

Environment Agency
Pension Fund

Active Pension Fund

**Annual Report and Financial Statements
for the year ending 31 March 2016**



Environment Agency Active Pension Fund

Annual Report and Financial Statements 2015/16

Annual Report presented to Parliament pursuant to Section 52 of the Environment Act 1995

Accounts presented to Parliament pursuant to Section 46 of the Environment Act 1995 as amended by the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003

Ordered by the House of Commons to be printed 18 July 2016

HC 422

© Environment Agency (2016)

The text of this document (this excludes, where present, the Royal Arms and all departmental or agency logos) may be reproduced free of charge in any format or medium provided that it is reproduced accurately and not in a misleading context.

The material must be acknowledged as Environment Agency copyright and the document title specified. Where third party material has been identified, permission from the respective copyright holder must be sought.

Any enquiries related to this publication should be sent to us at eapf@environment-agency.gov.uk

This publication is available at <https://www.gov.uk/government/publications>

Print ISBN 9781474128230
Web ISBN 9781474128247

ID 11021605 07/16

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

Contents

Annual report

Chairman's statement	1
About the Environment Agency Pension Fund (EAPF)	3
Pension Fund governance	8
Responsible investment	27
Pension Fund investment	34
Pension Fund administration	45

Financial statements

Foreword to the financial statements	50
Statement by the consulting actuary	52
The Certificate and Report of the Comptroller and Auditor General	54
Financial statements for the year ended 31 March 2016	56
Notes to the financial statements	58

Annexes

Annex 1 – Scheme rules and benefits	83
Annex 2 – Funding Strategy Statement	85
Annex 3 – Statement of Investment Principles	102
Annex 4 – Global Stewardship Compliance Statement	111
Annex 5 – Responsible investment policy	114
Annex 6 – Communications policy statement	117

Enquiries

Enquiries	122
-----------	-----

Chairman's statement

As Chairman of the Environment Agency's Pensions Committee, it is my pleasure to present this year's annual report and financial statements for the Environment Agency Active Pension Fund ("the Fund").

Once again, it has been a challenging but successful year for the Fund. As part of the Local Government Pension Scheme (LGPS), we started the year with a change to the way the LGPS is managed and governed. Our new advisory Pension Board went live from 1 April 2015 to provide oversight to our work on the Pensions Committee. This Board will provide any requested information on the performance and management of the EAPF to the new LGPS Scheme Advisory Board.

Improving the Fund's already strong financial performance remains paramount for us as a Pensions Committee. I am therefore delighted to report that our investments delivered excellent performance during 2015-16, despite uncertain market conditions. Our overall return was 2.3%, which was 2.6% above our strategic benchmark (-0.3%). The outperformance in the year was due to the benefits of the risk averse stance we have chosen to take to support the Fund in more difficult markets. We increased the Fund's assets by £73m to £2.73bn. Over three years the Fund has returned 8.3% p.a. (2.3% above benchmark) which reflects excellent performance.

Our funding position remains amongst the best in the LGPS and was estimated to be 92% at March 2016. We will shortly find out the results of our March 2016 triennial valuation and will work with our employers to agree contribution rates through to 2020. Our employers remain committed to providing good pension benefits for their employees and contributed £66m during 2015/16.

Over the last decade, we have become global leaders in responsible investment and actively support hundreds of other investors each year to adopt this way of working. We remain passionate about investing the Fund's assets responsibly. We fully embrace the need to deliver a truly sustainable pension Fund and meet the financial objectives of our employers and members. Our commitment to responsible investment is not an add-on; it is embedded in all our Fund investment policies, strategies and mandates. For us, responsible investment is different from ethical investment. Our goal is to maximise long term risk-adjusted returns for our members, by taking account of real world developments such as climate change for example, only exiting from fossil fuel investments as part of a wider risk and engagement framework.

2015 not only marked our 10 year anniversary as a responsible investor, but also saw us publish our highly acclaimed "Policy to Address the Impacts of Climate Change" to demonstrate to our members that we have a credible plan to deliver strong long term financial returns as the impacts of climate change materialise. We believe financial risk and opportunities will come from the physical impacts, regulation and policy. In addition, we see increased competition from alternatives and technological innovation.

We have set ourselves a global leading objective "to ensure that our Fund's investment portfolio and processes are compatible with keeping the global average temperature increase to remain below 2°C relative to pre-industrial levels, in-line with international government agreements". This objective is grounded in the wider policy framework and allows the Fund to explore a range of investment solutions. We aim to deliver the objective through the combination of positive investment in the low carbon economy, continued decarbonisation and engagement.

Last year we delivered against our target of 25 per cent of the Fund being invested in the sustainable and green economy. As far as we are aware, this commitment is more than any other large pension fund worldwide. We are delighted to report that as at 31 March 2016 we have 28% (£769m) of our assets specifically invested in companies with significant revenues involved in energy efficiency, alternative energy, water and waste treatment, public transport together with property and infrastructure funds with a low carbon, or strong sustainability criteria.

The Fund's investments during 2015/16 were based on our new investment strategy agreed in 2015. We have worked collaboratively with other LGPS and UK pension funds to create a bespoke private debt fund and have made further progress on our real assets portfolio (property, infrastructure, forestry and agriculture). Our investments and undrawn commitments in the real assets portfolio are now £330m, or 12.1% of the Fund. Sustainable infrastructure has been a focus, and highlights have been our investments with Temporis (UK wind) and Copenhagen Infrastructure Partners (UK/European renewables). These new commitments have been funded by reducing our exposure to equities.

We received further global recognition for our investment work. We won two Responsible Investment awards from the Local Authority Pension Forum (LAPF) and Local Government Chronicle (LGC). We also won the Institutional Investors Europe (IIE) and Institutional Investors UK & Ireland awards for Environment, Social Governance. We achieved a AAA rating in this year's Global Climate 500 report, ranked at number 1 in the World Index globally and have maintained our Triple A rating for 3 years in a row. In addition, Independent Research in Responsible Investment (IRRI) announced that the EAPF had been ranked 6th in a list of asset owners who have contributed most to the wider SRI debate.

We were also recognised for the successful implementation of our communication program by Professional Pensions magazine with its award for Best Communications for the Public Sector 2015. This is in recognition for our member engagement work and new digital strategy. We also achieved the Customer Service Excellence (CSE) accreditation during 2015/16, in recognition of the emphasis we place on developing customer insight and understanding what our members want from us. We also undertook a survey of our online members in January 2016, with very positive and useful feedback received. Improving how we communicate with our members will continue to be a focus for us during 2016.

As part of a broader government initiative, the Pensions Committee are currently exploring the potential pooling of the Fund's assets with nine other LGPS funds. The aim is to reduce the costs of running LGPS Funds, improve their performance, and create greater capacity for them to invest in infrastructure. The proposal is still in development. The Fund has a legal duty to act in the best interests of its members and the Committee's top priority is to ensure that the pensions of our past, present and future members are secure and well managed.

We have not yet taken a decision as to whether or not the Fund should join the proposed pooling arrangement. Our approach is to support the drawing up a full business case for pooling, and make an informed decision for the Fund's participation. We have a very strong voice in shaping the arrangements. If we were to decide to join, the Fund would still control its own money; any future investments would continue to be considered through the EAPF's investment strategy; and there would be safeguards to ensure that the money was invested responsibly.

This remains a critical piece of work for the Pensions Committee and Fund during 2016/17. We will continue to keep you informed throughout the year via our newsletters, webinars and www.eapf.org.uk. Copies of our consultation responses, policies and 10-4-10 investment articles can also be found here.

Finally, I would like to take this opportunity to thank John Varley for chairing the Pensions Committee so successfully over the last few years. I'd also like to thank everyone involved, including our employers, staff and external contractors, for helping the Committee manage the Active Fund over the last year.



Dr. Clive Elphick
Chairman, Environment Agency Pensions Committee
22 June 2016

About the Environment Agency Pension Fund (EAPF)

EAPF background

With 4.6 million members, the Local Government Pension Scheme (LGPS) is one of the largest public sector 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 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 and the Pensions Act 2004. The LGPS provides salary related, defined benefits, which are not dependent upon investment performance. As it is a statutory funded pension scheme, it is 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 now a registered public service scheme under Chapter 2 of Part 4 of the Finance Act 2004. It has achieved 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 is contracted out of the State Second Pension (S2P) because 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 Local Government Pension Scheme Regulations 2013 (SI 2013/2356) and Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (SI 2014/525). These are 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 re-evaluated earnings (CARE) for membership from 1 April 2014.

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 our Pension Board which was created from 1 April 2015. Both employees and employers contribute to the LGPS, employees' contributions are fixed, 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 each fund's assets and liabilities, which takes place every three years.

