months. If it is for less than 3 months and they are, or during that period become, an 'Eligible Jobholder' they will be brought into the scheme from either:

- The automatic enrolment date (unless their employer issues a postponement notice to delay entry to the scheme for up to a maximum of 3 months); or
- The beginning of the pay period after the one in which the contract is extended or the employee opts to join the scheme or their contract is extended to be for 3 or more months.

Members' contributions are deducted from pensionable pay and the rate is dependent on the value of the actual permanent pensionable earnings they are paid. The rate the member pays depends on which earnings band the member falls into and the section of the scheme they choose to be in. The contribution rate will fall between 5.5% and 12.5% of permanent pensionable earnings if the member chooses to be in the Main Section and half this amount if they choose to be in the 50:50 Section.

Subject to limits set by the Her Majesty's Revenue and Customs (HMRC), members can:

- Pay additional voluntary contributions (AVCs) with one of the Environment Agency In-House providers (Standard Life or Prudential) to buy a larger retirement pension, to improve other specific benefits or to provide additional cash, or EAPF membership for pension purposes (if the employee has continuously paid additional voluntary contributions since before 13 Nov 2001).
- Purchase additional Environment Agency Pension Fund pension.

The Environment Agency Pension Fund also has AVC membership in Equitable Life and Clerical Medical but these are now closed to new members.

(b) Transfer payments for pension rights in almost any other scheme can be accepted by the Environment Agency Pension Fund to increase benefits, providing the member requests the transfer payment within 12 months of joining the Environment Agency Pension Fund (or such a longer date that the Fund employer or Environment Agency Pension Fund allows).

(c) The Fund employer must make the balancing contribution required to keep the Fund solvent, having regard to existing and prospective liabilities. This is usually determined as a percentage of the members' pensionable pay by the Consulting Actuary following each triennial actuarial valuation of the Fund.

(d) The Fund employer is required to fund any discretionary award of pension by making up front payments into the Fund.

(e) Monies not immediately required for the payment of benefits and other outgoings have to be invested in accordance with the provisions of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Outline of pension benefits provided by the LGPS

	Before 1 April 2008	1 April 2008 to 31 March 2014	From 1 April 2014
Basis of pension	Final salary	Final salary	Career Average Revalued Earnings (CARE)
Pension build up rate	1/80th final salary for each year	1/60th final salary for each year	1/49th (Main Section) 1/98th (50:50 Section)
Revaluation rate	Final salary		Consumer Price Index
Pensionable pay	Pay excluding non-contractual overtime and non-pensionable additional hours		Pay including non-contractual overtime and non-pensionable additional hours
Lump sum	3/80ths (+ commutation 12:1)	No automatic lump sum (commutation 12:1)	
Ill health retirements	One tier	Three tiers	
Death benefits • In-service • In-deferment or on pension	• 2 x salary • 5 year guarantee	• 3 x salary • 10 year guarantee	• 3 x assumed pensionable pay • 10 year guarantee
Contribution rate (see table below)	Flat rate of 6%	7 contribution bands 5.5% to 7.5% Bands index linked	9 contribution bands 5.5% to 12.5% (Main Section) 2.75% to 6.25% (50:50 Section) Bands index linked
Early retirement	From age 50 (either redundancy or employee request)	From age 55 (either redundancy or employee request)	
Voluntary retirement	from age 55 but with reductions		
85 year rule	Early payment protection when combined age and service equals 85	Removed but existing staff have retained protections	
Normal retirement age	Age 65	Age 65	State Pension Age (minimum age 65)

Contributions Table

The following table displays the 2019/20 employee contribution bands.

Pay range (based on actual Pensionable pay paid)	Contribution rate Main Section	Contribution rate 50:50 Section
Up to £14,600	5.50%	2.75%
£14,601 to £22,800	5.80%	2.90%
£22,801 to £37,100	6.50%	3.25%
£37,101 to £46,900	6.80%	3.40%
£46,901 to £65,600	8.50%	4.25%
£65,601 to £93,000	9.90%	4.95%
£93,001 to £109,500	10.50%	5.25%
£109,501 to £164,200	11.40%	5.70%
£164,201 or more	12.50%	6.25%

Changes to the Local Government Regulations during 2019/20

There was one Order made by HM Treasury and two amending regulations laid during 2019/20 by Ministry for Housing, Communities and Local Government (MHCLG) that made changes to the Local Government Pension Regulations 2013:

- The Finance Act 2004 (Specified Pension Schemes) Order (SI 2019/1425)

  This amendment expanded the definition of a public service pension scheme to include a pension scheme established by or under any enactment of a country or territory other than the United Kingdom.

- The Local Government Pension Scheme (Amendment) Regulations 2019 (SI 2019/1449)

  This amendment covered the extension of civil partnership to opposite-sex couples and ensured that the pension payable was aligned to the pension payable to the survivor of an opposite-sex marriage.

- The Local Government Pension Scheme (Amendment) Regulations 2020 (SI 2020/179)

  This amendment created a discretion for administering authorities to determine the amount of exit credit that should be payable to an employer leaving the Local Government Pension Scheme and applies to any exit credit that is to be paid on or after 20 March 2020.

Other significant legislative changes affecting LGPS during 2019/20

On 26 March 2020 the Economic Secretary to the Treasury made a Written Ministerial Statement outlining the government's approach to addressing the unlawful age discrimination identified by the Court of Appeal when the public service pension schemes were reformed in 2015 (2014 for the Local Government Pension Scheme in England and Wales).

This Statement confirmed that technical discussions commenced in February 2020 and all affected members, not just claimants, will be given a choice as to whether they accrue service in the legacy or reformed schemes for periods of relevant service, depending on what is better for them. The government will provide more detail later in the year, but if an individual's pension circumstances change as a result, the government may also need to consider whether previous tax years back to 2015-16 should be re-opened in relation to their pension service in the legacy or reformed schemes for periods of relevant service, depending on what is better for them. The government will provide more detail later in the year, but if an individual's pension circumstances change as a result, the government may also need to consider whether previous tax years back to 2015-16 should be re-opened in relation to the revised pension savings made.service in the legacy or reformed schemes for periods of relevant service, depending on what is better for them. The government will provide more detail later in the year, but if an individual's pension circumstances change as a result, the government may also need to consider whether previous tax years back to 2015-16 should be re-opened in relation to their pension.

On 13 March 2020, the Chief Secretary to the Treasury confirmed that the government intends to publish a response to last year's consultation on implementing a £95K cap on the exit payments a public sector worker can receive and ensure that legislation is brought forward before the summer recess, providing parliamentary time allows.

Annex 2 – Funding Strategy Statement

1. Introduction

What is this document?

This is the Funding Strategy Statement (FSS) of the Environment Agency Active Pension Fund ('the Fund'), which is administered by the Environment Agency on behalf of the Environment Agency Pensions Committee ('the Administering Authority').

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 18 December 2019.

What is the Environment Agency Active Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS).

The Environment Agency Active Fund was established as the National Rivers Authority Active Pension Fund in 1989 at the time of the privatisation of the water industry in England and Wales. The Fund inherited active members' accrued liabilities from the predecessor pension arrangements, but no pensioners or deferred pensioner liabilities. In 1996 it transferred to the Environment Agency and became the Environment Agency Active Pension Fund. Since then, the Fund has been gradually maturing.

As at 31 March 2019, the Active Fund contained 10,932 active members, 6,940 pensioners and 8,463 deferred pension members whose benefits have yet to come into payment.

The Active Fund has three participating employers – the Environment Agency (EA), Natural Resources Wales (NRW) and Shared Services Connected Ltd (SSCL).

The Administering Authority runs the Environment Agency Active Pension Fund to make sure it:

- Receives the proper amount of contributions from employees and employers, and any transfer payments.
- Invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth.
- Uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- The LGPS Regulations;
- The Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report.
- The Fund's policies on admissions, cessations and bulk transfers.
- Actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service.
- The Fund's Investment Strategy Statement.

How does the Fund and this FSS affect me?

This depends on who you are:

- A member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full.
- An employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund.

What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- To ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment.
- To ensure that employer contribution rates are reasonably stable where appropriate.
- To minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return.

- To reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years.
- To use reasonable measures to reduce the risk to other employers and ultimately to the UK tax payer from an employer defaulting on its pension obligations.

How do I find my way around this document?

There is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time. Then we outline how the Fund calculates the contributions payable by different employers in different situations. We show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

a) the regulatory background, including how and when the FSS is reviewed,

b) who is responsible for what,

c) what issues the Fund needs to monitor, and how it manages its risks,

d) some more details about the actuarial calculations required,

e) the assumptions which the Fund actuary currently makes about the future.

Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

How does the actuary measure the required contribution rate?

In essence this is a three step process:

a) Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target.

b) Determine the time horizon over which the employer should aim to achieve that funding target. See the table in section 3 and Note (d) below for more details.

c) Determine a contribution strategy that has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See below, and the table in section 3 Note (e) for more details.

What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the 'Primary rate', and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the 'Secondary rate'. In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the 'time horizon'). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

How does the contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

Funding target

The funding target is based on a set of assumptions about the future (e.g. investment returns, inflation, pensioners' life expectancies).

For employers open to new entrants a long-term view is taken to determine the funding target. In particular, the investment return assumption makes an allowance for anticipated returns from equities and other assets held by the Fund being in excess of UK Government bonds (gilts) over the long term. For the 2019 valuation, it was assumed that the Fund's assets will, over the long-term, deliver an average additional return of 1.6% a year in excess of the return available from investing in index-linked gilts. This is known as the 'ongoing' funding basis.

The EA (including SSCL by virtue of their risk-sharing agreement – see Section 3 note (c)) was funded on the ongoing funding basis at the 2019 valuation date.

If an employer that is closed to new entrants is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation. This basis is known as the 'gilts cessation' basis and does not make any allowance for the outperformance of the Fund's assets above the rate of return on long dated index-linked gilts. Furthermore, the gilts cessation basis allows for future improvements in life expectancy in excess of those assumed under the ongoing funding assumptions.

NRW was funded on the gilts cessation basis at the 2019 valuation.

Time horizon

The time horizon required is the period over which the funding target is to be achieved. A shorter period will lead to higher contributions, and vice versa (all other things being equal).

When considering the adequacy of funding for employers that are open to new entrants (other than those open employers that participate in the Fund for a fixed period), the primary focus of the Pension Committee should be on the long-term because:

- liabilities are paid over a long period, rather than crystallising on a single day;
- market prices of assets with growth potential can be volatile;
- pension liabilities are significant compared to the employer's payroll.

The EA's contribution strategy was determined using a 20 year time horizon (from 1 April 2020) at the 2019 valuation.

For employers that are closed to new entrants, the Pensions Committee has regard to each employer's likely remaining period of participation in the Fund.

As a closed employer, the funding objective for NRW is to be 100% funded on the gilts cessation basis by the time the last active member leaves, triggering a cessation event (see section 3 note (c) for more details). For contribution setting purposes, a 20 year time horizon (from 1 April 2020) has been modelled. In practice, NRW's cessation date is expected to be beyond this time horizon.

Likelihood of achieving the funding target

The likelihood of achieving the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The EA and NRW are secure employers with a Government guarantee. The Pensions Committee have settled on contribution strategies for both employers that are expected to meet their respective funding targets with a 78% probability of success. At the 2019 valuation, the Pensions Committee has agreed this higher likelihood of success threshold as a 'buffer' against risks which are not directly captured by the contribution modelling such as Climate Change, the McCloud case, Brexit and the LGPS Cost Cap.

Other factors affecting contributions

Any costs of non-ill health early retirements must be paid by the employer, see 3.5. Costs of ill health early retirements are covered in 3.5 also.

How is a funding level calculated?

An employer's 'funding level' is defined as the ratio of:

- The market value of the employer's share of assets (see Appendix D section D5, for further details of how this is calculated), to
- The value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the 'liabilities'). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's 'deficit'; if it is more than 100% then the employer is said to be in 'surplus'. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns). In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

How does the Fund balance the conflicting objectives of benefit security and contribution rate affordability?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services.

Whilst this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to former employees and their families after their death.
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees.
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund.
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates.
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees.

In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation, a longer time horizon, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However, it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The uncertainty over future benefits has been allowed for indirectly in employer contributions through the use of a higher likelihood of success, as mentioned above.

What approach has the Fund taken to dealing with uncertainty over the length of the LGPS valuation cycle?

On 8 May 2019 MHCLG issued a consultation seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

The Fund intends to carry out its next actuarial valuation in 2022 (3 years after the 2019 valuation date) in line with MHCLG's desired approach in the consultation. The Fund has therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

Calculating contributions for individual Employers

General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability hurdles can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section. The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore, the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- Their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions.
- Lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term.
- It may take longer to reach their funding target, all other things being equal.

Overleaf is a summary of how the main funding policies differ for the 3 employers currently participating in the EAPF, followed by more detailed notes.