Changes to the Local Government Regulations during 2015/16

There were no changes to the Local Government Pension Scheme Regulations during 2015/16.

Pensions Act 2014

During 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 herald 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.

Other significant legislative changes affecting LGPS during 2015/16

There were no other significant legislative changes affecting the Local Government Pension Scheme Regulations during 2015/16.

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 did not receive any increase from 11 April 2016 (6 April 2015: 1.2%) as CPI for the period September 2014 to September 2015 was minus 0.1%.

Career Average pension benefits built up during 2015/16 will reduce by minus 0.1% from 11 April 2016.

The following table shows the rate of increases that have applied to pensions in payment and deferred pensions since 1993:

Year (April)	% Rate of Increase	Year (April)	% Rate of Increase	Year (April)	% Rate of Increase
1993	3.6	2001	3.3	2009	5.0
1994	1.8	2002	1.7	2010	0.0
1995	2.2	2003	1.7	2011	3.1
1996	3.9	2004	2.8	2012	5.2
1997	2.1	2005	3.1	2013	2.2
1998	3.6	2006	2.7	2014	2.7
1999	3.2	2007	3.6	2015	1.2
2000	1.1	2008	3.9	2016	0.0

Pension Fund membership

Unless they have elected in writing, all full and part time employees, whether permanent or temporary (over 3 months), become active members of the Fund. The 12 months ended 31 March 2016 have seen a 0.4% increase in the Fund's active members (2015: decrease of 5.0%). There was an increase of 2.9% in deferred members (2015: increase of 0.6%) and 5.5% increase in pensioners (2015: increase of 5.4%).

Movement in number of members and pensioners

	Active members	Deferred members	Current pensioners	Total
At 1 April 2015	10,686	6,923	5,749	23,358
Adjustment for late notifications	16	18	16	50
Adjustment for unpaid refunds	-	-	-	-
Revised opening balance	10,702	6,941	5,765	23,408
Add:				
New active members	640	-	-	640
New deferred members	-	325	-	325
New pensioners	-	-	408	408
	640	325	408	1,373
Less:				
Deferred benefits	(325)	-	-	(325)
New retirement pensions	(248)	(93)	-	(341)
Deaths in service	(5)	-	-	(5)
Refunds of contributions	(22)	-	-	(22)
Options pending	(9)	-	-	(9)
Transfers out	(1)	(46)	-	(47)
Deaths in deferment	-	(6)	-	(6)
Commutation of pension	-	-	(1)	(1)
Death in retirement	-	-	(99)	(99)
Suspended/Ineligible pensions	-	-	(10)	(10)
	(610)	(145)	(110)	(865)
At 31 March 2016	10,732	7,121	6,063	23,916

Age profiles of members and pensioners

Age profile of active members at 31 March	2016		2015	
	No.	%	No.	%
15-19	7	0.1	4	0.1
20-24	153	1.4	124	1.1
25-29	740	6.9	770	7.2
30-34	1,438	13.4	1,570	14.7
35-39	1,855	17.3	1,787	16.7
40-44	1,718	16.0	1,689	15.8
45-49	1,694	15.8	1,720	16.1
50-54	1,520	14.2	1,454	13.6
55-59	1,034	9.6	1,008	9.4
60-64	492	4.6	488	4.6
65-69	77	0.6	68	0.6
70-74	4	0.1	4	0.1
Total	10,732	100.0	10,686	100.0

Age profile of deferred members at 31 March	2016		2015	
	No.	%	No.	%
20-24	18	0.3	38	0.5
25-29	305	4.3	372	5.3
30-34	873	12.2	913	13.1
35-39	1,304	18.3	1,265	18.3
40-44	1,326	18.6	1,297	18.8
45-49	1,403	19.7	1,351	19.5
50-54	1,106	15.5	987	14.3
55-59	646	9.1	576	8.3
60-64	131	1.8	118	1.7
65-69	8	0.1	5	0.1
70-74	1	0.1	1	0.1
Total	7,121	100.0	6,923	100.0

Age profile of current pensioners at 31 March	2016		2015	
	No.	%	No.	%
Child dependants	59	0.9	60	1.0
Pensioners and spouses				
Under 50	53	0.8	56	1.0
50-54	58	1.0	62	1.1
55-59	277	4.6	306	5.3
60-64	1,280	21.1	1,271	22.1
65-69	1,769	29.2	1,681	29.1
70-74	1,252	20.6	1,147	20.0
75-79	784	12.9	713	12.4
80-84	382	6.3	349	6.1
85-89	138	2.3	99	1.7
90-94	10	0.2	4	0.1
95-99	1	0.1	1	0.1
Total	6,063	100.0	5,749	100.0
Total membership	23,916		23,358	

Summary of active member retirements

	2016	2015
Ill Health Retirements (all ages) Tier 1	7	10
Ill Health Retirements (all ages) Tier 2	-	1
Ill Health Retirements (all ages) Tier 3	1	1
Early Retirements - efficiency/redundancy over age 55	32	59
Early Retirements - with employer consent	1	-
Flexible retirements - over age 55	43	36
Early Retirements - age 60 and under age 65	118	96
Normal Retirements - age 65	11	5
Late Retirements - over age 65	35	31
Total retirements	248	239

Pension Fund governance

Introduction

The Environment Agency is the administering authority responsible for maintaining and managing the Environment Agency Pension Closed and Active Funds (the Fund), 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 here: <https://www.eapf.org.uk/trustees/governance-policies>

Sir James Bevan was appointed Chief Executive of the Environment Agency on 30 November 2015. As Chief Executive, Sir James Bevan is an ex officio attendee of the Pensions Committee as Accounting Officer.

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
- 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 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 outline the key responsibilities of administering authorities in managing the Scheme.

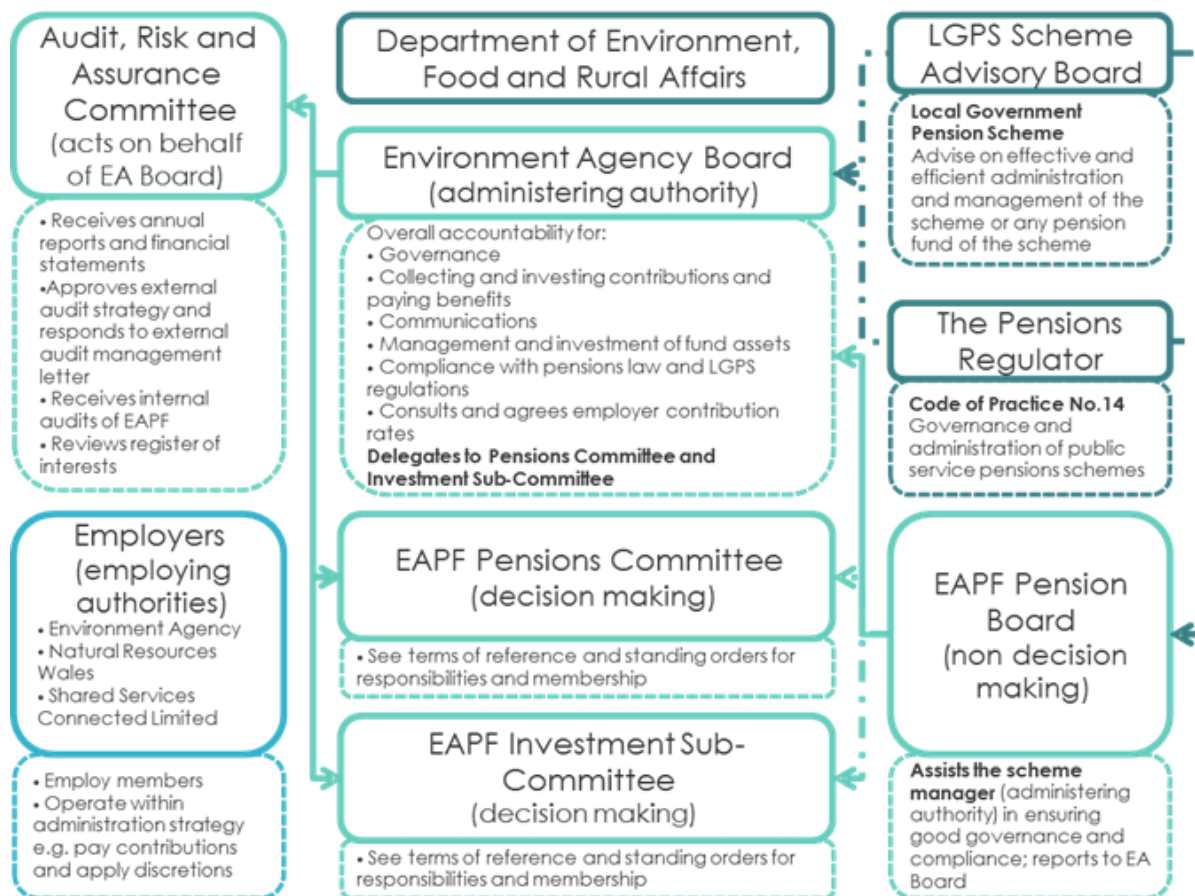
Our Governance Structure

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 was 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. The EAPF is also responsible for administering some unfunded benefit payments.