The different approaches used for different employers

Employer	Environment Agency (EA)	Natural Resources Wales (NRW)	Shared Services Connected Limited (SSCL)
Funding Target Basis used	Ongoing funding basis (see Appendix E)	Gilts cessation basis	Ongoing funding basis (see Appendix E)
Primary rate approach	(see Appendix D – D.2)		
Method for assessing total contributions payable	Contribution Stability Overlay - see Note (a)	NRW funding arrangement – see note (b)	Risk sharing arrangement – see note (c)
Maximum time horizon – Note (d)	20 years	20 years (for assessment of Primary rate)	20 years (for assessment of Primary rate)
Treatment of surplus	Covered by Contribution Stabilisation	Covered by NRW funding arrangement	Covered by risk sharing arrangement

	Mechanism		
Probability of achieving target – Note (e)	76%	73%	N/A – see note (c)
Phasing of contribution changes	Covered by Contribution Stabilisation Mechanism	None	N/A
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, at regular intervals between valuations		
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (g).	As per note (g)	Covered by fixed rate arrangement

Note (a) Contribution Stabilisation Mechanism

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been 'stabilised' (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

Stabilisation in the Environment Agency Active Pension Fund is reserved for long, term secure open employers. At present, the EA is the only employer with a stabilised contribution rate.

On the basis of extensive asset liability modelling carried out for the 2019 valuation exercise, the stabilised details are as follows:

Employer	Environment Agency
Short term contribution increases	+0.5% p.a. in the year beginning 1 April 2020
Max contribution increase per year thereafter	+0.5% of pay
Max contribution decrease per year thereafter	-0.5% of pay

The stabilisation criteria and limits will be reviewed at the 31 March 2022 valuation, to take effect from 1 April 2023. However, the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes.

Note (b) NRW funding arrangement

NRW joined the Environment Agency Active Pension Fund on 1 April 2013. As an employer closed to new entrants, NRW's period of participation is finite and will cease when the last current active member leaves employment. At the 2013 valuation of the Fund, NRW were certified a contribution rate which aimed to target full funding on the ongoing basis over a period of 12 years (the estimated future working lifetime of the active membership at the time). In practice, an actual cessation event may not be for another 30-40 years.

Following the 2013 valuation, NRW indicated to the Fund that a fixed monetary contribution would be desirable as this would provide budgeting certainty. At the instruction of the Administering Authority, the Fund Actuary has carried out extensive asset liability modelling to determine a fixed level of contribution that would provide the Fund with the desired probability of funding success. As the employer will eventually be asked to meet a cessation payment assessed on the 'gilts cessation' basis, this been used as the funding target for the purpose of this modelling.

On the basis of the modelling carried out in 2016, a fixed annual contribution of £7m was agreed. This level of contributions is expected to continue until the point of cessation, subject to review at each actuarial valuation. The modelling carried out for the 2019 valuation confirmed that this arrangement was still appropriate, so the following fixed annual contributions are still in force:

Employer	Natural Resources Wales
Fixed annual contributions – 1 April 2020 to 31 March 2023	£7m
Fixed annual contributions – from 1 April 2023	Intended to remain at £7m but subject to regular review

The long term contributions of £7m p.a. are intended to be fixed from 1 April 2023 until the last active member leaves employment and a cessation event is triggered. Based on the modelling carried out by the actuary, the Administering Authority is comfortable that the payment of a fixed amount of £7m p.a. leads to a sufficiently high likelihood of NRW being fully funded on the gilts cessation basis in the long term. However, the Administering Authority will carry regular monitoring of progress against the funding objective to ensure NRW remains 'on track'. The Administering Authority reserves the right to change the level of fixed contribution in the event of a significant change in funding position or to the economic outlook, or a change in employer circumstances (e.g. a significant change in membership).

Note (c) Risk sharing arrangement

An Awarding Authority may enter into a 'risk sharing' arrangement with a participating employer (typically a contractor). A 'risk sharing' arrangement is defined whereby the contribution and/or cessation requirements of an employer have been altered through the implementation of a separate side agreement between the Awarding Authority and the employer. The terms of any 'risk sharing' arrangement will be documented appropriately (i.e. in a signed legal agreement) and shared with the Administering Authority.

The terms of separate 'risk sharing' arrangement may differ (for example, the rate payable by the participating employer could be fixed or capped in some way). In addition, the approach taken to certify contributions required from employers in respect of separate 'risk sharing' arrangements may also differ. The Administering Authority will ensure that the Rates and Adjustments (R&A) certificate reflects any specific 'risk sharing' arrangement in place between an Awarding Authority and a participating employer.

The Administering Authority reserves the right to veto any risk sharing proposal in the event that the terms of the proposal leads to undue risk on the Fund and its participating employers.

There is currently one risk sharing agreement between EAPF employers, which exists between SSCL and the EA. As per the terms of this agreement, SSCL will be certified to pay a total contribution rate of 22.7% of payroll throughout their period of participation in the Fund. On ceasing to participate in the Fund, no cessation debt will be payable and all assets and liabilities of this employer will revert to the EA.

Note (d) Maximum time horizon

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (e) Probability of achieving funding target

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term

The EA and NRW are secure employers with a Government guarantee. The Pensions Committee have settled on contribution strategies for both employers that aim to meet their respective funding targets with at least a 78% probability of success.

Note (f) Regular Reviews

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) Cessation of participating employers

An employer's participation in the Fund is generally assumed to be open-ended and to continue until all the benefits have been paid in full. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. Participation in the Fund can however be terminated at any point, subject to the terms of any admission agreement.

The Fund, however, considers any of the following as triggers for the termination of an admission agreement:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the employer;
- Any breach by the employer of any of its obligations under the agreement that they have failed to remedy to the satisfaction of the Fund;
- A persistent failure by the employer to pay any sums due to the Fund within the period required by the Fund, which leads to the accrual of arrears to a level deemed by the Fund to be significant; or
- The failure by the employer to renew or adjust the level of the bond or indemnity or to confirm an appropriate alternative guarantor as required by the Fund.

In addition, either party can voluntarily terminate the agreement by giving the appropriate period of notice to the other party.

If an employer ceased to participate in the Fund, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit or surplus.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example, for admission bodies whose participation is voluntarily ended either by themselves or the Fund, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future.

Where there is a guarantor, and the guarantor participates in the Fund, the cessation valuation will normally be calculated using an ongoing valuation basis appropriate to the investment strategy. Where a guarantor does not exist (or in the case where the guarantor does not participate in the Fund) then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a 'gilts cessation basis' with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis and could give rise to significant payments being required. These principles also apply to any employers that are not admission bodies.

Any shortfall would be levied on the departing admission body as a capital payment. Any surplus would be paid to the body as a lump sum exit credit in line with LGPS Regulations.

In the event that the Fund is not able to recover any required shortfall payment in full directly from the admission body or from any bond or indemnity or guarantor, then the unpaid amounts fall to be shared amongst all of the employers in the Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date.

Where the ceasing admission body is continuing in business, the Fund, at its absolute discretion, reserves the right to enter into an agreement with the ceasing admission body to accept an appropriate alternative security to be held against any funding deficit and to carry out the cessation valuation on an ongoing valuation basis. This approach would be monitored as part of each triennial valuation and the Fund reserves the right to revert to a 'gilts cessation basis' and seek immediate payment of any funding shortfall identified.

For those employers whose lifespan is limited (e.g. closed employers), the Administering Authority may seek to increase or reduce the employer's contributions to the Fund in the period leading up to cessation to target a position where the employer's assets are equal to their liabilities on an appropriate basis.

As discussed, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply a [x%] loading to the ceasing employer's post 2014 benefit accrual value, as an estimate of the possible impact of resulting benefit changes. We will agree how this works in practice separately.

Protection mechanisms

The Administering Authority has a duty to set prudent funding assumptions and protect the long term health of the Fund. The following table explains the key tools that have been used in the decision making process to arrive at the recommended set of assumptions.

	Tool	Description
1	Contribution stability a. Contribution stability overlay b. Contribution stability overlay safety check	Limit on annual changes in contributions for long term, secure employers (currently only the Environment Agency) of +/-0.5% of pay from April 2023 (contributions fixed at 2019/20 levels until then). Asset liability modelling was carried out to ensure that the likelihood of the employer achieving full funding with the contribution stability mechanism in place was sufficiently high.
2	NRW funding strategy c. Fixed annual contributions	Long term contributions for NRW have been set at £7m per annum.

	d. Fixed annual contributions check	Asset liability modelling was carried out to ensure that the likelihood of the employer achieving full funding on the 'gilts cessation' basis in the long term (20 years) was sufficiently high. Fixed annual contributions will be reviewed regularly (e.g. triennially) and tweaked as necessary.
3	Pay growth check	An annual check on the impact of pay awards on the value of accrued liabilities, compared to assumptions made at this actuarial valuation, will continue to be undertaken. Each employer will be able to pay additional top-up contributions at the Fund's discretion.
4	Time horizon	Determined separately for each participating employer by reference to the employer's circumstances and basis of participation in the Fund.

Funding for early retirement

Non Ill health retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill health. Each employer is required to pay a lump sum contribution whenever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members' benefits are payable from the earliest age that the employee could retire, on or after age 60, without incurring a reduction to their benefit and without requiring their employer's consent to retire.

Employees who joined the LGPS before 1 October 2006 (and are subject to Rule of 85 protections on their pre April 2008 benefits) but reach age 60 after 31 March 2020, plus all employees who joined after 1 October 2006 (and are assumed to retire before 1 April 2022), are assumed to take all of their benefits at age 65. Otherwise all benefits accrued will be payable at the member's State Pension Age (SPA). SPA is as per current legislation where the SPA is due to rise to 67 between 2026 and 2028 and to 68 between 2044 and 2046. The Government has indicated that further changes will be made to SPA, but as yet these are to be confirmed in legislation.

The additional costs of premature retirement are calculated by reference to these ages. Each employer is required to meet all costs of early retirement strain caused by early retirements other than on the grounds of ill health by immediate capital payments into the Fund.

Ill health monitoring

The Fund monitors employees' ill health experience on an ongoing basis. If the cumulative number of ill health retirements in any financial year exceeds the allowance at the previous valuation, the employer may, after the Administering Authority has consulted with the actuary, be charged additional contributions on the same basis as apply for other cases.

New employers participating in the Fund

The Fund currently has three participating employers. It is possible that more employers will join the Fund in future. There are a number of ways in which new bodies can participate in the LGPS, such as a scheduled body or an admission body.

In general, the following principles will apply when a new employer enters the Fund:

- Starting assets and liabilities will be notionally ring-fenced within the Fund and the funding level of the new employer tracked over time based on its own experience, cash flows in and out and membership movements.
- The new employer will have its own individual contribution rate separate from any other employer in the Fund and based on its own membership profile, with a time horizon no greater than the average future working lifetime of its active employees.
- Any deficit left behind if past service benefits are transferred from a ceding employer in the Fund to the new employer as result of a fully funded transfer should be met via either an up-front capital payment or over a suitable spreading period, which should be no longer than that applied to the Environment Agency, as agreed with the paying body.
- Any deficit that the new body inherits at commencement (e.g. as a result of a 'share of fund' transfer from another employer within or outside the Fund) would be expected to be met via an up-front capital payment from the new employer or over some suitable spreading period, which should be no longer than that applied to the Environment Agency.
- The calculation of all up-front capital payments are based on market conditions at the date that the new employer joins the Fund (i.e. the vesting or transfer date).

The extent to which these principles will apply will depend on the individual circumstances of the new employer. For example, the Fund will take into account the type of new body (e.g. admission or scheduled body), whether or not it is closed or open to new entrants, its financial covenant and the existence of any Crown guarantee. The Fund will also refer to its policy on the participation of new admission bodies and bulk transfers when agreeing its entry requirements.

Policies on bulk transfers

The Fund's policy on bulk transfers is based on the following key principles:

- When a group of active scheme members joins the EAPF, the Administering Authority's objective is to ensure, as far as practical that the EAPF does not accept an ongoing funding deficit in respect of the transferring employees.

- When a group of active scheme members leaves the EAPF, in order to protect the funding position in respect of the remaining members, the transfer values in respect of the transferring members should be no more than the assets held in respect of the transferring liabilities, and at most be 100% of the transferring liabilities on the ongoing funding basis as set out in the EAPF's Funding Strategy Statement.
- Service credits granted to active scheme members should fully reflect the value of the benefits being transferred, irrespective of the transfer value paid or received.
- There is also an overriding objective to ensure that the LGPS Regulations and (new) Fair Deal guidance as they pertain to bulk transfers are adhered to. As an agency of Central Government, the Environment Agency, is covered under (new) Fair Deal guidance released in October 2013. As such it is obliged to ensure that any outsourcing of services must comply with (new) Fair Deal guidance and those members affected by the outsourcing must be offered continuing accessing in the LGPS.

EAPF employers should treat the EAPF's preferred terms on bulk transfers as non-negotiable. Any differences between the value the EAPF is prepared to pay (or receive) and that which the other scheme involved is prepared to accept should be dealt with by the employers concerned outside the EAPF.

Funding strategy and links to investment strategy

What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement, which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The Environment Agency's Pensions Committee has decided to adopt a more flexible approach to the Active Fund future investment strategy and asset allocation so that we can respond responsibly and robustly to both the changing global economic environment and impacts of climate change. This will ensure that the Fund's approach to environmental issues remains in the best interest of fund members with many environmental issues able to affect the financial and physical wellbeing of individuals.

The same investment strategy is currently followed for all employers.

What is the link between funding strategy and investment strategy?

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 and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa.

Therefore, the funding and investment strategies are inextricably linked.