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. This governance structure and interaction with some other stakeholders is illustrated further in the following diagram:



Key Governance Documents

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

Title	Description
The Environment Agency's Framework Document - Schedule 7 (Pensions)	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	As 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 21.
Training Policy	As 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	As approved by the Pensions Committee, this outlines how potential and actual conflicts of interest will be managed in relation to EAPF matters.

All members must declare any conflicts of interest prior to each quarterly meeting. These are recorded and held on the register of interest by our Secretariat. The Chairman 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 scheme members and employers in the EAPF with equal voting rights.
Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.	<p>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.</p> <ul style="list-style-type: none"> In line with the Regulations the Governance Compliance Statement will be filed with the Department for Communities and Local Government DCLG.
Understand and monitor risk	<p>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 Risk and Assurance Committee.</p> <p>Ongoing consideration of key risks at PC and ISC meetings.</p>
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.	<p>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.</p> <p>A Training Policy is in place together with appropriate measures to ensure its objectives are being achieved.</p>
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 its objectives are being achieved.

Pension Board

From April 2015, the Department for Communities and Local Government (DCLG) introduced new governance arrangements 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 Environment Agency Pension Fund has a Pensions Committee supported by an Investment Sub-Committee. The terms of reference and standing orders for these committees were reviewed and updated when drawing up terms of reference and standing orders for the new Pension Board.

We decided that as these bodies provide for the governance of the Pension Fund together that there would be just one set of terms of reference and standing orders. We believe that this makes it easier to understand how these bodies work together and what the roles and responsibilities of each body are.

Further information on our governance arrangements can be found here:

<https://www.eapf.org.uk/trustees/governance-policies>

Role of Pension Board

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.

The EAPF Pension Board meets quarterly and provides a governance overview including a:

- Review of Risk Management and Risk Registers
- Review PC effectiveness outcomes and Pensions Regulator requirements
- Review customer service excellence
- Review of Pensions Committee meeting and Pension Board effectiveness

A report is provided annually to the Environment Agency Board and Environment Agency Audit and Risk Assurance Committee on its responsibility for assisting the administering authority on securing compliance and ensuring effective and efficient governance and administration.

Membership

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

Employer Representatives

- 4 Non-Executive Environment Agency Board members (the Chair of the PC would normally be the Chair of the Pension Board otherwise another Non-Executive Environment Agency Board member).
- 1 Non-Environment Agency Employer Representative (or deputies).

Member Representatives

- Active Scheme Member Representatives.
- 2 Pensioner or 1 Pensioner and 1 Deferred Scheme Member Representatives.

Pensions Committee activities 2015/16

The Pensions Committee has provided a strong steer throughout the year on a significant number of large changes that will have a long term impact on the performance of the Fund. It has been essential that it has received and responded to quality information and made timely and strategic decisions in line with the foundation of the policies it has had in place:

- (a) LGPS Investment Pooling – the Government driven requirement for all LGPS funds to pool assets so as to provide savings in investment management costs. The EAPF propose to pool with a number of LGPS funds, mainly from the South West of England ('Project Brunel'). This is a major project, with the EAPF taking some of the leading roles. The main stages of establishment and implementation are likely to extend into 2017/18.
- (b) Developing and launching the Responsible Investment Strategy and Climate Change Policy - these include key areas for engagement with stakeholders and have already achieved national and global recognition.
- (c) Defra Corporate Service Review – Providing ongoing information on pension options.
- (d) Conflict of Interests Policy and Reporting Breaches Procedure – these were developed and implemented to capture EAPF and LGPS specific requirements.
- (e) Communications Strategy – developing the foundations for ongoing roll out of the EAPF digital engagement plan including audience segmentation and educating different target groups.
- (f) National Frameworks – as a Founding Authority, working with other LGPS administering authorities to establish national procurement frameworks for legal services, actuaries, ESG providers and third party administration.
- (g) The Pension's Regulator Code of Practice for Public Service Pension Schemes – a detailed check against the Regulator's Code, which highlighted an extremely high level of compliance.

Pensions Committee membership, Chairman and members

The Environment Agency Board appoints members in accordance with our Governance Compliance Statement. Membership of the 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 (being the Environment Agency Executive Director of Finance and the Executive Director of Resources and Legal Services).
- 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 ISC will be appointed by the Environment Agency Board and will normally be 7 Committee Members as follows:

- 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).

During the year, we had a change of Pensions Committee (PC) chair and two changes in our Board appointed members. John Varley resigned as chair in June 2015 and was replaced by Dr. Clive Elphick, who was previously chair of the Investment Sub-Committee (ISC). Emma Howard Boyd subsequently became chair of the ISC. John Varley was replaced on the PC by Karen Burrows until 8 February 2018. Robert Light's tenure with the Environment Agency ended on 30 June 2015 and he was replaced on the PC by Gill Weeks until 1 October 2017.

There was one change in our Executive member nominees during the year. Dawn Turner, Chief Pensions Officer, stepped down from the PC as part of the introduction of the Pension Board. Kevin Ingram, Executive Director of Corporate Services for Natural Resources Wales had his tenure extended for a further 3 years to July 2018.

There was one change in our Active member nominees during the year. Simon Peate left the Environment Agency on 31 January 2016 and we are currently recruiting for a replacement. Colin Chiverton had his tenure extended for a further 3 years to 31 March 2019. Ian Brindley was appointed as a member of the ISC and Pension Board following Simon Peate's departure.

Our pensioner member Brian Engel left the PC in May 2015. He was replaced by Peter Smith for a 3 year period to May 2018. We also appointed a new deferred member, Hywel Tudor, for a period of 3 years to May 2018.

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

As at 31 March 2016	Membership	Date of appointment	Length of service	End of current appointment	Residual period of current appointment
Board members					
Dr. Clive Elphick	PC, ISC, PB	01/09/12	3 yr 7 mth	31/07/17	1 yr 4 mth
Emma Howard Boyd	PC, ISC, PB	18/10/12	3 yr 6 mth	30/06/19	3 yr 3 mth
Gill Weeks	PC, PB	01/07/15	0 yr 9 mth	01/10/17	1 yr 6 mth
Karen Burrows	PC, PB	08/02/16	0 yr 2 mth	31/08/18	2 yr 5 mth
John Varley	PC, PB	01/11/09	6 yr 5 mth	08/02/16	Resigned
Robert Light	PC, PB	07/07/09	6 yr 9 mth	30/06/15	Resigned
Executive members					
Mark McLaughlin	PC, ISC	01/11/09	6 yr 5 mth	n/a	n/a
Jonathan Robinson	PC	01/04/12	4 yr 0 mth	n/a	n/a
Kevin Ingram	PC, ISC, PB	07/07/09	6 yr 9 mth	06/07/18	2 yr 3 mth
Active members					
Jackie Hamer	PC, ISC, PB	01/04/08	8 yr 0 mth	31/03/17	1 yr 0 mth
Colin Chiverton	PC, ISC, PB	01/04/13	3 yr 0 mth	31/03/19	3 yr 0 mth
Ian Brindley	PC, ISC, PB	01/11/14	1 yr 5 mth	31/10/17	1 yr 7 mth
Dorothy Holding	PC	01/01/15	1 yr 3 mth	31/12/17	1 yr 9 mth
Simon Peate	PC, ISC, PB	07/07/11	4 yr 9 mth	31/01/16	Resigned
Pensioner members					
Peter Smith	PC, PB	14/05/15	0 yr 11 mth	13/05/18	2 yr 1 mth
Brian Engel	PB	22/05/05	10 yr 11 mth	21/11/15	Resigned
Deferred member					
Hywel Tudor	PC, PB	14/05/15	0 yr 11 mth	13/05/18	2 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.

Dr. Clive Elphick has been a member of the Committee since 2012 and chair of the Committee since 2015. He attended the Committee for about a year before becoming a member. He has undertaken and is continuing to undertake actuarial and investment training. Clive is a CIMA qualified accountant and a former Group Financial Controller of United Utilities Group plc. He has also chaired the audit committee of a Department of State for five years. Clive has attended the three day LGPS Trustee Training Fundamentals course.

Emma Howard Boyd is Acting Chair of the Environment Agency. 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 ShareAction (Chair of Trustees), Future Cities Catapult (Vice Chair), Menhaden Capital PLC the Aldersgate Group, the 30% Club Steering Committee, the Executive Board of The Prince's Accounting for Sustainability Project and the Carbon Trust Advisory Panel.

Gill Weeks joined the Committee in 2015 having joined the Environment Agency Board in September 2014, she is currently Chair of the Environment and Business Committee. She is Area Board Member for Yorkshire and is lead Board Member for Waste and Process Industry. Gill has attended training events on the LGPS and will develop her knowledge on pension fund management over time. Gill joined the Board having spent 25 years in the waste management and resources sector becoming a renowned industry expert, she was awarded the OBE for services to the waste management industry in 2011. Gill has a Law degree, is a Fellow of the Chartered Institute of Waste Management and is a Chartered Environmentalist.

Karen Burrows joined the Pensions Committee in February 2016. She has a legal and commercial professional background and has held several general management roles. She started her career practising as a commercial lawyer for Linklaters. She joined BG Group Plc in 1985 and had many years of legal and management team experience with BG Group Plc from 1985 including being Deputy General Counsel for BG Group Plc from 1997 to 1999. Later roles included being Vice President and President of BG Canada, Vice President (South and East Asset) for BG Trinidad and Tobago and Commercial Director for BG Advance.

Mark McLaughlin is a CIPFA qualified accountant. He was a Director of Finance in Local Government and the Senior Civil Service before he joined the Environment Agency in 2009. Between 1998 and 2007 he was responsible for, and was Section 151 Officer for, two LGPS pension funds, the London Borough of Hammersmith and Fulham, and the London Borough of Enfield. Mark has been an active contributing member of the LGPS since 1987. In 2015 he was appointed Group Chief Finance Officer for Defra and retains management responsibility for the EAPF Pensions Team.

Jonathan Robinson is Executive Director of Resources and Legal Services at the Environment Agency. He joined the Environment Agency in 2009. Jonathan is qualified as a solicitor in England and Wales, and barrister and solicitor in New Zealand. He has undertaken a range of training since joining the Committee.

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.

Jackie Hamer has been an active member of the Fund since 1985, and an active member nominee since 2008. She has undertaken training on a range of pensions issues, including outsourcing, bulk transfers, cost sharing, funding strategies and investment strategy, as well as the 3 day LGPS Trustee Training Fundamentals course. As a lead lay negotiator within UNISON Jackie also has significant involvement with pension issues within the trade union movement, and has dealt with pension issues on behalf of her members.

Colin Chiverton has been a member of the Committee since 2013. He is an Area Environment Manager in West Thames Area and has been an active member of the LGPS for 28 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 team leader. 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.

Dorothy Holding holds MSc in Management Practice and is MCIPS qualified and has recently joined the Committee having been a Steward for a number of years and more recently a Pension Advisor. She previously worked for Dept. of Environment Property Services Agency in their Contracts Division and the NHS in Procurement and was an active Unison member whilst there. She joined the Agency in 2009 and is a Senior Commercial Officer for Northern Ops working out of Richard Fairclough House.

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. Peter is currently the Chairman of The Rechabite Friendly Society which trades as Healthy Investment.

Hywel Tudor is a deferred member of the EAPF having previously worked for the NRA and Environment Agency in Wales. Hywel became a member of the Pensions Committee and Pension Board in 2015, and has since attended the three day LGPS Trustee Training Fundamentals course. A qualified accountant (FCMA, CGMA) with senior experience in the public, private and charity sectors, he is currently Director of Finance & Resources for the Arts Council of Wales. He is also a member of the Pension Trustee Board for the Arts Council Retirement Plan, a role held for over 14 years.

Committee training

As an administering authority of the LGPS, the Committee recognises 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 have a training policy which addresses the strategy for the Pensions Committee and senior officers responsible for the management of the fund. The strategy adopts the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) Knowledge and Skills Framework. The Pensions Committee's training policy was updated in March 2016. Following the implementation of the local Pension Boards CIPFA extended their framework to include the knowledge and skills required for the Pension Board members to exercise their functions under the Pensions Acts 2004 (as amended by the Public Services Pension Act 2013).

The training needs of Pensions Committee members and Pension Board members are assessed on an individual basis and take account of members' existing expertise and interests in specific areas. We also provide for our fund members knowledge of their Pension Scheme and run a series of webinar briefings for employees presented by Pension Fund officers, our third party administrator Capita and Human Resources (HR) staff.

In each year Pensions Committee members are expected to undertake two to three days' training aimed at building or refreshing their knowledge and skills in specific topics in greater depth. Last year we introduced an enhanced training log system that provides an individual certificate of Knowledge and Understanding. These certificates are published on our website and show the full training log throughout membership of the Pensions Committee for each individual member during the last financial year.

The key strategic training focus in 2015/16 for the Pensions Committee as a whole has been the preparing for the 2016 triennial valuation. In addition the announcement in July 2015 that all LGPS would need to pool their assets in 6 pools of £25 billion brought a significant new agenda item to each meeting of the Pensions Committee, Investment Sub-Committee and Pension Board.

Committee training log 2015-16	Triennial Valuation	LGPS Asset Pooling	CIPFA Introduction to LGPS	AON Hewitt 3 day Pension Board Training	LGPS 3 day Fundamentals Training	Responsible Investment Conference	TPR online training modules	Conference of Parties 21	Investment Training: Asset Classes	Introduction Training
Environment Agency Board Members										
Dr. Clive Elphick Chair of Pensions committee	✓	✓					✓		✓	
Emma Howard Boyd Chair of Investment Sub-Committee	✓	✓				✓	✓	✓	✓	
Robert Light										
Gill Weeks	✓	✓		✓			✓			✓
John Varley										
Karen Burrows		✓					✓			
Executive members										
Mark McLaughlin	✓	✓						✓		
Jonathan Robinson	✓	✓								
Kevin Ingram Natural Resources Wales	✓	✓					✓		✓	
Active member nominees										
Jackie Hamer	✓	✓					✓		✓	
Simon Peate	✓	✓							✓	
Colin Chiverton	✓	✓	✓				✓		✓	
Ian Brindley	✓	✓					✓		✓	✓
Dorothy Holding	✓	✓	✓	✓			✓			✓
Pensioner members										
Peter Smith		✓	✓	✓			✓			✓
Brian Engel	✓									
Deferred member										
Hywel Tudor	✓	✓			✓		✓			✓

Members' attendance at Committee meetings through the year

During the past year the Pensions Committee (PC) met on five occasions (including one special meeting) and the Pension Board (PB) met on four occasions. The Investment Sub-Committee (ISC) met on four occasions. There were also additional training sessions as detailed above.

Committee members	Pensions Committee meeting 5 in total	Pension Board meeting 4 in total	Investment Sub-Committee 4 in total	Number of training days	Total
Board members					
John Varley	1/1	0/1	1/1	-	2
Robert Light	1/1	1/1	-	-	2
Dr. Clive Elphick (Chair)	5	4	3	4	16
Emma Howard Boyd	5	2	3	6	16
Gill Weeks	3	1	-	5	9
Karen Burrows	2	1	-	2	5
Executive members					
Mark McLaughlin	3	-	2	3	8
Jonathan Robinson	1	-	-	2	3
Kevin Ingram	5	3	1	4	13
Active members					
Jackie Hamer	4	2	4	4	14
Simon Peate	3/3	3/3	3/3	3	12
Colin Chiverton	5	4	4	5	18
Ian Brindley	5	1/1	4	5	15
Dorothy Holding	4	-	-	6	10
Pensioner Member					
Peter Smith	5	2/2	-	5	12
Brian Engel	-	2/2	-	1	3
Deferred member					
Hywel Tudor	3	3	-	5	11

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 Bank Plc
Benefit Adviser	Hymans Robertson
Custodian	The Northern Trust Company
External Auditor	Comptroller and Auditor General
Governance and risk	Aon Hewitt
Investment Adviser	Hymans Robertson
Independent Investment Adviser	Investment Adviser and Trustee Services Ltd
Legal Adviser	Osborne Clarke
Pensions Administrator	Capita

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 25 March 2015 and reflects the governance up to 31 March 2015.