How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for the future investment returns (described in Appendix E) are based on the current benchmark investment strategy of the Fund (but were tested with the proposed new Strategic Asset allocation as well). The future investment return assumptions underlying each of the funding bases (ongoing and cessation) include a margin for prudence, and therefore also considered to be consistent with the requirement to take a 'prudent longer-term view' of the funding of liabilities as required by the UK Government (see Appendix A1).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contributions and the stability measures will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Committee meetings, and also to employers through regular communication.

Statutory reporting and comparison to other LGPS Funds

Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ('Section 13'), the Government Actuary's Department must, following each triennial actuarial valuation, report to MHCLG on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) The rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds).

(b) Employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%.

(c) There is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. The rate of employer contributions is sufficient to make provision for the cost of current benefit accrual.

ii. With an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MGCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. The implied deficit recovery period.
2. The investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. The extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit.
2. How the required investment return under ‘relative considerations’ above compares to the estimated future return being targeted by the Fund’s current investment strategy.
3. The extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate.
4. The extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

Why does the Fund need an FSS?

The Ministry of Housing, Communities and Local Government (MHCLG) has stated that the purpose of the FSS is:

"To establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward.

To support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**.

To take a **prudent longer-term view** of funding those liabilities."

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and Pensions Committee level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers on 28 October 2019 for comment;

b) Comments were requested within 30 days;

c) Following the end of the consultation period the FSS was updated where required and then published on 18 December 2019.

How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at **www.eapf.org.uk**
- A copy sent by email to each participating employer in the Fund
- A full copy included in the annual report and financial statements of the Fund
- Copies made available on request.

How often is the FSS reviewed?

The FSS is reviewed in detail at every actuarial valuation. Currently these take place every three years but this may move to every four years in future. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found at **www.eapf.org.uk**

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

The Administering Authority should:-

Operate the Fund as per the LGPS Regulations.

Effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer.

Collect employer and employee contributions, and investment income and other amounts due to the Fund.

Ensure that cash is available to meet benefit payments as and when they fall due.

Pay from the Fund the relevant benefits and entitlements that are due.

Invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations.

Communicate appropriately with employers so that they fully understand their obligations to the Fund.

Take appropriate measures to safeguard the Fund against the consequences of employer default.

Manage the valuation process in consultation with the Fund's actuary.

Provide data and information as required by the Government Actuary's Department to carry out their statutory obligations.

Prepare and maintain a FSS and a SIP/ISS, after consultation.

Notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary).

Monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

The Individual Employer should:-

Deduct contributions from employees' pay correctly.

Pay all contributions, including their own as determined by the actuary, promptly by the due date.

Have a policy and exercise discretions within the regulatory framework.

Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain.

Notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

The Fund Actuary should:-

Prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately.

- Prepare valuations including the setting of employer contributions rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations and targeting each employer's solvency appropriately.
- Provide data and information as required by the Government Actuary's Department to carry out their statutory obligations.
- Provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these).
- Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.
- Assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary.
- Advise on the termination of employers' participation in the Fund.
- Fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

Other parties:-

Investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS.

Investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS.

Auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required.

Governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund.

Legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- Financial
- Demographic
- Regulatory
- Governance

Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of

Risk	Summary of Control Mechanisms
	any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy for the EA, whilst a stable monetary contribution (subject to triennial review) has been agree for NRW. SSCL participate in the Fund with a fixed contribution rate.
Effects of possible shortfall in cash required to meet benefit outgo due to reduced cash contributions and/or maturing demographic profile	Projections are calculated at each formal valuation to monitor cashflows versus contribution income so that any possible future cash shortfall is identified early enough for appropriate action to be taken. Accuracy of cash flow projections is improved by use of bespoke baseline longevity assumptions.
Effect of possible asset underperformance as a result of climate change	The EAPF has a comprehensive approach to managing this risk outlined in its Policy to Address the Risks of Climate Change. The potential risks from climate change were considered in the long-term modelling carried out to set employer contribution rates at the 2019 valuation. A higher likelihood of success than at 2016 has been built into the 2019 funding strategy as a 'buffer' against these risks.

Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employee's declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non-ill health retirements following each individual decision. Employer ill health retirement experience is monitored,

Risk	Summary of Control Mechanisms
	and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: The EA may be brought out of the stabilisation mechanism to permit appropriate contribution increases. For other employers, review of contributions is permitted in general between valuations. NRW pay contributions as a monetary amount rather than a percentage of payroll to avoid a gradually reducing annual contribution.

Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The Administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known. In the meantime a higher likelihood of success than at 2016 has been built into the 2019 funding strategy as a 'buffer' against this risk. The government's long term preferred solution to GMP indexation and equalisation – conversion of GMP's to scheme benefits – was built into the 2019 valuation.
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis.	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations. Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Pensions Committee members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals. Reviewing contributions well ahead of cessation if thought appropriate.

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in section 3 for more details;

3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in section 3 note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the 'Primary contribution rate' (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the 'Secondary contribution rate' (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers. The Primary rate is calculated such that it is projected to:

1. Meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets.

2. Within the determined time horizon (see note (d) in section 3 for further details).

3. With a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see note (e) in section 3 for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller (the 'Economic Scenario Service') developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The contributions are determined based on the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) in comparison to the desired likelihood of success.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

How is the Secondary contribution rate calculated?

The Fund aims for employers to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer's funding target assumptions (see Appendix E).

The Secondary rate is calculated as an adjustment to the Primary rate, such that the total contribution rate is projected to:

1. Meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. At the end of the determined time horizon (see note (d) in section 3 for further details)
3. With a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see note (e) in section 3 for further details).

The projections are carried out using an economic modeller (the 'Economic Scenario Service') developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are determined based on the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) in comparison to the desired likelihood of success.

What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. Past contributions relative to the cost of accruals of benefits
2. Different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary)
3. The effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities at the end of the time horizon;
4. Any different time horizons
5. The difference between actual and assumed rises in pensionable pay
6. The difference between actual and assumed increases to pensions in payment and deferred pensions

7. The difference between actual and assumed retirements on grounds of ill-health from active status
8. The difference between actual and assumed amounts of pension ceasing on death
9. The additional costs of any non ill-health retirements relative to any extra payments made
10. Differences in the required likelihood of achieving the funding target.

How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation. There are broadly two ways to do this:

1. A technique known as 'analysis of surplus' in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.
2. A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2016 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary uses the Hymans Robertson's proprietary 'HEAT' system to track employer assets between valuations. Starting with each employer's assets from the previous month end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the month are added to calculate an asset value at the month end.

The Fund is satisfied that this new approach provides the most accurate asset allocations between employers that is reasonably possible at present.

Appendix E – Actuarial assumptions

What are the actuarial assumptions used to calculate employer contribution rates?

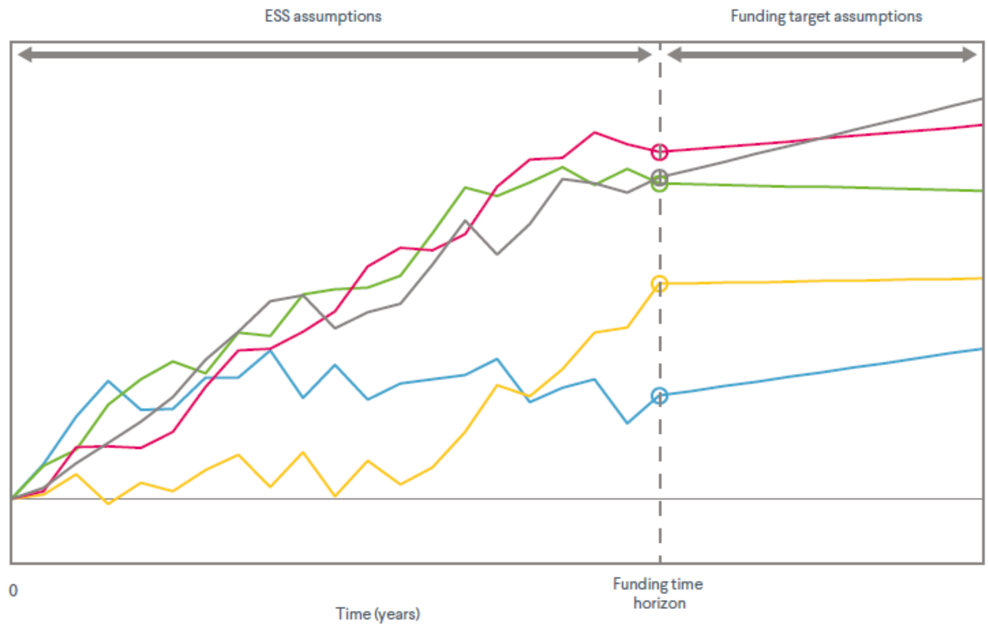
These are expectations of future experience used to place a value on future benefit payments ('the liabilities') and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary's approach to calculating employer contribution rates involves the projection of each employer's future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer's assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer's required likelihood) being successful at the end of the employer's time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer's assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson's proprietary stochastic economic model - the Economic Scenario Service ('ESS').
2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has two different funding bases.



Details on the ESS assumptions and funding target assumptions are included below.

What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)	RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
5 years	16th %'ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %'ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %'ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %'ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %'ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %'ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %'ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %'ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %'ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	Volatility (Disp) (1 yr)	1%	7%	10%	17%	17%	14%	11%	1%		

What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the 'discount rate')

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has two funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

Funding basis	Ongoing participation basis	Gilts cessation basis
Employer type	Open employers not expected to cease participation in the Fund (e.g. the EA) or those with appropriate guarantors (e.g. SSCL)	Closed employers expected to cease participating in the Fund in future (e.g. NRW)
Investment return assumption underlying the employer's funding target (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 1.6% p.a.	Long term government bond yields with no allowance for outperformance on the Fund's assets

What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

a) Salary growth

After discussion with Fund officers and representatives from the EA and NRW, the salary increase assumption at the 2019 valuation has been set to a blended rate of RPI – 0.5% per annum, based on increases of 3% each year to 31 March 2021 followed by long-term increases of RPI - 0.5% per annum.

This is a change from the previous valuation, which assumed a blended assumption of RPI – 0.7% per annum. The change has led to an increase in the funding target (all other things being equal).

b) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derived our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. An inflation risk premium was then applied to the market-implied RPI, by means of a 0.3% deduction to allow for market distortions. This is then reduced to arrive at the CPI assumption, to allow for the 'formula effect' of the difference between RPI and CPI. At this valuation, we have continued to use a reduction of 1.0% per annum. (Note that the reduction is applied on a geometric, not arithmetic, basis).

c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of 'VitaCurves', produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a

1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis), in deriving the funding target underpinning the Primary contribution rates: as described in (**3.3**). The Secondary contributions are calculated in different ways, depending on the employer's circumstances (See Section 3.3, notes (a) to (c)).

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Funding basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
Administering Authority	The body with statutory responsibility for running the Fund, in effect the Fund's 'trustees'.
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be 'fixed interest', where the interest payments are level throughout the gilt's term, or 'index-linked' where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds across the UK. Each LGPS Fund is autonomous to the extent not dictated by

	Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferred pensioners (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's total and **Primary contribution rates**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund.
Valuation	A risk management exercise to review the **Primary and Secondary contribution rates**, and other statutory information for the Fund and individual employers.

Approved by the Pensions Committee on 18 December 2019 and will be reviewed in 2022.

Annex 3 – Investment Strategy Statement

Introduction

The Environment Agency Active Pension Fund (the Fund or 'EAPF') is a funded, defined benefit pension scheme with around 26,500 members and assets of approximately £3.8bn as at 30th September 2019. Full details of the EAPF and our activities can be found on **www.eapf.org.uk**.

This Investment Strategy Statement (ISS) sets out the principles and strategy that govern our process for investing the assets of the Fund as required by Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. This Statement was approved by the Environment Agency Pensions Committee on 25th March 2020, after receiving input and advice from its investment staff, investment consultants, independent investment adviser and consulting actuary.

We will refer to this Statement when making investment decisions to ensure they are consistent with our investment principles and strategy. As set out in the regulations, the Pensions Committee will review the Statement from time to time, but at least every three years following the triennial valuation of the Fund.

The Statement should be read and will be implemented in conjunction with the Fund's Governance Policy, Funding Strategy Statement, Responsible Investment Policy and Global Stewardship Statement. These provide and state our more detailed requirements and supplementary guidance on these specific topics for our external fund managers. It is supported by the contents of our investment management agreements for each investment mandate. Details of the investment and performance objectives for each mandate are published in our Annual Report and Financial Statements.

Fund governance: Investment

Our Governance Policy sets out how the Fund is governed and the role of the Pensions Committee; Pension Board; Investment Sub-Committee; and Environment Agency officers on investment matters. The Environment Agency Board appoints the Pensions Committee and Pension Board, and delegates responsibility for compliance with legislation and best practice, overall strategic asset allocation, investment policy, budgets and the appointment of fund managers and investment advisers. The Environment Agency Board approves the Annual Report and Financial Statements of the Fund, which includes the policies under which the Fund is governed.

The Investment Sub-Committee normally consists of seven representatives of the Pensions Committee and receives input and advice from professional investment officers, specialist investment consultants, an independent investment adviser, the Fund actuary, and other professional advisers as required.

The Investment Sub-Committee has received delegated responsibility to prepare and recommend the investment strategy to the Pensions Committee and, within the context of the agreed investment strategy, to decide on the structure of mandates and their specification, to appoint fund managers, to monitor the performance of fund managers, and to terminate or alter mandates. This is done in partnership with the Brunel Pension Partnership (see later).

We have delegated day-to-day management of the Fund's assets to a number of fund managers. They have full discretion to manage their portfolios, subject to their investment management agreements with us and in compliance with the Fund's own policies including this ISS. We do not seek to direct the managers on individual investment decisions.

We have appointed a performance measurer independent of the fund managers to calculate risk and return measures for each manager and the Fund overall. We have also appointed a global custodian who is responsible for the safe-keeping of the directly-held assets of the Fund and who works in close liaison with each fund manager. State Street fulfils both of these functions.

The Fund's actuary is responsible for performing a formal valuation of the Fund every three years in order to assess the extent to which the assets cover accrued liabilities and to inform the development of an appropriate Funding Strategy Statement. The Funding Strategy takes account of, and informs the development of, our investment strategy and this ISS.

In all matters, our fiduciary obligations to Fund members are paramount, and neither the Fund's committees nor the Fund's officers would take any action which would be in conflict with these obligations. Similarly, fund managers are required to invest in the best interest of the Fund.

High Level Investment Principles

Working with our partners in the Brunel Pension Partnership, we have agreed a set of investment principles with the intention that they provide a framework for the investment strategy, operations, manager selection, monitoring and reporting. The principles are also designed to meet the Ministry for Housing, Communities and Local Government's Local Government Pension Scheme: Investment Reform Criteria and Guidance and the requirements and expectations of Financial Conduct Authority. They can be applied to all asset classes, although the detail of operation will vary by asset class.

The principles do not impose any restrictions on type, nature of companies or assets held within the portfolios. The principles do place an expectation that recognised best practice standards in governance, risk management, stewardship and value for money will be delivered.

Long term investors	We are long-term investors: we implement our funds investment strategies that require productive assets that contribute to economic activity, such as equities, bonds and real assets. This may include the delegated responsibility to provide sustainable and sufficient return on their assets.
Responsible investors	We are responsible investors: we believe that in the long term we will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long term sustainable success of the global economy and society.
Best practice governance	We adopt best practice collective governance with appropriate oversight, prioritisation, delegation and decision making at the right level, and clear accountability.
Decisions informed through experts and knowledgeable officers and committee	We make informed decisions based on extensive expertise including trained and insightful operations' governance members, experienced and professional officers and high quality, knowledgeable advisors.
Evidence and research at heart of investments	We take an evidence and research based approach to investment: continually learning and reappraising from academic research, investment professionals, and our peers, and seek continual development in our understanding of investment.
Leadership and Innovation	We are prepared to be innovative and demonstrate thought leadership in collective investment, within the requirement of prudence and our joint fiduciary duty.
Right risk for right return	We will seek right risk for right return. We will make our collective investments work as hard as possible to meet our funds' objectives: we will provide the right structure of sub funds and managers within asset classes. While we take account of market and economic levels in our decision making, we will avoid making decisions on purely a short term basis.

Full risk evaluation	We will be comprehensive in our consideration of our funds' risks assessed on their liabilities and contributions; consider financial and non-financial risk as appropriate; offer a pooled structure to accommodate the need to diversify risk, but also recognise the limits of that diversification – as long term investors we accept that our investment success depends substantially on the sustainable growth of the economy.
Responsible stewardship	We will enable our funds' to exercise responsible stewardship of the assets they hold, and act as a collective responsible voice in the broader investment community.
Cost effective solutions	We will seek the most cost-effective solutions to achieving our funds' objectives and implementing these principles collectively: we recognise the impact of costs on the Funds, but we are prepared to pay for active management and other services when we believe that the costs incurred are likely to be justified by the benefits. We will seek to gain leverage from our collective status within the Brunel Pension Partnership through reduction in fees and avoidance of cost through increased resilience and sharing our peoples' strengths, knowledge and expertise.
Transparent and accountable	We believe in the importance of being transparent and accountable, to ensure correct decisions are taken and to minimise risk. This applies both in our own operations, those we work with, and our investments.
Collaborate	We will collaborate with others whenever possible, to share ideas and best practice; to improve effectiveness and to minimise costs.

Responsible Investment

We are long-term investors who aim to deliver a truly sustainable Pension Fund; ensuring that it is affordable; delivers financially to meet the objectives of our scheme employers; and is invested responsibly. We seek to be a leading responsible investor.

Being responsible investors to EAPF is to;

a) Consider a wide range of issues e.g. environmental or social impacts and what financial impact they could have both in the short and long term.
b) Look to work with and influence others.
c) Act as good owners of the companies, assets and funds in which we invest.
d) Operate in an open and transparent way.

Our fiduciary duty is to act in the best long-term interests of our members. To do so properly requires us to recognise that environmental, social and governance issues can positively and negatively impact on the Fund's financial performance and that they should be taken into account in our funding and investment strategies, and throughout the funding and investment decision-making process. Full details are contained in our **Responsible Investment Policy**, and other associated policies, notably **Responsible Investment Strategy** and our **Policy to Address the Impacts of Climate Change**. Both the Brunel Pension Partnership's and the Fund's underlying investment managers are expected to comply with these policies when implementing the mandates on our behalf.

The Brunel Pension Partnership Investment Principles clearly articulate our commitment, and that of each Fund in the Partnership and its operator (Brunel Ltd), to be responsible investors and as such recognise that social, environment and corporate governance considerations are part of the process in the selection, non-selection, retention and realisation of assets. One of the potential principal benefits, outlined in the Brunel Pension Partnership business case, achieved through scale and resources arising from pooling, is the improved implementation of responsible investment and stewardship.

Every portfolio, in every asset class, under the Brunel Pension Partnership, is required to explicitly include responsible investment and an assessment of how social, environment and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing shareholder value in relation to each portfolio and its objectives. Brunel Pension Partnership has published a Responsible Investment Policy Statement which lays out our common approach in more detail. More information is on the **Brunel website**.

Both our Pensions Committee and Pension Board have member representatives who actively engage with beneficiaries and other stakeholders to ensure the Fund is aware and can respond effectively to all member concerns. We also actively use our website, newsletters and member webinars to engage directly. We also respond, track and report all member and stakeholder enquires as part of standard quarterly reporting. The Fund is accredited with Customer Service Excellence which requires high standards of stakeholder engagement.

We became the first Local Government Pension Scheme (LGPS) signatory of the UNPRI in July 2006 and Brunel Ltd was the first asset pool in April 2018. The UNPRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact. The principles reflect the view that ESG issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary duty. The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption.

Investment objectives

The EAPF Active Fund is an open, defined-benefit Pension Fund with strong employer backing, positive cash-flows and pension obligations stretching to the end of this century. In setting our investment strategy we seek to balance twin objectives: first, to achieve sufficient long-term returns for the scheme to be affordable to employers now and in the future, and second, minimising risk of having to increase the contribution rate in the future.

To achieve this, the Fund needs to invest in assets which differ from our pension liabilities. We seek to develop an investment portfolio with exposure to these return seeking assets in the most risk efficient way. We look to build a portfolio which has high probability of exceeding the asset outperformance target assumed by our actuary, while limiting the probability of the funding level falling below 90% at the next three actuarial valuations, as this should be effective at substantially reducing the potential need to increase the contribution rate.

It is not possible to control the absolute return on investments but over the long-term the Fund believes its investment strategy should result in a high probability of achieving the objectives of its Funding Strategy Statement.

In the short-term, returns are measured against a Fund-specific benchmark and the Actuary prepares quarterly intra-valuation updates on the Fund's funding level. Further details on the expected returns from investments and how they interact with the Actuary's formal triennial valuation of the Fund's assets and liabilities are included in the Funding Strategy Statement.

Each active manager has an outperformance target against its benchmark. Over the long term the targeted outperformance is expected to lead to significantly lower contributions than would otherwise occur.

The suitability of different types of investment

The Fund may invest in any investment it considers appropriate. In selecting categories of investments to invest in, the Fund has regard, inter alia, to return potential, financial risk, liquidity, management costs and any potential environmental, social and governance risks and opportunities. When considering costs and charges, both transparency and the need to control these are important. Recurring annual costs and charges are a drag on performance. In accordance with our principles above, we seek to invest in areas contributing to long term economic activity rather than assets where returns are based on speculation or short term trading.

Assets currently held include, but are not limited to, equities (both listed and private), gilts, corporate and other bonds, private debt and real assets including property, infrastructure, forestry and agriculture assets.

Certain asset classes are not considered suitable for EAPF, particularly if they are not compatible with our investment principles. Asset classes where returns are based on short term speculation or trading, or where it is not clear how they generate an underlying return are generally not considered suitable. Other assets classes are found not to be suitable after review on the grounds of high costs, inadequate returns for the risk involved, unclear or unquantifiable risks, insufficient diversification or effective duplication of existing allocations.

The range of assets we choose to invest in are always reviewed as part of our investment strategy review process. At our latest strategy review process a number of possible new areas were considered. It was decided to further explore an allocation to liability matching assets and multi-asset credit at this time.

Social and sustainable Investments

Social investment can be defined to include a wide spectrum of investment opportunities. The EAPF definition of social investment is an investment that addresses societal challenges but generates competitive financial returns. Societal challenges include all issues commonly regarded under social, environmental or governance headings.

Our wider definition of sustainable investments includes:

a) Social investments and those with significant revenues involved in energy efficiency, alternative energy, water and waste treatment, public transport,
b) property, infrastructure, agriculture or forestry investments with a low carbon or strong sustainability criteria, and
c) companies (often equities and bonds) with a progressive environmental, social or governance practices that may enhance investor value.

The Fund has set itself the target to have over 33% of the Fund invested, across all asset classes, in such opportunities. We report a breakdown of the types of investment in our annual report and financial statements.

Asset allocation

The strategic asset allocation of the Fund is the principal way we achieve a diversity of assets of different types. It is set after considering the results of our funding strategy modelling and our asset allocation and risk modelling. This considers various asset allocation mixes, return objectives and risk levels. Having too modest a return target will reduce short term risks but will increase the likelihood that longer term returns are insufficient, resulting in contribution increases and undermining the affordability of members' benefits. Too high a return target, while it may increase average long term returns and the potential for contribution reductions, will increase overall risk resulting in a wider range of outcomes, including a higher risk of deficits and the need to increase contributions. Clearly, for a particular level of return, we seek to minimise the level of risk taking through efficient diversification and appropriate allocation. It is this analysis that determines the overall appetite for risk in the Fund. Should the analysis fail to find a satisfactory balance of risk and return, with too high a risk of contribution instability or falling funding levels, then the funding strategy may need to be revisited.

In setting the strategic asset allocation we seek a long-term rate of return sufficient to meet our investment objectives. Based on our funding strategy and long term investment analysis we estimate an appropriate overall expected return of +3.1% over the expected return on gilts will be sufficient on the balance of probabilities, but also consider the possible range of return outcomes and in particular the likelihood of lower returns. We also consider the challenges presented by volatile market conditions, changes to the benefit structure of the LGPS, the demographics of the Fund, and possible transfers out; all of which potentially impact on the most suitable investments and the appropriate allocation to them.

At the highest level our asset allocation splits the investment portfolio into three broad areas: equities, bonds, and diversifying growth assets. Equities and bonds are traditional asset classes. Equities provide good long terms returns but have significant risks. Bonds are typically lower risk, and indeed are more closely correlated with our liabilities, but returns are low. Diversifying growth assets covers a range of assets that we consider to offer attractive returns on a risk adjusted basis. It is split into 3 areas: real assets: (property, infrastructure, and agriculture); illiquid credit/private debt (direct lending to companies and investments); and growth fixed income (bond investments offering higher returns but lower correlation to conventional fixed income).

We have adopted a strategic asset allocation (SAA) benchmark. The framework is intended to provide a degree of high level risk control, ensuring asset allocation remains broadly appropriate and diverse, while being flexible enough to enable the Fund to respond to changes in funding levels, market conditions and other factors.

The SAA benchmark is set, with input from the Fund's advisers, after considering current funding level, the return requirements and acceptable risk of the Fund, as well as market conditions and valuations. The Investment Sub-Committee sets this benchmark and it is reviewed at least annually by the Pensions Committee. The target is typically expected to be achieved in around 3 years as the allocations to illiquid allocations are built up over time. We have updated the target this year. The actual asset allocation may also vary because of movements in markets and the availability of suitable investment opportunities. The strategic asset allocation (SAA) benchmark is laid out below.

Asset Class	Strategic Asset Allocation %	Framework Range %
Equities (Public & Private)	**40.5**	**-**
Public Equities	**36.5**	**± 5.0%**
Diversifying Growth assets	**25.0**	-
Real assets including: Property Infrastructure Farmland and Timberland	12.0 5.0 5.0 2.0	-
Illiquid Credit / Private Debt	5.0	
Growth Fixed Income / Multi Asset Credit ('MAC')	8.0	-
Fixed income assets	**33.5**	**±5.0%**
Fixed / Interest Linked Gilts (LDI) Corporate bonds	11.5 22.0	**-**
Cash	**1.0**	
Total Defensive Assets	**34.5**	

The asset allocation results in a significant weight being given to equities, which we consider appropriate given the long term nature of our liabilities profile and our investment objectives, but this is spread across a range of managers with different approaches and styles (see below). As our funding level permits we are also gradually reducing the allocation to equities to reduce our overall investment risks, although we expect to retain a significant equity allocation.