The EAPF will have a local Pension Board from 1 April 2015 and the Governance Compliance Statement that is effective from 1 April 2015 was also approved by the Environment Agency Pensions committee on 25 March 2015. It will be reviewed at least annually to ensure it remains up to date and meets the necessary regulatory requirements. This includes the statements showing compliance with providing with the additional requirement:

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

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).	<p>The Pension Board is a non-decision making body responsible for assisting the administering authority in:</p> <ul style="list-style-type: none"> 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. <p>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.</p> <p>Further information is in the Terms of Reference and Standing Orders and the Operational Guidance.</p>

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	<p>Our PC has 14 members, appointed by the EA Board and includes:</p> <ul style="list-style-type: none"> 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. <p>3 Scheme Member Representatives and the 1 Non EA Employer Representative are also members of the Investment Sub-Committee (ISC)</p>
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 audited annually.
D – Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending	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.


voting rights to each body or group represented on main LGPS committees.		
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	<p>We have 7 'lay' members on our main PC, comprising 5 active scheme member representatives and 2 pensioner/deferred member representatives.</p> <p>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.</p> <p>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.</p>

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



Dr. Clive Elphick
Chairman
Environment Agency Pensions Committee
22 June 2016



Sir James Bevan
Accounting Officer
Environment Agency
4 July 2016

Responsible investment

2015 was not only the year of our anniversary of celebrating 10 years of being a responsible investor, but also saw us publish the highly acclaimed Policy to Address the Impacts of Climate Change, which together with our actions saw us invited to share at the COP21 United Nations Conference on Climate Change. Over the last decade, your pension Fund has become a global leader in responsible investment and actively supports hundreds of other investors each year to adopt this way of working.

Being responsible investors to us is to;

- 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.
- Look to work with and influence others.
- Act as good owners of the companies, assets and funds in which we invest.
- Operate in an open and transparent way.

We have summarised some of our key achievements in responsible investment during the year in this part of the report, but encourage you to review the responsible investment section of our website. In addition to the responsible investment area where there is access to our policies, voting records and regular updates on engagements with companies, there is also a dedicated section on climate risk.

Improving communication to our members and other stakeholders is one of our top priorities. In celebrating our 10 years of responsible investment, we have written several articles that look at different aspects of pension fund investment, for example, why we think it is important that our managers engage with companies and vote.

Considering all the issues

We integrate management of Environmental Social and Governance (ESG) issues throughout the investment and funding strategy. This includes asset allocation, mandate design, risk management, fund manager appointment and monitoring, collaborative engagement and transparent reporting. Thinking about these issues at a strategic level is critical.

We have updated our Responsible Investment Policy to provide both links to our Policy to Address the Impacts of Climate Change, but also to set out what the areas of engagement that as a fund we have selected to have particular focus. These are;

- **Fiduciary duty** – promoting the implementation of the Law Commission recommendations. Key engagement targets are DWP, DCLG and the tPR.
- **Long termism** – furthering the implementation of the Kay review recommendations and a focus on fund manager reporting. Key engagement target, investment industry, to demonstrate through our actions how the principles can be applied and add value.
- **Sustainable capitalism and impact investing** – communicating positive case studies from our portfolio. Key engagement targets are the investment industry and other pension funds.
- **Climate change** – engaging with pension funds and other stakeholders to develop and share best practice. Key engagement targets are other pension funds, fund managers and industry advisors. Engagement with regulators and companies will be indirect, through developing tools to increase transparency and active support of our [partners in climate change](#) (see policy for more details).
- **Water risk** – promote the risk identification and integration. Key engagement targets are fund managers and other pension funds.
- **Human capital** – promoting business case for diversity/ inclusion and consideration of the Living Wage. Key engagement targets are own contracted fund managers and services providers. This work links to supporting the 30% Club and our employers work on diversity and inclusion.

To complement and support the implementation of our themes we work with our managers, specialist engagement provider Hermes EOS and other service providers. In 2015 we also became members of the Local Authority Pension Fund Forum (LAPFF).

Hermes EOS and LAPFF set engagement priorities for coming year which set out sector and country priorities, these will include issues such as human capital management, remuneration, tax transparency and cyber risk. These are just a few of a much longer list of issues.

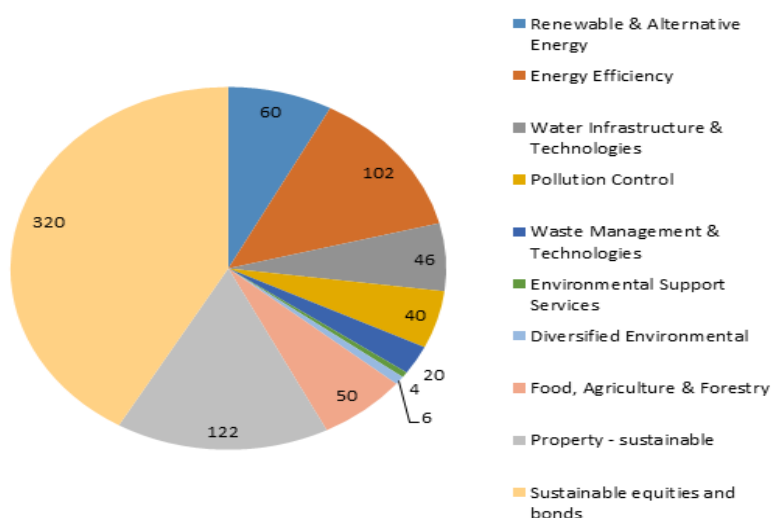
All the assets of the pension fund are selected by external fund managers. This means that it is our external fund managers who make the detailed decisions in which companies we invest in. This is important in avoiding conflicts of interest for our employers, but also gives us the flexibility to select 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 indeed time and energy, in selecting good quality managers who deliver financially and can manage the wide variety of risks that come with making investments.

We believe that using the combined skills of ourselves, our managers and all these groups enable us to be confident that we are engaging on all material ESG risks to the Fund.

Sustainable investment

Last year we delivered against our target that 25% of the Fund will be invested in the sustainable and green economy. We committed to maintain and aim to look to increase this commitment. We are delighted to report that as at 31 March 2016 we have 28% (£769m) invested in these assets specifically in companies with significant revenues (in excess of 20%¹) involved in energy efficiency, alternative energy, water and waste treatment, public transport together with property and infrastructure funds with a low carbon, or strong sustainability criteria. A breakdown of our clean and sustainable investment is shown in the below piechart.

**Clean Technology
and Sustainable Investment
(£m)**



We set ourselves the target to maintain at least 25% of our investments in clean technology and other sustainable opportunities – far more than any other pension fund worldwide.

Investments include:

- Property opportunities targeting energy efficiency, urban regeneration and sustainability.
- Venture capital funding the next generation of technologies that provide new solutions –such as electric vehicles and LED lighting.
- Long term sustainable infrastructure, such as renewable energy and energy efficiency.
- Agriculture funds that aim to achieve the high standards in environmental and social management.
- Listed companies demonstrating best practice in sustainability, improving efficiency and reducing social and environmental impacts.

¹ we use the FTSE Environmental Markets classification and with the help of Impax Asset Management (our global equity manager who focuses on environment technologies) to analyse our public and private equity holdings including the pooled funds.

Environmental footprinting

We undertake environmental footprinting of the active equities and bonds, which looks at companies' environmental impacts; for example, how efficient are they in the use of raw materials, water and energy, the waste produced and carbon emitted. The methodology calculates inputs via a company's supply chain and waste outputs based on publically available information.

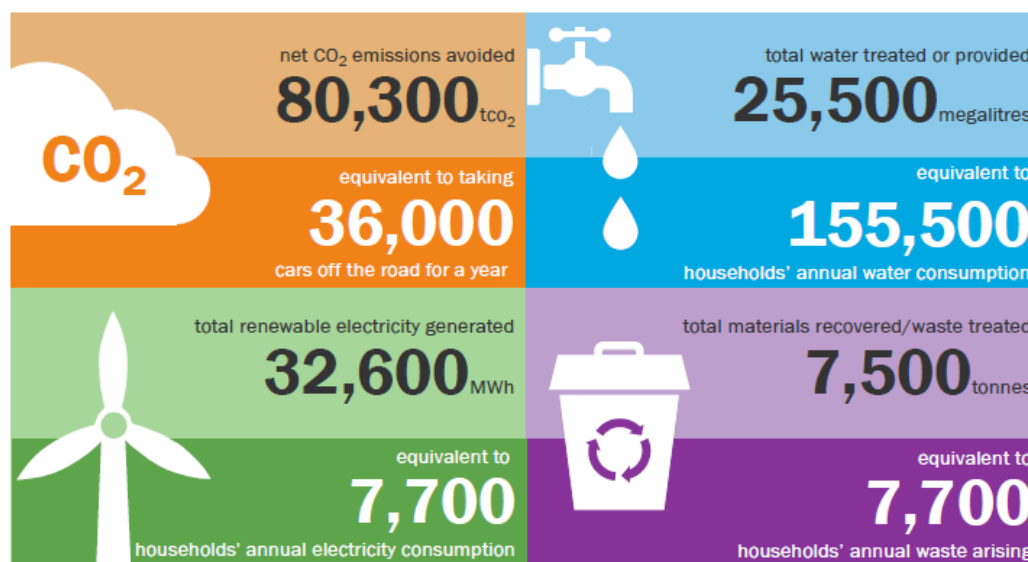
The footprint for each equity manager, in relation to the Fund, is compiled by allocating a proportion of the environmental impact of each company, relative to the amount of stock that is held. For corporate bonds each holding's contribution to the environmental footprint of the portfolio is calculated on a capital ownership basis (the bond value as a proportion of enterprise value).