Allocations to certain areas (real assets; illiquid credit/private debt; private equity/specialist opportunities) are illiquid and the actual level of investment will depend on the rate of drawdown once investments are identified, any changes in value and the pace at which capital is returned. They may therefore vary significantly from target levels. In particular, should the above ranges be exceeded as a result of market movements, while new investments will not be made, there will be no immediate requirement to reduce exposure through forced sales.

We regularly review the balance between exposure to growth assets (equities and diversifying growth assets) and lower risk assets (fixed income and cash), and if they vary by more than a certain amount from the benchmark asset allocation, we will rebalance the portfolio back towards the benchmark asset allocation as much as practical.

The Fund's SAA is publicly disclosed within the Fund's Annual Report and Financial Statements.

Managers and Mandates

Within each asset class the Fund seeks to have a well-diversified portfolio. This is achieved by ensuring each investment manager holds an appropriate spread of investments and, within certain asset classes, working with a range of managers to ensure a diversity of styles and expertise.

We have a specialist fund manager structure with managers appointed with a mandate to manage assets in a specific area. This enables us to access managers with particular expertise and skills. Each mandate has a detailed specification, including a mandate-specific benchmark, performance target and risk controls.

Subject to compliance with both this Investment Strategy Statement and associated policies, and the terms of their Investment Management Agreements, which includes the requirement to maintain a diversified portfolio, all the managers have full discretion over the choice of individual investments.

The Fund uses a combination of passive (indexed), and active approaches to investment management, based on consideration of availability, cost, flexibility and return potential. Passive approaches aim to deliver the return of the underlying market index and consequently contain a very large number of holdings. We consider the case for integrating responsible investment within our passive investments, particularly where suitable indices exist. Within global equities, a significant allocation has also been made to both a quantitative fund seeking sustainable exposure to the value factor, and to mandates managed using quantitative low volatility approaches. These aim to provide improved risk/return characteristics over conventional passive approaches. We have also introduced a buy-and-maintain approach, in corporate bonds, which has a quasi-passive approach to investing but does not seek to follow a benchmark index. This is useful particularly where benchmarks are deficient from the Fund's perspective.

The remainder of the Fund is managed on an active basis, using investment managers to select the investments they consider to have the best return potential. This portion of the Fund is spread across global equities, corporate bonds, property/real assets, and private equity. The decision to appoint active managers is only made after careful consideration of the likely costs, the likelihood that the manager will be able to add value after fees, the impact on risk, and the ability of the manager to implement the responsible investment strategy. Once appointed, managers are carefully scrutinised for value for money, and any reasonable opportunities to reduce costs will be pursued.

In keeping with our investment principles, we focus on developing successful long term partnerships with our managers. We have developed a detailed approach to investing long term, including establishing 'covenants' with our managers to outline what is expected of each other. In assessing managers, we focus on long-term performance potential including aspects such as idea generation and team stability, rather than short term performance. Where managers are underperforming we seek to work with them to address any issues and improve performance.

Risk

We take the management of risk in our investments very seriously. We maintain a detailed risk register of all the investment-related risks that could affect the Fund, which monitors their severity and the implementation of mitigating actions.

To achieve the required returns, the Fund needs to invest in assets involving a degree of risk and so although we seek to manage our investment risk we cannot eliminate it. The most fundamental risk is that the Fund's assets produce lower long-term returns than those assumed by the Fund's actuary, leading to a significant deterioration in the Fund's funding position.

This risk of deteriorating Fund asset values cannot be entirely avoided (for instance if all major investment markets were to decline in unison) but it can be mitigated by ensuring that the assets of the Fund are invested across a number of different asset classes and markets. Diversifying assets across different asset classes is widely recognised as being an effective way of mitigating the risk of reductions in the value of the Fund's assets.

Different types of investment have different risk characteristics and return potential. For example, historically the returns from equities have been higher than from bonds but they are more risky, particularly short term. In setting the investment strategy we consider the expected risks and returns from various asset classes and the correlation between these returns to develop a strategy with an adequate expected return with an acceptable level of risk. Detailed modelling analyses the expected results of different strategies (in terms of funding levels and contributions) over a range of possible long term market outcomes to determine the preferred strategy. This strategy is then reflected in the Fund's strategic benchmark.

A separate investment risk is the risk of underperforming the Fund's strategic benchmark. This relative risk is less significant than the strategic risk above, but we still seek to manage it. It can arise either because asset allocation has deviated from the strategic benchmark allocation or because our fund managers are underperforming. We monitor the actual asset allocation continually and take action if required. Individual managers may, particularly over the short term (a year or less), underperform their benchmark but over the long term we expect them to add value. For the Fund as a whole, the range of managers reduces the risk of significant underperformance.

The Fund believes that climate change presents a systemic risk to the ecological, societal and financial stability of every economy and country on the planet, with the potential to impact our members, employers and all our holdings in the portfolio. As such, climate change is a long term material financial risk for the Fund, and therefore will impact our members, employers and all our holdings in the portfolio. Our Policy to Address the Impact of Climate Change and the dedicated area of our website provide further details with regard to how we take the climate related financials risks into account.

The Fund is aware of the nature of its liabilities, and considers how closely its different assets match its liabilities. With increasing funding levels and following the last triennial valuation, we are considering the case for liability-driven investments, including explicit liability hedging.

The Fund reviews the potential for active hedging of any aspects of risks (e.g. currency risk). At present the Fund only hedges a small proportion of its listed equity currency risk relating to its low volatility equity allocation. However, any currency risk in overseas fixed interest exposure would normally be hedged, and we have introduced currency hedging for lower risk assets such as private debt and overseas infrastructure. We continue to monitor the case for hedging currency and other risks more widely.

There are also a variety of other risks to be considered, for example operational risks of loss arising from default by brokers, banks or custodians. Here, the Fund is careful only to deal with reputable service providers to minimise counterparty risks.

Liquidity and the realisation of investments

The majority of the Fund's investments will be made in bonds and stocks that are listed on recognised Stock Exchanges and may be realised quickly if required. Our corporate bond holdings are generally reasonably liquid, but may be harder to realise in certain market conditions. However, given the strong positive cash inflows of the Fund, and the long term nature of the Fund, we are satisfied that a significantly greater proportion of the Fund is held in liquid assets than is likely to be needed to meet any expected or unexpected demands for cash.

The materially illiquid assets within the Fund are those held in private equities, real assets and private debt. These are normally held through pooled funds. As a long term investor, we regard it as entirely appropriate to hold such illiquid assets. In particular as we expect such funds to benefit from an enhanced return due to an 'illiquidity premium' which compensates for the long term nature of these investments. Furthermore, all funds we invest in will have a long term strategy for the realisation of their investments, through sales, repayments or income. We do not expect to exceed a 25% allocation to illiquid assets in aggregate at present.

Stewardship and the exercise of our rights as owners

The EAPF is a signatory of the UK Stewardship Code and our Stewardship Code Compliance Statement evidences our compliance with both the UK Code and other global best principles of good stewardship. We are preparing for the requirements of the 2020 UK Stewardship Code and will report against it in due course.

Engagement

Our Responsible Investment Strategy set outs the areas of engagement that, as a Fund, we have selected to have a particular focus on. These are climate change, using resources sustainably and water.

Where appropriate and in line with our Investment Strategy and Responsible Investment Strategy, we support engagement initiatives which will deliver real benefits for the EAPF. We set out details of these in our annual report.

We work with our managers and others in the Finance industry to help bring build a better future. We are members of the Local Authority Pension Fund Forum (LAPFF) and work closely with the IIGCC (institutional Investors Group on Climate Change), UKSIF (UK Sustainable Investment and Finance Association), and the CDP (Carbon Disclosure Project). We also share our understanding and experience through speaking at investment industry events and publishing articles on-line.

The Fund co-founded the Transition Pathway Initiative (TPI). An asset owner-led initiative, supported by asset managers and owners with over $15 trillion assets under management and advice. The initiative assesses how companies are preparing for the transition to a low-carbon economy.

The Fund is working with the IIGCC Change to help investors understand how to align their portfolios with a 2 degrees world and also, separately, to develop understanding within the investor community of the physical risks from climate change.

EAPF is pledged to the UN initiative on Ocean plastics #CleanSeas. Our action on plastics is one way that we align with 'A Green Future'. Defra recently published 'A Green Future: Our 25 Year Plan to Improve the Environment'. In so far as practicable, EAPF plans to align its investment and engagement activities with the Green Future Plan. We are also involved in an investor-led initiative to reduce plastic pellets from being released to the environment.

The Fund is a member of the 30% Club Investor group, which promotes gender diversity on the Boards and Executive committees of UK listed companies, and promotes wider diversity and inclusion in the companies in which we invest.

All the assets of the Pension Fund are selected by external fund managers. This means that it is our external fund managers who make the detailed decisions about which companies we invest in. This is important in avoiding conflicts of interest for our employers, but also gives us the flexibility to select the best managers for each set of assets. The skills needed to decide environmental and other issues vary from one asset class to another. We place a high importance, and spend significant time and energy, in selecting good quality managers who deliver financially and can manage the wide variety of risks that come with making investments.

Voting

The Fund believes that voting is integral part of the responsible investment and stewardship process. Voting is delegated to managers to vote on all the Fund's shares. All managers, be they chosen by the Brunel pool, or are our legacy managers, are encouraged to follow the approach set out in **Brunel's Responsible Stewardship policy statement**. We demand high standards in stewardship from all managers who act on our behalf. We monitor the voting reports of all managers on a quarterly basis

Stock lending

The Fund does not engage in stock lending through active equities, but we do so in some passive or quantitatively managed pooled portfolios through our participation in the Brunel Pension Partnership Ltd. Where stock lending is taking place within pooled funds we seek to arrange where practical to have the ability to recall stocks so that we can vote. As described in the previous section, for environmental issues we have written specific guidance and reserve the right to direct the voting in accordance with these guidelines. Brunel Pension Partnership details its approach to stock lending in its Responsible Investment Stewardship Policy.

Stewardship in pooling

We will continue to be an active owner in our own right. Further, as part of the Brunel Pension Partnership, we are exploring opportunities to enhance our stewardship activities across the partnership. The Brunel Pension Partnership has published its Responsible Investment Stewardship Policy which outlines its approach and priorities. The policy reflects the priorities of its underlying clients, and we were active in contributing to the policy.

Implementation: Approach to Asset Pooling

We have worked with nine other Administering Authorities to implement the UK Government's requirement to pool the management and investment of our assets with other LGPS Funds, and have established the Brunel Pension Partnership and its operator, Brunel Pension Partnership Ltd. (Brunel Ltd). Brunel Ltd was launched on 18 July 2017 as a new company wholly owned by the ten Administering Authorities (including the EAPF) and obtained authorisation from the Financial Conduct Authority (FCA) in March 2018 to act as an investment manager and an investment advisor.

The arrangements for asset pooling for the Brunel Pension Partnership pool have been formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. Importantly, Brunel Ltd has met the Government's requirement for the pool to become operational from April 2018 and the transition of assets to start.

Investment assets are in the process of being transitioned across from our existing investment managers to the portfolios managed by Brunel by 2021, in accordance with a timetable that has been agreed across the partnership. To date passive Low Carbon and Low Volatility equity mandates have been transitioned to Brunel Ltd. Until such time as transitions take place, we will continue to maintain the relationship with our current investment managers and oversee their investment performance, working in partnership with Brunel Ltd where appropriate.

The EAPF, through the Pensions Committee, retains the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by Brunel Ltd. We are also able to suggest new portfolios to Brunel Ltd and engage with Brunel Ltd on the structure and nature of existing portfolios.

Brunel Ltd is responsible for implementing the detailed Strategic Asset Allocations of each of its ten Client Funds by providing and implementing a suitable range of outcome focused investment 'portfolios'. In particular, it researches and selects the professional external investment managers responsible for making the day to day investment decisions at the portfolios. In some cases, a portfolio has a single external manager who provides the fund structure for a portfolio. In other cases, Brunel Ltd will allocate to a number of different externally managed funds. For active equities Brunel Ltd has sponsored the creation of an authorised contractual scheme (ACS), in conjunction with an external fund operator, as this structure in these markets offers significant cost and tax benefits. Brunel Ltd is the investment manager of the ACS and as above will delegate to its chosen sub managers.

The EAPF is a client of Brunel Ltd and as a client has the right to expect certain standards and quality of service. A detailed service agreement has been agreed which sets out the duties and responsibilities of Brunel Ltd, and our rights as a client. It includes a duty of care of Brunel Ltd to act in its clients' interests.

The governance of the Brunel Pension Partnership is of utmost important to us to ensure our assets are invested well and our needs and those of our beneficiaries are met. Governance controls exist at several levels within the partnership.

- As shareholders in Brunel Ltd we entered into a shareholder agreement with the company and the other shareholders. This gives us considerable control over Brunel Ltd – several matters, including significant changes to the operating model, are reserved matters requiring the consent of all shareholders.

- An Oversight Board, made up of representatives from each of the Administering Authorities and two Fund member representatives, has been established. Acting for the Administering Authorities, it has a primary monitoring and oversight function. Meeting quarterly, it can request papers from Brunel Ltd or interrogate its management. However, it cannot take decisions requiring shareholder approval, which will be remitted back to each Administering Authority individually.