For 2016 our active equities are 10.9% more environmentally efficient per million pounds invested than the market average² and 29.6% for our active bonds. Whilst environmental and carbon footprinting are useful, they are also limited in what they tell you about the full impacts of a portfolio. For example, the scope of the footprinting seeks to determine a company's operational environmental impact and use of resources within its upstream supply chain. However, any environmental impacts, and therefore any efficiencies or benefits, of the company's output during its 'in-use' phase are not currently captured within this scope.

Making an impact

Impax, our environmental technology equity manager, has developed a methodology to assess the 'in use' benefits of its investments. The table below, courtesy of Impax, illustrates the impact of the total amounts invested in our portfolio for one year.³ This is the positive contribution from just one of our portfolios. Over time we would like to build on these types of methodology to capture other positive impacts our investment strategy is delivering.

The ability to capture downstream or 'in-use' benefits across companies on a large scale, will only be feasible when companies are able to robustly report on downstream impacts using methodologies such as Natural capital accounting (a process of calculating the total stocks and flows of natural resources and services). We support work within our employers to progress National Capital Accounting practices and reporting.



² Our benchmark for environmental and carbon footprinting in MSCI All Country World index

³ The UK Green Investment Bank's calculator was used to translate the impact into the everyday equivalents e.g. cars on the road. The figure above is based on the most recently reported annual impact data for holdings by the Environment Agency Pension fund portfolio as at 31/12/2015. The methodology has been assured by Ernst & Young LLP.

Addressing the impacts of climate change

As part of Good Money Week 2015, we published our Policy to Address the Impacts of Climate Change to demonstrate to our members we have a credible plan to deliver strong long term financial returns as the impacts of climate change materialise. We believe financial risk and opportunities will come from the physical impacts, regulation and policy alongside increased competition from alternatives and technological innovation.

We have set ourselves a global leading objective 'to ensure that our Fund's investment portfolio and processes are compatible with keeping the global average temperature increase to remain below 2°C relative to pre-industrial levels, in-line with international government agreements.'

This not a knee jerk reaction, but a culmination of over a decade's worth of work by the Fund to consider these issues as part of the investment strategy.

The objective is grounded in the wider policy framework and allows the Fund to explore a range of investment solutions. We aim to deliver the objective will be through the combination of positive investment in the low carbon economy, continued decarbonisation and engagement.

Our climate change investment beliefs

We believe 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.
- 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.
- Considering the impacts of climate change is both our **legal duty** and is entirely consistent with **securing the long term returns** of the Fund and is therefore acting in the best long term interests of our members.
- **Selective risk-based divestment** is appropriate but **engagement for change** is an essential component in order to move to a low carbon economy.

We set ourselves three goals for 2020 to invest, decarbonise and engage.

Climate goals	Progress
Invest 15% of the fund in low carbon, energy efficient and other climate mitigation opportunities.	7% invested with current commitments bringing it to 11%.
Decarbonise the equity portfolio, reducing our exposure to 'future emissions' ⁴ by 90% for coal and 50% for oil and gas by 2020 compared to the exposure in our underlying benchmark as at 31 March 2015.	Coal is currently 60% less than our baseline. Oil and gas is currently 82% less than our baseline.
Supported progress towards an orderly transition to a low carbon economy through actively working with asset owners, fund managers, companies, academia, policy makers and others in the investment industry.	Active engagement across the industry with a strong focus on working collaboratively. More information on our website.

⁴⁴ 'Future emissions' 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.

⁴ 44% reduction in the carbon footprint of our combined active equities

The results on our progress are encouraging and whilst we look to have exceeded our target reduction in oil and gas we anticipate that during the energy transition away from coal to alternatives, this may result in increased exposure to oil and gas, but are confident in achieving our overall climate goals.

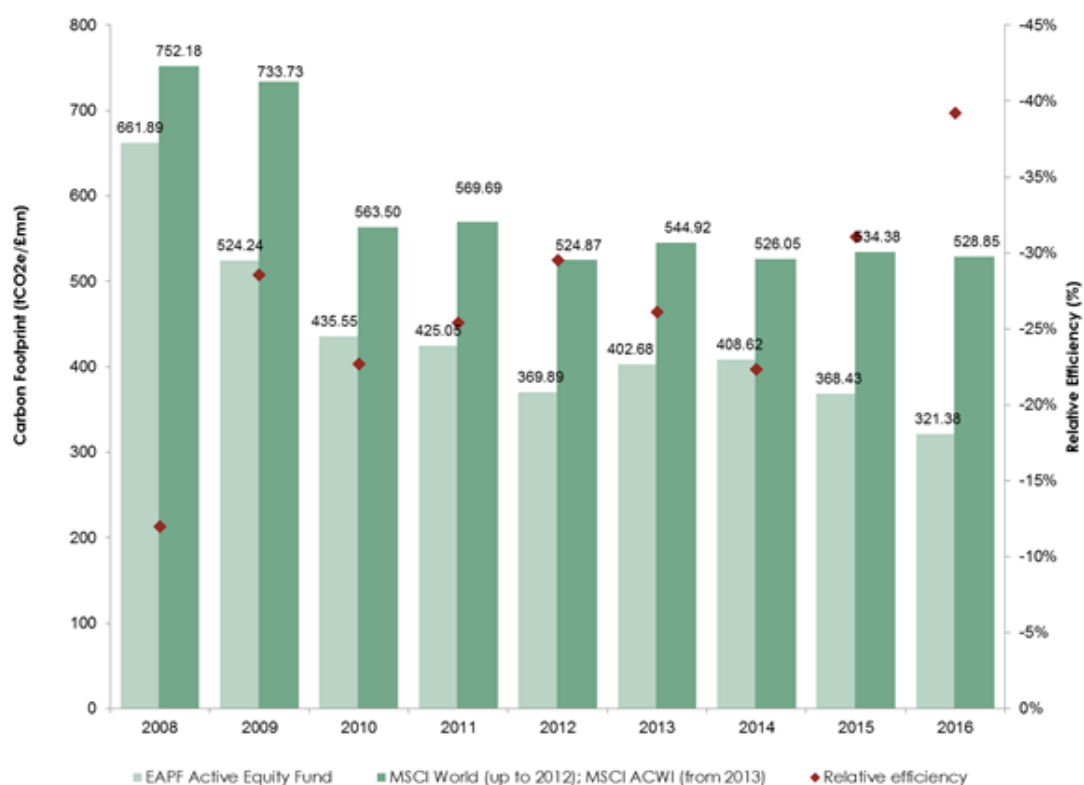
We have produced a full progress report on delivering our Policy to Address the Impacts of Climate Change with supporting evidence on our website.

Carbon footprinting

We have reduced our carbon footprint of our active equities by 50% since 2008⁵. The chart below illustrates the combined carbon footprint of all our active equities.

We have also carbon footprinted our entire equity portfolio which is currently 23.7% more carbon efficient than our composite benchmark and our active bonds which is 44% more carbon efficient than our bond benchmark. So, in total, we carbon footprint 70% of our assets under management. Currently we do not carbon footprint our exposure to sovereign debt, currency or our unlisted portfolio. However we do monitor developments in analytical tools and will look to use these if they are useful and cost effective.

We publish much more detail about our carbon footprint and other carbon metrics on our website. Publishing our carbon footprint fulfills our commitment to the **Montréal Carbon Pledge**, where investors commit to measure and publicly disclose the carbon footprint of their investment portfolios on an annual basis.



Each of our active managers analyses the carbon footprint of their portfolio each year. Every active manager and our passive equity portfolio are more carbon efficient than their benchmark. This is used as part of our discussions with managers, alongside all the other metrics, to assess the risks and opportunities in their portfolios and informs the engagement plans for the year.

⁵Future emissions' 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.

5 44% reduction in the carbon footprint of our combined active equities

Responsible investment monitoring in all asset classes

Private equity

We strive to improve the processes behind reporting and support our managers in making their processes more effective. In 2015, RobecoSam who undertake our private equity managed account, has changed the way they annually assess the funds in which we invest. The use of the Principles of Responsible Investment reporting and assessment tool means funds only need to report once and provides efficiencies for both fund and the manager.

As the assessment results from the PRI tool will only become available in June, we have provided some descriptive statistics on the private equity fund managers from the 2015 survey that are available at this stage. The complete results will be presented in our annual ESG engagement report for 2015.