- The Oversight Board is supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities, but also drawing on finance and legal officers from time to time. It will have a leading role in reviewing the implementation of pooling by Brunel Ltd, and provide a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.

- A separate level of governance is provided by the Board of Directors at Brunel Ltd, which are appointed by ourselves and the other shareholders. It comprises four highly experienced and independent Non-Executive Directors, chaired by Denise Le Gal and four Executive Directors.

- Finally, as an authorised firm, Brunel Ltd has to meet the extensive requirements of the Financial Conduct Authority, with cover areas such as training and competency, policy and process documents, and internal controls.

Following the completion of the transition plan outlined above, it is envisaged that all of our assets will be invested through Brunel Ltd. However, the Fund has certain commitments to long term illiquid investment funds which will take longer to transition across to the new portfolios to be set up by Brunel Ltd These assets are expected to be managed in partnership with Brunel Ltd until such time as they are liquidated, and capital is returned.

Statement of compliance with the Myners Principles

We fully comply with Lord Myners' six principles codifying a model of best practice in pension fund governance, investment decision making and disclosure. Evidence is contained within the documents referenced in our Annual Report and Financial Statements and on our website **www.eapf.org.uk**

Approved by the Pensions Committee on 25 March 2020.

Annex 4 – Global Stewardship Compliance Statement

Environment Agency Active Pension Fund (EAPF) is fully committed to responsible investment. We believe there is a considerable body of evidence that well governed companies produce better and more sustainable returns than poorly governed companies. We also think investors, including pension fund managers and shareholders, could influence the Board/Directors of underperforming companies to improve the management and financial performance of those companies.

Being a responsible owner

Our **Responsible Investment Policy** set outs the areas of engagement that, as a Fund, we have selected to have particular focus. These include promoting ESG as part of delivering and fiduciary duty, sustainable capitalism, water risk, climate risk and human capital management.

To complement and support the implementation of our themes, we work with our managers, specialist engagement provider **Hermes EOS** and other service providers. We are also members of the **Local Authority Pension Fund Forum (LAPFF**).

All the assets of the Pension Fund are selected by external fund managers. This means that it is our external fund managers who make the detailed decisions about which companies we invest in. This is important in avoiding conflicts of interest for our employers, but also gives us the flexibility to select the best managers for each set of assets. The skills needed to decide environmental and other issues vary from one asset class to another. We place a high importance, and spend significant time and energy, in selecting good quality managers who deliver financially and can manage the wide variety of risks that come with making investments.

Compliance with global best practice

We are global investors and apply our principles of good stewardship globally, whilst recognizing the need for local market considerations in its application. Reflecting on this, we have summarised our compliance with the various codes and principles relating to good stewardship. There are now so many codes that we no longer map each one but base our statement on the requirements principally outlined in the UK code but supplemented by additional requirements outlined in the codes of Japan and Canada (CCGG).

Policy Commitment	Our Fund fully follows this principle:	And in practice:
Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	Our Stewardship responsibilities extend over all the assets held by the Fund with our approach and principal relationships outlined above. The EAPF has a comprehensive suite of published policy documents which define how we discharge our Stewardship responsibilities, including but not limited to our **Investment Strategy Statement, Responsible Investment Policy** and our **Voting guidelines.** Roles and responsibilities with respect to the discharge of Stewardship activities are set out in our **Responsible Investment Policy.**	Our website provides comprehensive information on our policy commitments and evidence of implementation of our stewardship responsibilities. We have a dedicated resource to oversee **Stewardship**, voting activity is monitored throughout the proxy period and a dedicated area of our website on our **Stewardship** activities is updated regularly. All new Investment Management Agreements (IMAs) include requirements to observe the FRC's UK Corporate Governance Code and UK Stewardship Code. We do not undertake any stock lending on directly held stocks.
Conflict of Interest	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.	We have a comprehensive Conflicts of Interest Policy which is available on our website. A public register of Pensions Committee members' declaration of interests is also maintained and audited annually.	Declaration of conflict of interests is a standing agenda item at the start of all Pensions Committee and Investment Sub Committee meetings. The need to avoid conflicts of interest is also highlighted in our Investment management agreements (IMAs) and contracts with external parties. Our external fund managers make the detailed decisions about which companies we invest in (please see above).
Corporate engagement	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should monitor their investee companies. Orientation to sustainable growth.	As investors we own a portion of the companies we invest in. We can use our rights as owners to encourage companies to act more responsibly and improve their practices. We monitor all managers and focus on the following areas;	Monitoring of specific investee companies is detailed in our quarterly reports and discussed at each fund manager review meeting. Each quarter we publish a report on our website on the

	• Philosophy (investment, corporate culture) • Polices (commitment, framework) • People (numbers, retention, cognitive diversity) • Processes (investment, reporting, stewardship) • Participation (thought leadership) • Partnership (working together) Our primary engagement work is undertaken by our managers our specialist engagement provider. In addition to the requirement for all our managers to consider how environmental, social and governance factors might impact companies sustainability, we have a target to maintain our investment of 25% of the Fund's assets in clean and sustainable companies by 2020.	engagement and voting activity undertaken by **Hermes EOS.** We will participate in engagement activities directly as part of support of LAPFF. We publish the quarterly LAPFF engagement report. Responsible Investment activity is presented to our quarterly Investment Group and summarised in Pensions Committee reports.
Enhancing value & integration	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value. Common understanding to solve problems. Incorporating corporate governance and sustainability considerations.	Our **Responsible Investment Policy** details our engagement policies. We have specific objectives and targets in relation to engagement. These are specifically focused on **climate change, water risk, fiduciary duty** as well specific occupations e.g. investment consultants, actuaries, etc. We review each fund manager's policies on engagement and escalation prior to appointment and during regular review meetings with our fund managers we review their engagement activity and support the planned escalation of activity.	Our primary corporate engagement approach relating to climate change is based on the analysis from the Transition Pathway Initiative (TPI). Escalation is incorporated in the analysis. EAPF policy clearly states that insufficient progress can lead to disinvestment; we believe this to be the ultimate intervention. A public report on engagement activity undertaken on our behalf by Hermes EOS (external engagement provider) is available on our website. We identify engagement plans with each active equity manager on an annual basis. We analyse our own portfolio looking at ESG risks to shareholder value and work with our fund managers to address those issues in their activities.

Working with others	Our Fund fully follows this principle:	And in practice:
Institutional investors should be willing to act collectively with other investors where appropriate.	As investors, we own a portion of the companies we invest in. We can use our rights as owners to encourage companies to act more responsibly and improve their practices. Acting collectively with other asset owners increases the effectiveness of the engagement. We actively work with other pension funds, asset managers and other organisations to promote responsible investment. These include, but are not limited to, the UNPRI, IIGCC, PLSA and UKSIF.	All our managers work collaboratively with other parties. Collaborative engagements, research and advocacy work is detailed in our quarterly and Annual Report and Financial Statements to our Investment Group, Pensions Committee and beneficiaries.
Monitoring and engaging with regulators and policy makers. (Canadian - CCGG code)	Our direct engagement is focused on working with regulators, other institutional investors and services providers to the financial industry.	Engagement activity with regulators includes responding to public consultations both individually and collectively through industry groups as well as support of public advocacy events. Responses to consultations are published on our website.
Voting	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy should be designed to contribute to sustainable growth on investee companies.	The Fund believes that voting is integral part of the responsible investment and stewardship process and as such is delegated to managers to vote on all the Fund's shares at their discretion. All our equity managers have voting polices and most are publicly available. Similarly, our larger managers publish voting records on their website and others on request. For our index tracking funds, the voting us undertaken by Hermes EOS. We detail on what basis our votes are cast and the guidelines we direct our managers to use in our Responsible Investment Policy. We publish specific guidelines on our Voting on Environmental Issues.	We demand high standards in stewardship from our managers and their approach and associated policies are evaluated as part of the manager selection process. Voting reports are included in quarterly reports and voting execution is evaluated as part of on-going manager's monitoring. For environmental issues we have written specific guidance and reserve the right to direct the voting in accordance with these guidelines. We actively work with our overlay provider to provide input and advice on matters relating to environmental issues and other issues if our expertise

		can assist. A full voting report and statistics are available on our website. This updated no less than every 6 months.
Reporting	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should report periodically on their stewardship and voting activities. This report should include voting and be shared with clients and beneficiaries.	We include a comprehensive annual review of our activities in our Annual Report and Financial Statements and member communications. We are committed to being open and transparent and use a variety of media to communicate with our stakeholders. The EAPF team are accredited to **Customer Service Excellence** in which our work on responsible investment and stewardship has been commended.	Our website provides comprehensive information on our policy commitments and evidence of implementation of our stewardship responsibilities. Public Engagement Reports are updated quarterly on our website **www.eapf.org.uk** We require all our managers to provide us with annual assurance on internal controls and compliance through international standard or a UK framework such as AAF 01/06.
Skills and knowledge		
To contribute positively, Institutional investors should have in-depth knowledge of the investee companies and their business environment with the skills and resources needed. (Japan SC principle 7)	We believe in being an active owner. We do this directly, through our managers or through specialist service providers. We have dedicated resource for Responsible Investment strategy, policy and oversight. In-depth knowledge of investee companies is delegated to the mangers that select and monitor the companies on a day-to-day basis.	The capability and performance of each manager, in assessing environmental, social and governance factors of investee companies and their business environment, is a key component of our selection and retention criteria. Monitoring of fund manager performance is reviewed and reported regularly to Investment Sub-committee and forms part of formal annual review of each manager.

Approved by the Pensions Committee on 28 September 2017 and will be reviewed in 2020/21.

Annex 5 – Responsible Investment strategy

Introduction

Responsible investment makes business sense. For over 15 years now we have seen that our Fund generates strong financial returns by investing in companies that contribute to the long term sustainable success of the economy and society.

But with investment comes responsibility – responsibility for a wide range of environmental, social and governance issues, with none bigger and more urgent than climate change. Climate change is the biggest threat to our economy, environment, health, way of life and our future. We will use our investments to help bring about positive change, make a difference to the future and inspire others.

We are doing this for our members, who work tirelessly, and with pride to improve the environment. Asking them to participate in our Pension Fund scheme means to ask for their trust over the long term. We want to repay that trust and make them proud of what their Pension Fund stands for. That is why, as well as investing responsibly, we make sure that those investments are also the right investments financially, which will deliver the right returns to make the Pension Fund secure and fit for the long term.

Summary

Building on our achievements to date, these are our priorities for the next 5 years:

1. **We invest to build a better future by:**
    - investing significantly in sustainable and low carbon assets
    - calculating the impact on, and impact of, our fund on climate change
    - exploring opportunities for investing responsibly in all asset classes and in particular in fixed income
2. **We work with the investment community to help build a better future by:**
    - supporting the development of the Transition Pathway Initiative (TPI)
    - raising the importance of managing the physical risks from climate change
    - challenging company boards directly on their performance
    - taking part in campaigns to deliver changes in company and investor behaviour
3. **We make our members proud of their Pension Fund by:**
    - telling members about the positive impact their Pension Fund is making
    - encouraging members' feedback on how our responsible investment approach can be improved

For more detailed information on how we will implement this strategy, please see our **Policy on Responsible Investment** and **Policy to Address the Impacts of Climate Change**.

Responsible investment and ethical investment

The Environment Agency Pension Fund is a responsible investor, as opposed to an ethical investor.

An ethical investor will generally exclude certain investments from the outset, and this decision may be more important than financial considerations.

A responsible investor will invest across the full range of listed companies, but will use the power of ownership to influence companies to improve their environmental, social and corporate governance performance to manage risk and generate long term returns.

Working in partnership with Brunel Pension Partnership

This strategy takes into account the introduction of pooling across the Local Government Pension Scheme and what the EAPF's role is as part of Brunel Pension Partnership.

As asset owners, we set out how we want our money invested, in line with our **Investment Strategy**, and in which asset classes. This is known as our strategic asset allocation. We also set our strategy and ambition on responsible investment, engage externally on issues which are key to us, and retain responsibility for engaging with our members and representing their views.

Brunel Pension Partnership (Brunel) will manage our investments in line with our strategic objectives and those of 9 local government funds: Avon, Buckinghamshire, Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Somerset and Wiltshire.

This makes Brunel and our 9 fellow Funds key partners in ensuring that individual assets in our Pension Fund are being invested responsibly. We have strong links with Brunel and our common approach and thinking is reflected in **Brunel's responsible investment policy**.

Aim 1. We invest to build a better future

Over the last 10 years, we have made great strides in considering environmental, social and governance issues in our investments. This has included which funds we invest in and how we monitor their performance.

We believe well governed companies produce better and more sustainable returns.

This is key to helping us meet our legal obligations to fund our members' pensions in the short and long term. Yet there is more we can do and lots we need to carry on doing.

1.1 We invest significantly in sustainable and low carbon assets

Today, the case for investing for the long term and acting to address climate change is more important than ever, and more of an opportunity than ever. We do this by investing in sustainable and low carbon assets, in line with our strategic asset allocation and our Investment Strategy.

We aim to always have at least 33% of our investments in sustainable assets

In the absence of a common classification system, we have worked with our existing fund managers and investment consultants to define how we determine the sustainability credentials of our investments.

In summary, sustainable investments include those in energy efficiency, alternative energy, water and waste treatment, public transport, property, infrastructure, agriculture or forestry investments with a low carbon or strong sustainability criteria, and companies with progressive environmental, social or governance practices.