Private Equity funds of 31 managers were included in our portfolio at the end of 2015. Unless otherwise indicated the statistics below cover the 26 funds that provided information for the PRI Survey⁶. All but two managers had an investment policy that includes responsible investment considerations in 2015⁷. 16 fund managers reported that some of their portfolio companies had a sustainability policy in place at the end of 2015.

If we look at how the private equity managers incorporate ESG factors in their investment process we see that overall, 65% of managers included responsible investment considerations in their investment guidelines. 96% of the managers consider environmental issues in the investment selection process and 88% social issues. 21 out of the 26 funds incorporate ESG issues in the monitoring of portfolio companies in their investment phase. The results are more mixed when looking at on-going monitoring, with 16 fund managers leading the way. We have set a new baseline with the new reporting framework and look forward evidence of improvement through the on-going engagement with private equity funds by our manager.

Bonds

Our UK bond Manager, **Royal London Asset Management**, work with EIRIS (Ethical Investment Research and Information Service) to assess the environmental mitigation strategies of the companies they invest, selecting those with the strongest performance where possible. Our buy and maintain bond portfolio with **Legal and General Investment Management** have investment guidelines that evaluate issues such as carbon risk as part of the bond selection.

Acting as good owners

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. **Hermes Equity Ownership Services**, who bring together global clients to represent nearly £170bn of assets. We work with Hermes' other clients to set the engagement priorities.

Glencore and Rio Tinto Ownership for influence

Following the success in 2015 at the AGMs of BP, Shell and Statoil, the Aiming for A coalition have focused on the major mining companies, Anglo-American, Glencore and Rio Tinto, asking them to make a step change in their disclosure to investors about their response to the challenges posed to their businesses by climate change.

We co-filed the resolutions at Rio Tinto and Glencore, both of which receive management and shareholder support. We did not participate on the Anglo-American resolution as we have no direct exposure to the company.

We are working closely with other asset owners to develop a framework to demonstrate how companies are responding to engagement to transition to a low carbon economy. We hope to launch in the autumn of 2016.

⁶ The remaining five managers will either not raise follow on funds or have undergone organizational changes. They remain monitoring the existing portfolios but without further investing time and new efforts in ESG integration. As a consequence, they were not included in the PRI Survey or the statistics presented here.

⁷ The two exceptions are: a US PE manager that focuses on financials and a clean tech fund bought on a secondary market.

Last year Hermes met senior executives of over 380 companies in our portfolios on a range of 863 environmental, social and governance strategy and risk issues.

A detailed report is available in the Stewardship section on our website.

All our active managers are required to adhere to our **Responsible Investment Policy** which sets out expectations with regard to implementation of their mandate. It is important that voting at a company AGM is part of the equity investment process, so we choose to delegate that to our managers, but with robust monitoring and oversight. We provide **specific guidance** on environmental issues and our voting on these resolutions is published on our website www.eapf.org.uk

Transparency

We regularly publish updates on our approach to responsible investment and stewardship for example voting and engagement, research reports and articles on our website www.eapf.org.uk

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 Statement of Investment Principles in Annex 3, is then agreed by the Committee to meet this objective. The strategy remains focused on seeking to get maximum value from our assets within an appropriate level of risk while minimising risk, ensuring environmental, social and governance considerations 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.

For 2015/16, the Fund's investments were based on the investment strategy agreed in 2015. This recognised that there was a case in reducing equity risk, but felt bonds, while low risk, were not attractive from a return perspective. It therefore created a high level allocation to diversifying growth assets. The investment strategy framework was modified to show a three way split between bonds, equities and diversifying growth assets, setting ranges for allocation to these areas. This allows flexibility while limiting risk.

Our allocation to diversifying growth assets consists of our continuing 12% allocation to real assets, a 5% allocation to growth fixed income, and a 5% allocation to private debt/illiquid credit. Growth fixed income strategies approaches seek to exploit a wide range of specific opportunities while avoiding significant exposure to long term interest rates. Our exposure is through our holding of the Wellington Total Return bond fund.

Private debt/illiquid credit is a fairly new area which involves lending directly to companies and projects. The opportunity has been created by the withdrawal of banks from a lot of corporate lending activity, which has led to significant demand from businesses to access alternative sources of lending. Although formal integration of ESG considerations is at an early stage in this sector, we feel it is an attractive area for responsible investment as it is about supporting real business to grow and employ people, and has limited exposure to high risk areas. We had already invested in one fund in this area, the Generation Credit Fund, but given the strategic nature of our interest, increased our commitment by \$30m.

In 2015/16 we sought additional investments to provide diversification. In the summer of 2015 we allocated one private debt fund run by Bluebay Asset Management. In committing to this fund we able to work effectively with a number of LGPS and other UK pension funds to create a separate fund closer to our needs with lower fees, a greater UK focus and a longer investment period. We are looking to invest in one or two more funds in this area during 2016/17 on a similar basis.

We have made further progress on our real assets portfolio (property, infrastructure, forestry and agriculture) although, because it takes time for suitable investments in real assets to be identified and then invested in, actual investment is slightly below target. However, investments and undrawn commitments now stand at £330m, or 12.1% of the Fund at year end with further investments already made in 2015/16. Despite a lot of demand from investors, we have found some good opportunities, partly through focusing on partnerships and innovative structures. Highlights have been our investments with Temporis (UK wind) and Copenhagen Infrastructure Partners (UK/European renewables).

These new commitments have been funded by reducing our exposure to equities, notably by selling our entire UK passive equity portfolio in the early part of the year. Further reductions have been made during the year both to active UK equities and to global equities, and we have made significant progress on reducing our strategic equity risk. Other actions within the equity portfolio to reduce market risk were also effective in difficult market conditions, with our low volatility managers, and those managers focused on quality companies, performing very well. Note that the Fund may struggle to

perform as well relative to benchmarks in strongly rising markets, although absolute returns would be good.

On the bond allocation, we moved from a passive mandate to a 'buy and maintain' basis, giving us a low cost portfolio with a better balance and more consideration of environmental, social and governance issues than an indexed allocation would achieve.

The other major investment decision in the year was the launch of our Policy to address the impacts of Climate Change. Work analysis done in support of this policy highlighted the significant climate change impact of certain strategic investment decisions, unless mitigated, notably the high exposures resulting from allocations to UK equities and to 'value' equities. This analysis was a consideration in our decision to reduce our exposure to UK equities. We also have reviewed our exposure to 'value equities, and as we consider it provides valuable balance to our equity portfolio we do not want to eliminate it so are looking for options to reform it into an approach which is both 'low carbon' and 'value'. As a first step in this process we moved from using the RAFI 3000 index to the more focused RAFI 1000 index, which has lower carbon exposure.

To ensure the Fund is managed close to the investment strategy, officers and advisors hold monthly investment meetings. Any deviations in asset allocation are discussed and actions agreed. Cash is maintained within tight limits. In addition, to maintain the percentage of the quoted equity and bonds close to the target percentages, the Fund has a rebalancing programme that automatically brings the Fund back in line with the agreed allocation if market movements change the asset allocation within the Fund.

Fund benchmark

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

Asset Class	Benchmark Index	% Weight 2015/16	% Weight 2014/15
UK equities	FTSE All Share	7.0	13.0
Global equities	FTSE All World*	38.0	39.0
Emerging market equities	FTSE Emerging Markets	6.0	6.0
Index-linked gilts	FTSE-Actuaries UK Index-Linked Gilts over 15	9.0	7.5
Corporate bonds	iBoxx Sterling all non-gilt	21.0	20.0
Private equity	MSCI World	4.0	5.0
Real Assets	Retail Price Index	9.0	9.0
Private debt	3 month £ Libor	0.5	-
Total return bonds	3 month £ Libor	5.0	-
Cash	3 month £ Libor	0.5	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.

Investment Performance

Although markets were more difficult this year, the Fund had a very successful year compared to its benchmarks, outperforming (after fees) by 2.6%. Over three years the Fund has returned 8.3% each year, 2.3% above benchmark which is a very strong result. The performance in the year was partly due to the benefits of the risk adverse stance taken by the Fund in more difficult markets, and also helped by the positive impact of the falling oil price as the Fund as significantly reduced its exposure to high carbon assets.

Most of our active managers outperformed strongly, adding some £71m in value over the year in excess of their fees. Most of our managers performed well, with extremely strong positive contributions from the two Low Volatility managers, Robeco, and Quoniam, and two of our sustainable equity managers, Generation and Impax – all outperforming by more than 8%. Our two new sustainable

equity managers, Union and Ownership Capital and our emerging market managers, First State and Comgest, also delivered positive results. However, there were slightly disappointing results from Standard Life (UK equities) Royal London (UK bonds), and Wellington (global total return bonds).

Our low carbon equity index outperformed the conventional index as is to be expected with a falling oil price. Allocations to smart beta were again mixed this year, with 'Low Volatility' performing well, but 'Fundamental Value' being more mixed, but we still consider it valid long term. Our real assets did very well, reflecting strong market conditions, but we need a longer time frame to evaluate this mandate properly.