By 2025 17% of our investments will directly tackle climate change

Assets which we assess as directly tackling climate change include those in the fields of renewable energy, energy efficiency and other mitigation opportunities, as well as those which help address and manage climate change adaptation. These assets are a subset of our wider sustainable assets.

We aim to meet these targets through investing in line with our strategic asset allocation and working with Brunel to ensure that their portfolios integrate environmental, social and governance issues. We will report on our progress in meeting these targets every year in our annual report.

While these targets are very important to us, they will not be an artificial constraint on individual investments or our long term duty to ensure that our Pension Fund is well financed.

We are aware of proposed changes to how sustainable assets may be classified in the future. We will review our target annually, to make sure our calculations are in line with the commonly-adopted approach and can be readily understood and compared.

Fossil fuel investment presents climate change and financial risks.

We will decarbonise our equity portfolio, reducing our exposure to future emissions by 95% for coal and 90% for oil and gas by 2025 compared to the exposure in our underlying benchmark as at 31 March 2015.

'Future emissions' refers to assets in the ground owned by companies we invest in and is the amount of greenhouse gases that would be emitted should these reserves be extracted and ultimately burnt, expressed in tonnes of carbon dioxide equivalent.

We expect our exposure to coal to be minimal by 2025 but we believe that overall the right approach at this stage is to continue to decarbonise the fund but not to disinvest fully from fossil fuel companies. This is partly because some energy companies have significant renewable energy assets and also the resources to contribute to a low carbon future. Instead, the EAPF will continue to put pressure on oil and gas companies to bring about change to their business model, so that they play their role in a low carbon transition. We will also follow developments on carbon pricing closely.

1.2 We calculate the impact on, and impact of, our fund on climate change

The scientific evidence is overwhelming that by the end of this century, we need to keep changes in global temperature to below 2 degrees Celsius (2°C), compared to pre-industrial levels, to avoid the worst impacts from climate change.

There are 3 elements to climate change that we need to understand as a fund:

- How our investments are positioned in a warming world

We estimate from our modelling (Mercer's Investing in a time of Climate Change) that our portfolio is relatively well positioned to benefit from the opportunities presented by a low carbon transition and withstand the financial risks from climate change. We also know that keeping to a 2°C scenario or lower, is most beneficial from a long term investor perspective, as there are likely to be less physical risks to our investments. We will continue to monitor this.

- How much our investments are contributing to the warming

We need to understand the contribution our investments are making in relation to keeping the temperature rise below 2°C. We hope that by investing significantly in sustainable and low carbon assets, our contribution will be a favourable one but we need to measure this to understand more. We will work with others to see if we can do this to inform our approach and help improve understanding more broadly across the investment community.

- How climate change may impact on our future liabilities

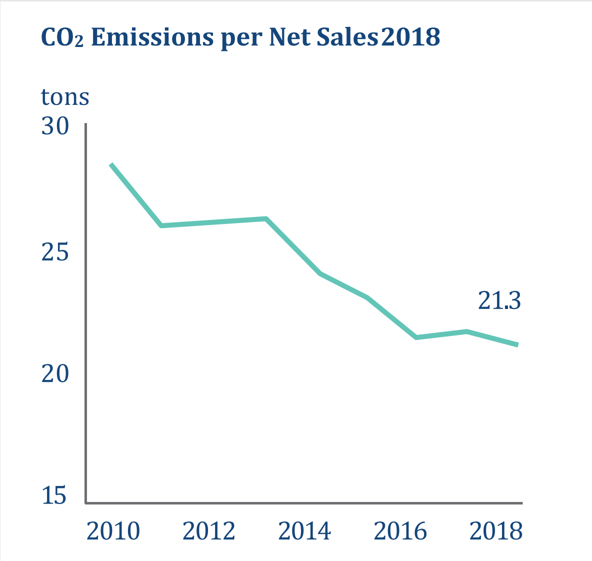
As a pension fund, we need to make sure we are able to pay our members' pensions (future payments are known as our liabilities). We have started to consider with our actuaries Hymans Robertson, the impact of climate change on our liabilities. We are keen to develop this further.

"Damaging climate impacts are already being felt. Every degree matters"
- UK Committee of Climate Change

Investment Case Study

One of our investment managers is Ownership Capital who work proactively with company management teams towards achieving a more sustainable business.

One example of this is their engagement with a global industrial manufacturer of weighing equipment. The company lacked any environmental sustainability strategy, which presented urgent risks to its long term business model and cost structure. Ownership Capital worked with the company to identify the steps needed for it to become a sustainability leader.



Over the course of the investment, Ownership Capital met regularly with the company to provide feedback and monitor progress.

The company is now recognised as one of the leaders in its industry, decreasing its carbon emissions and improving its profitability.

1.3 We explore opportunities for investing responsibly in all asset classes and in particular fixed income

We want to ensure that responsible investment is integrated across all asset classes and where it is less established, help to build opportunities.

We have a strong record of already integrating responsible investment into our investments and for working with asset managers to develop innovative approaches.

Following our review of the strategic asset allocation in 2019, we aim to invest in a new strategy for us: multi-asset credit. These are investments in a broad range of credit asset classes, for example corporate bonds and bank loans. We hope to make these investments to multi-asset credit as sustainable as possible. This will be of direct benefit to our investments and we hope the wider market. We will start engaging with Brunel and fixed income managers to develop a sustainable multi- asset credit fund which looks to make sustainable allocations and takes into account environmental, social and governance issues.

Our Targeted Opportunities Portfolio

In 2014 we started to develop our Targeted Opportunities Portfolio (TOP) to increase our allocation to sustainable private markets.

TOP enables the fund to invest directly in a few outstanding opportunities, which have strong financial and sustainability credentials. It offers us a broader scope than traditional private equity.

As of 31 March 2019, the fund had £77m invested in TOP (2% of our total fund).

We will work with Brunel to agree how best to manage this innovative portfolio and the rest of our private market allocations through the pooling arrangements.

Aim 2. We work with the investment community to help build a better future

Investors have the power to influence and change behaviour globally. As the Environment Agency Pension Fund, there are specific priorities where we want to work with the investment community to bring about change.
These are:

- **Climate Change** – helping investors understand and manage the financial risks from climate change
- **Using resources sustainably**, with a particular emphasis on reducing plastics in the environment
- **Water** – managing water quantity and water quality

For these priority areas, we will engage to bring about greater disclosure and improve environmental outcomes, including through the Taskforce on Climate-Related Financial Disclosures (TCFD). We will seek to support the Environment Agency's 5 year plan of action, the **Government's 25 year plan to improve the environment** and their **Green Finance Strategy** to help investors consider the impact of climate change within investments.

We will still support other environmental, social and governance issues which are important to us as responsible investors, for example food security, gender equality and human rights. However, these will be more resource-dependent and generally Brunel will lead on these issues on our behalf as part of the pool partnership.

Reducing plastic pollution

We have pledged financial support to an initiative to reduce the amount of plastic pellets lost in the supply chain.

Launching in late 2019, the initiative will allow the British Standards Institute to put in place an independent, auditable and accredited standard which should result in fewer plastic pellets being released to the environment.

2.1 We continue to support the development of the Transition Pathway Initiative (TPI)

The TPI is a great tool to help investors understand how successful individual companies are in managing their carbon emissions, and how they compare with peers in the same sector.

We are proud to have been one of the joint co- founders of TPI along with the Church of England. We are keen to see it developed further to cover a larger number of companies and sectors.

www.lse.ac.uk/GranthamInstitute/tpi

2.2 We work to raise the importance of managing the physical risks from climate change

Much of the focus in the investment community to date has been on the opportunities from reducing the causes of climate change by helping support the development of low carbon alternatives.

We are keen to develop wider market understanding of the physical risks from climate change and the need for investment in this area, including by sharing our experience to date.

This could help companies and investors avoid future losses, while generating social, environmental and economic benefits.

2.3 We challenge company boards directly on their performance

We aim to ask questions at 10 AGMs every year, in line with our priorities and the company's approach.

Where we can, we will use the Transition Pathway Initiative to help inform our views of individual companies, and seek to engage where appropriate where they are performing badly compared to their peers. Similarly, we will also offer encouragement and recognise progress where it has been made.

Where appropriate, we will support shareholder resolutions.

2.4 We take part in campaigns to deliver changes in company and investor behaviour

In addition to the above, we will also take part in at least 2 extra campaigns a year to help bring about change in company and investor behaviour, in line with our priorities.

Engaging on fossil fuels

We supported a resolution, which was led by the Church of England at the Shell AGM in 2018. This called for Shell to have targets to reduce the carbon footprint from the way their products are used (scope 3 emissions). The resolution did not get enough support to pass but a few months later, Shell invited us to meet with them, the Church of England and others to talk about their future approach. We were pleased to see that Shell subsequently agreed to set carbon emissions targets, integrate these into Executive pay, and to update their ambition as technology and regulation advances.

We will monitor the progress of Shell and the wider oil and gas industry in reducing emissions. If our engagement approach does not bring about wider change, we will work with our partners in Brunel to consider alternative approaches. This may include disinvesting from a particular sector or company, where there is no change to that sector or company's approach.

We also recognise that it is not just the production of oil and gas which contributes to climate change, but also its use. We support initiatives that encourage the supply chains and the general public to move to low carbon alternatives.

Engaging to support environmental disclosure

CDP (formerly the Carbon Disclosure Project) runs a global disclosure platform. This allows individual companies to report on their environmental impact to the investment community and their customers.

In 2018, 19 investors, including Environment Agency Pension Fund (EAPF) targeted 239 companies that had failed to report on water issues previously. KOSÉ Corporation (KOSÉ), the Japanese cosmetics company, had been asked to disclose on water security since 2014 but had never responded to any of the information requests.

The EAPF holds shares in KOSÉ through one of our investment managers as does Comgest, a fund manager we worked with on other markets. CDP, Comgest and EAPF, worked together to engage with KOSÉ. As a result, KOSÉ disclosed not only on water issues but also in relation to climate change and deforestation.

Aim 3. We make our members proud of their Pension Fund

All of our members have spent at least part of their career improving the environment, or providing support services to those that do.

3.1 We tell members about the positive impact their Pension Fund is making

We want to help members understand that their pension is well financed, is being managed responsibly, and it is helping to build a better future for them and others.

While many of our members may know we have a responsible investment approach, we want them to really understand what this means.

We will endeavor to provide members with interesting information which easily allows them to understand the types of investments we are making and the sorts of campaigns we are involved in.

As our approach is all about building a better future, we are keen to engage and recruit the next generation of members. We believe our responsible investment approach is one of the attractions for new staff to the Environment Agency to join a pension fund and we will make this a highlight at induction days.

3.2 We encourage members' feedback on how our responsible investment approach can be improved

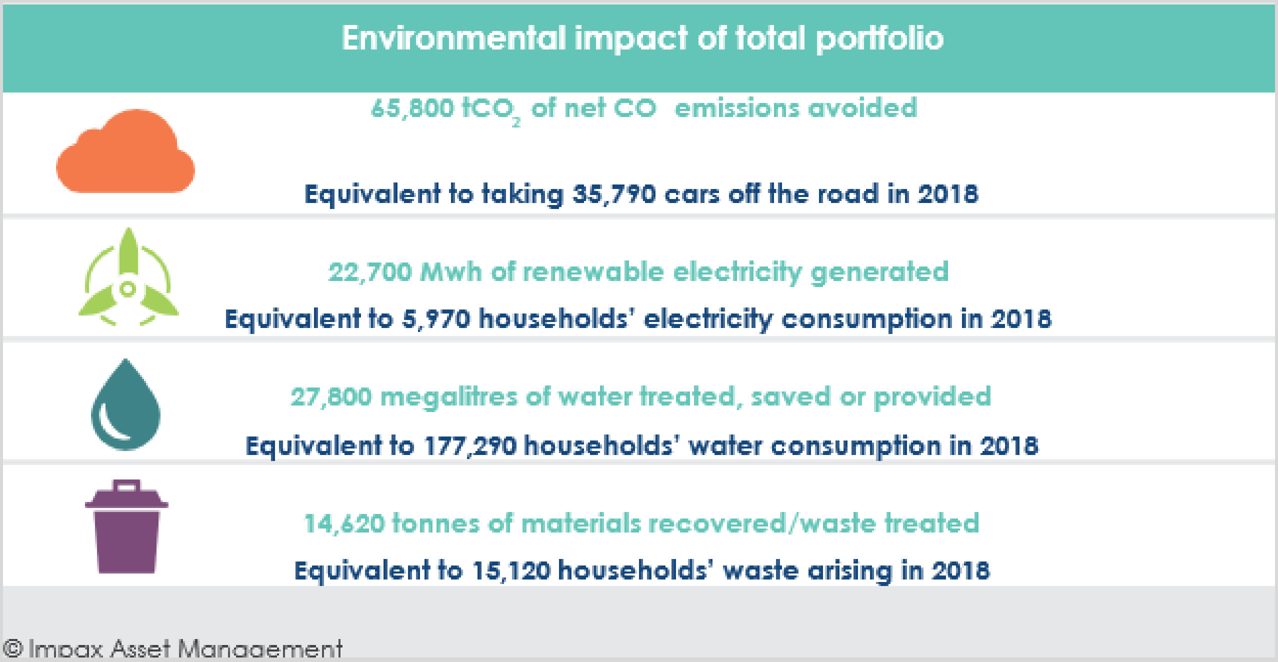
Many of our members hold passionate views about the environment and sustainability more broadly.

Every other year we will hold a members' general meeting webinar, where we will get feedback on our responsible investment approach and encourage new ideas.

We will also include responsible investment issues in member surveys, regular webinars and on our website where we will encourage feedback.

Investment Case Study

We asked Impax Asset Management, who make investments on our behalf in resource efficiency and environmental markets, what was the environmental impact of our investments with them. This is what they told us.



Figures based on an investment with Impax of approximately £115m, which equates to about 3% of the overall value of our investment fund (as of March 2019).

Investment Case Study

We partner with The Townsend Group to ensure our real asset investments are as sustainable as possible. An example of this is an investment through them in industrial property operated by Charter Hall, a market leader in sustainable real estate management.

Charter Hall works with tenants to maximise the sustainability of buildings. Standard features of industrial properties include energy efficient LED lighting, water efficient amenities, rain water tanks, solar hot water, skylights, and low toxin interiors. Roof structures generally include solar panels.

Charter Hall recently installed Australia's largest industrial solar power system at a new distribution centre. With 3,800 solar panels, the system will meet 20% of the property's energy needs and will cover its costs within 5 years.

Such initiatives result in both better building for tenants and the environment.

Annex 6 – Communications Policy Statement

Introduction

The Environment Agency Pension Fund (EAPF) is part of the Local Government Pension Scheme (LGPS). The Active Fund has three employers – the Environment Agency (EA), Natural Resources Wales (NRW) and Shared Services Connected Limited (SSCL).

The Active Fund is open to all members of the Environment Agency and to those employees of NRW and SSCL who transferred from the EA on their relevant vesting day. It has 11,482 contributing members, 8,031 deferred members and 7,212 pensioners.

The Closed Fund exists solely for the purpose of paying pensions and related benefits of a group of former employees in the water industry in England and Wales who did not transfer to one of the Privatised Water Companies' schemes in 1989. It has no contributing members, 997 deferred members and 11,182 pensioners. This Communications Policy Statement is effective from 17 June 2019.

We have an agreed strategy for implementing a move to more electronic communication which continues to evolve. These developments are reflected in this policy statement. In particular we have developed our website **www.eapf.org.uk** to provide a knowledge centre for members. Further information with details of any employer related aspects of pensions such as polices on contributions, the use of discretions etc can be found on our Fund employer's respective intranets.

Any enquiries in relation to this Communication Policy Statement should be sent to:

Pensions Engagement Specialist
Horizon House
Deanery Road
Bristol, BS1 5AH
Email: info@eapf.org.uk
Tel: 0203 025 4329

Objectives

We have identified a number of key objectives relating to how we communicate with our stakeholders, and these are:

- Communicate in a clear, concise manner
- Promote the Scheme as a valuable benefit and provide information so members can make informed decisions about their benefits
- Provide a service that is valued by all members, responding to their personal circumstances and supporting them in their decision making process.
- Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders
- Look for efficiencies in delivering communications through greater use of technology and partnership working
- Regularly evaluate the effectiveness of communications and shape future communications appropriately

Regulatory framework

With effect from 1 April 2005 regulation 106B of the Local Government Pension Scheme Regulations 1997 (as amended) required that administering authorities "….prepare, maintain and publish a written statement setting out their policy concerning communications with members; representatives of members, prospective members and employing Authorities.
Regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2007, effective from 1 April 2008, states:

This regulation applies to the written statement prepared and published by an administering authority under regulation 106B of the Local Government Pension Scheme Regulations 1997.

The authority;

- Must keep the statement under review.
- Make such revisions as are appropriate following a material change in its policy
- If revisions are made, publish the statement as revised.

The matters are;

- The provision of information and publicity about the Scheme to members, representatives of members and employing authorities.
- The format, frequency and method of distributing such information or publicity.
- The promotion of the Scheme to prospective members and their employers.

As a provider of an occupational pension scheme, we are also obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other legislation, for example the Pensions Act 2004. The disclosure requirements are prescriptive, concentrating on time-scales rather than quality. A summary of our expected time-scales for meeting the various disclosure of information requirements is set out in the section on performance measurement of this document, alongside those defined by the Disclosure Regulations.

Communication will always be in accordance with the provisions of Data Protection legislation.

Representation

The EA performs the roles of Administering and Employing Authorities with the Pensions Committee and Pension Board, supported by the Pension Fund Management team and a variety of external advisors, taking overall responsibility for Administering Authority functions. The EA's HR Pensions team performs the role of Employing Authority. The day-to-day administration of the funds is outsourced to Capita.

The Pensions Committee is a sub-committee of the EA Board with 14 members made up of 4 Board members, 2 Executive members, 1 NRW Executive member, 5 employee/Trades Union nominees, with 2 member nominees for pensioners and deferred members. The Committee is supplemented by an Investment Sub Group where specific advice can be provided by Officers, and external advisors. There are 2 Trade Union nominees on the Investment Sub-Group.

The Pension Board consists of 10 members, and includes members of the Pensions Committee less the 2 Executive Directors members of the Environment Agency and 2 Active Scheme members.

Responsibilities and resources

The EAPF is responsible for the administration of the Fund is carried out by a third party administrator for the day-to-day administration of the Local Government Pension Scheme (LGPS) on our behalf. Overall responsibility for communications rests with the Pensions Committee and Pension Board supported by the Pension Fund Management team, the HR Pensions' team and third party administrator.

All communications including any web based or electronic material are developed jointly by the Pension Fund Management team, Technical Consultants and Communications team, with support from the HR Pensions' teams.

One or more of these groups is also responsible for arranging all forums, workshops and meetings covered within this statement. Either the EAPF or the third party administrator arranges design work and printing.

Where appropriate we may use external consultants to assist with the preparation and design or with the translation into Welsh of communications.

Our expenditure on our hard copy and electronic communications is inclusive in our administration contract but we estimate that it currently equates to approximately £3.00 per member.

Communication with key audience groups

Our audience

As an LGPS Administering Authority, we communicate with a number of stakeholders. For the purposes of this communication policy statement, we are considering our communications with the following audience groups:

- Contributing members
- Deferred members
- Pensioner members
- Prospective members
- Employing authorities – HR & Payroll
- The EA Board and Executive managers
- Pensions Committee members
- Pension Board members
- Recognised Trades Union representatives
- Pensions staff and HR
- Fund administrator

How we communicate

General communication

The Fund continues to develop and enhance its communication program which started with the introduction of an easily recognisable brand and writing style. This was aligned to a restructured website using rich media (which included the use of calculators, flowcharts and audio and visual presentations) to help enhance member experience and encourage regular use. The website continues to be developed to keep up with technology and demands in the digital area.
Both our public facing website and web portal facility, EAPF Online are ‘device enabled’ which means they allow users to access information on any mobile phone or tablet in an easily readable format, so our members can look up information or access online tools in their own time.
We continue to engage with members through a number of channels to establish a view on how our members prefer to communicate and interact with the Fund.

We have introduced tailored, themed topic webinars and consult with members and Fund employers on content and introducing new sessions which are informed through customer surveys and focus groups.

These sessions are supported by newsletter, a poster campaign, E Shots and promotion through our Fund employers’ internal communication channels. The EAPF has successfully transitioned to using webinars. Members are based nationwide across England & Wales, so it provides an opportunity for all to participate, and helps those who are unable to make the time commitment or can’t get to a location depending on where they are based.

Introducing webinars allows us to:

- reach a wider audience nationwide
- remove the need for travel and time out of the office
- deliver more sessions based on demand and more choice

All topics are recorded and the recorded presentation slides are made available on our website.

Our Communications strategy

As part of our long term strategy, 2019 saw us continue our move to digital communications by using our 5 segmented groups to ensure the way we engage remains relevant and tailored to our different members.

Our segmented groups are:

- Adventure
- Protection
- Relaxed
- Detail and focus
- Companionship

The use of segmented 'E Shots', ensures we test different imagery, and messaging with our different groups to establish preferences. We have completed three years of digital campaigns with specific messages being targeted to the 5 main groups. Each communication has a 'call to action' (CTA) which may be to complete a form, or to click and watch a video etc. We are able to monitor how many messages are sent, how many are opened and how many complete the CTA, and this information is then made available in our Communication dashboard.

We monitor the feedback from members carefully, and will continue to collate responses to enable us to focus our messaging.

Here's an example

We regularly receive questions about the pension scheme and the options available to members to make the most of the money they are able to invest. At the same time we also receive questions about the scheme in general. We created a campaign using the analysis done on our segmented groups so get some key messages and information out targeted at the different kinds of member.
This was done in the form of an email which invited members to identify with one of the people in the 'case studies'.

There were 4 different members for the reader to identify with. These were written in a way that made it easy to choose which member the reader identified with. Each member profile directs the reader to various links including information about what they can do to identify any gaps in their pension, options for paying more or less in to their pension as well as where they can do some retirement modelling tor a different retirement date.

Our campaign objectives were to:

- Be inclusive and helpful, showing that we act on feedback
- Encourage members to register on the online portal and use the tools available
- Drive members to useful pages on our public website for more information

The campaign was a success and attracted over 1,340 members to the website, 1,100 of which were new users. Each of these spent an average time of 2:49 minutes engaging with the content and viewed on average 6.18 pages.

Accessibility

We do not have a policy of automatically translating our material into community languages. We do want to communicate with minority communities, so we aim to use plain English for our printed and online materials. We believe this is the most effective way to communicate with people for whom English is not their first language but we will arrange translation on request. Our website is compliant with Shaw Trust's usability standards.

Performance measurement

To measure the success of our communications with contributing, deferred and pensioner members, we measure open and click through rates, as well as conversion rates. We also use the following methods:

Timeliness

We will measure against the following target delivery timescales:

Communication	Audience	Statutory delivery period	Target delivery period
Scheme short guide	New joiners to the LGPS	Within two months of joining	Within two weeks of joining the LGPS
E Shot Introduction to the EAPF & video	New joiners to the LGPS	Within 2 months of joining	Within 1 month of joining the LGPS and on receipt of email address
Annual estimated Benefit Statements as at 31 March	Contributing & deferred members	31 August each year	31 August each year
Telephone calls	All	Not applicable	90% within 15 seconds
Issue of retirement benefits (at normal pension age)	Contributing members retiring	Within one month of retirement	On day of retirement - 90% of estimate if final details not known. Balance within five days of receipt of information
Issue of retirement benefits (early retirements)	Contributing members retiring	Within two months of retirement	On day of retirement - 90% of estimate if final details not known. Balance within 5 days of receipt of information
Issue of deferred benefits	Leavers	Within two months of notification	Within two months
Transfers in	Joiners & contributing members	Within three months of request	Within two months
Transfers out	Leavers & deferred members	Within three months of request	Within two months
Issue of forms i.e. expression of wish	Contributing & deferred members	Not applicable	Within five working days
Changes to scheme rules	Contributing & deferred & pensioner members, as required	Within three months of the change coming into effect	Within three months of change coming into effect
Pension Fund Annual Report and Accounts	All	Within two months of request	Within two working days (once published)
Spotlight	All	Not applicable	By 31 December each year
Pensioner payslips	Pensioners	On change to pension amount due	Monthly five days before pay date

Quality

We make use of a range of mechanisms to monitor the quality of our communications which include surveys, focus groups and website activity. All our publications on our website include invitations for comment on content and offer suggestions for future editions and contact details are provided.

The EAPF are accredited with the Customer Service Excellence ® standard which tests in great depth those areas that research has indicated are a priority for customers, with particular focus on delivery, timeliness, information, professionalism and staff attitude. There is also emphasis placed on developing customer insight, understanding the user's experience and robust measurement of service satisfaction.

Results

We will publish an overview of how we are performing within our annual report and financial statements and in our annual Spotlight which is available on our website. Full details will be reported regularly to our Pensions Committee.

We report to our Pension Committee quarterly, and provide a communications update annually.

Protecting member data

The Environment Agency Pension Fund (EAPF) is a Data Controller under the General Data Protection Regulations (GDPR). This means we store, hold and manage personal data in line with statutory requirements to enable us to provide members with pension administration services. To enable us to carry out our statutory duty, we are required to share information with certain bodies, but will only do so in limited circumstances.

For more information about how we hold data, who we share it with and what rights our members' have to request information from the Fund, please read our **full privacy policy**. We have also produced a helpful **Q&A factsheet**.

Review process

We will review our communication policy to ensure it meets audience needs and regulatory requirements at least every two years. A current version of the policy statement is always available at **www.eapf.org.uk/policies**

Paper copies are available on request.

Approved by the Pensions Committee on 30 September 2020 and reviewed annually.

Enquiries

Any enquiries regarding this Report should be addressed to:

Pension Fund Management
Environment Agency
Horizon House
Deanery Road
BRISTOL
BS1 5AH

Tel: 0203 025 4205
Email: **info@eapf.org.uk**

Enquiries concerning the Environment Agency Pension Scheme or entitlement to benefits should be addressed to:

Environment Agency Pensions Team
Capita
11b Lingfield Point
DARLINGTON
DL1 1AX

Tel: 0800 121 6593
Email: **info@eapf.org.uk**

The Annual Report and Financial Statements are also available at our website: **www.eapf.org.uk**

www.gov.uk/government/publications

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