The total return of the Fund over the year and over three years to 31 March 2016 is as follows:

Financial Performance	2016 %	2015 %
1 year		
Fund performance	+2.3	+15.0
Benchmark performance	-0.3	+14.9
Active fund relative performance	+2.6	+0.1
3 year		
Fund performance	+8.3	+12.3
Benchmark performance	+6.0	+10.9
Active fund relative performance	+2.3	+1.4

Details of financial performance by fund managers are available on pages 39 to 40.

Investment management

Responsibility for the day to day management of the Fund's investments has been allocated to 14 managers. 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 (for manager of segregated portfolios) complying with statutory limits and the Statement of Investment Principles 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 39 to 40.

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 reviewed our arrangements with managers, identifying where we may be recreating short term pressures on managers. To address these pressures, we developed a new standard investment management agreement for managers, and supplemented it with a covenant laying out our expectations of managers 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. We have published a paper on Long term Investing, available on our website.

We have not made any changes to our main managers this year, but have made some investments in illiquid assets of note. In private debt we invested £50m in the Bluebay Direct Lending UK Fund which provide loans to mid market business across the UK and Europe, helping support their growth and development. It takes a careful approach to risks, including environmental risks, to minimise losses. We made two investments in our Targeted Opportunities Portfolio: investing £25m in the Bridges Property Alternatives Fund III, which invests in urban regeneration and redevelopment projects across the UK, with a strong focus on sustainability and social inclusion; and \$25m with DBL partners II LP, a California based venture capital firm seeking to invest in businesses with a high growth potential and a strong commitment to sustainability.

We continue to be very conscious of costs and value for money. Our managers added very considerable value over the year, of £71m after fees. The increase in investment management fees this year must be seen in this context. Indeed much of the increase was due to significant performance fees due to two of our most successful managers. Our strategy changes, which involves us investing more directly in illiquid markets, has also resulted in a higher overall fee as these assets are more expensive to invest in and our more direct approach means we must account for their fees explicitly. To offset this, we continue to negotiate fee reductions or concessions with our managers. This year's negotiations have led to savings of around £200,000 per annum for future years, in addition to the estimated £600,000 per annum saved over the last two years, and other negotiations are ongoing.

Custody arrangements

The Northern Trust Company ('Northern Trust') acts as global custodian on behalf of the Fund's assets. All assets are held in the name of Nortrust Nominees. Where the assets held are unit linked insurance contracts or other collective investment vehicles, the underlying assets are held by the relevant insurance company or collective investment vehicle.

As part of its normal procedures Northern Trust holds all assets in safe custody, collects dividend income and interest, provides data for corporate actions, liaises closely with the investment managers and reports on all activity during the period.

Northern Trust is a strong company that is rated by Standard and Poor's as 'AA-' for long term / senior debt and 'A-1+' for short term / deposits. The Fund's assets are not held in the name of Northern Trust and so are segregated from those of Northern Trust, safeguarding them in the event of a failure by Northern Trust. Cash held by the Fund at Northern Trust in Sterling, Euros and United States dollars is invested in Northern Trust Global Cash Funds, which would not be affected in the event of a failure by Northern Trust. Only small amounts of cash are left on deposit at Northern Trust. The Northern Trust Global Cash Funds are rated 'Aaa' by Moody's and are invested in short-term money instruments to preserve capital and liquidity. These cash funds are also closely monitored by Environment Agency Pension Fund officers.

Regular service reviews are held with Northern Trust to ensure continuous monitoring of service commitments. Other procedures and controls are reviewed by an independent reporting accountant in accordance with the American Institute of Certified Public Accountants Statement on Standards for Attestation Engagements No. 16 (SSAE 16) and in accordance with International Standard on Assurance Engagements 3402 (ISAE 3402).

Funding level

The funding level of the Active Fund is estimated to be 92% as at 31 March 2016, a 2% improvement on the level for the triennial valuation at March 2013, but a 1% decline on the estimated level last year. This number is based on extrapolating the results of the valuation in 2013, and a new triennial actuarial valuation will take place this year on 31 March 2016 and this will lead to an updated funding level, which may be somewhat higher than the current figure.

The historical funding level and asset allocation for the last five triennial valuations are shown in the tables below:

Valuation results	2001	2004	2007	2010	2013
Value of assets £m	937	983	1521	1589	2118
Value of liabilities £m	840	1050	1455	1684	2351
Funding level %	112	94	105	94	90
Asset Allocation %	2001	2004	2007	2010	2013
Equities	86	71	67	58	63
Bonds	8	15	9	12	20
Gilts	2	7	14	15	9
Property	-	-	5	3	3
Private equity	-	-	2	5	4
Cash	4	7	3	7	1
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 index linked 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.

Awards

The Fund has received recognition for both its Investment and Communication work for 2015/16.

Our successes include winning two Responsible Investment awards from the Local Authority Pension Forum (LAPF) and Local Government Chronicle (LGC), whilst also being joint winners of the LGC Team award for National Frameworks.

We also won the Institutional Investors Europe (IIE) and Institutional Investors UK & Ireland awards for Environment, Social Governance. These prestigious awards are designed to honour outstanding achievement, innovation and industry service and are selected and voted for by our industry peers.

Professional Pensions magazine announced the Environment Agency Pension Fund as winners of its award for Best Communications for the Public Sector 2015. The Team has been recognised for the successful implementation of a Communication program that was initiated two years ago and has culminated in this recognition.

We achieved a AAA rating in this year's Global Climate 500 report, ranked at number 1 in the World Index. We have maintained our Triple A rating for 3 years in a row and this year's ranking builds on our previous strong showing and recognition as number 1 leader for managing climate risk globally.

In addition, Independent Research in Responsible Investment (IRRI) announced that the EAPF had been ranked 6th in a list of asset owners who have contributed most to the wider SRI debate.

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

Manager	Date appointed	Value at 31 Mar 2016 £m	Fund %	Asset class/ Mandate	Benchmark	2015/16 Performance				2014/15 Performance		
						Target %	Fund return %	Benchmark return %	Relative to benchmark %	Fund return %	Benchmark return %	Relative to benchmark %
Private equity & TOP												
Robeco	Oct-05	66.7	2.4	Private Equity (active segregated)	MSCI World (Gross)	+5.0	n/a	n/a	n/a	n/a	n/a	n/a
Targeted Opportunities Fund	Apr-14	40.4	1.5	Private Equity (active pooled)	Absolute Return 8.0% pa	+8.0	-2.9	+0.3	-3.2	+2.6	+8.0	-5.4
Listed equities												
Emerging markets equities												
Comgest	Nov-10	89.5	3.3	Emerging Markets equity (active segregated)	MSCI Emerging Market TR GD	+3.0	-7.8	-8.8	+1.1	+20.0	+12.8	+7.2
Stewart	Oct-12	71.8	2.6	Emerging Markets Equity (active pooled)	MSCI Emerging Market ND	> 0	-5.7	-9.1	+3.4	+17.4	+12.8	+4.6
Global equities												
Robeco	Mar-13	122.5	4.5	Global Equity (low volatility - active segregated)	MSCI AC World GDR	> 0	+8.9	-0.7	+9.5	+23.5	+18.4	+5.1
Quoniam	Mar-13	124.6	4.6	Global Equity (low volatility - active segregated)	85% MSCI AC World NDR (hedged to GBP) & 15% MSCI EM NDR (unhedged)	> 0	+5.9	-5.5	+11.4	+15.6	+14.5	+1.1
Ownership Capital	Jun-14	105.5	3.9	Global Equity (active pooled)	MSCI Kokusai (World ex Japan) GD	+3.0	+2.6	+0.7	+1.9			
Generation	Aug-08	246.9	9.0	Global Equity (active segregated)	MSCI AC World TR	+3.0	+7.9	-0.8	+8.6	+24.1	+18.4	+5.7
Impax	Aug-08	78.1	2.9	Global Equity (active segregated)	MSCI AC World GDR	+3.0	+7.5	-0.7	+8.2	+4.8	+18.4	-13.6
Union	Mar-15	94.1	3.4	Global Equity (active segregated)	MSCI TR Gross World Sterling Index	+2.0	+1.9	+0.3	+1.6			
Legal & General	Feb-16	104.2	3.8	Global Equity (passive pooled)	FTSE RAFI 1000 Dev World	+0.0						
Legal & General	Mar-15	220.1	8.1	Global Equity (passive pooled)	MSCI World Low Carbon Target	+0.0	+0.4	+0.5	-0.1			

UK Equities												
Standard Life	Mar-05	138.1	5.1	UK Equity (active segregated)	Customised FTSE All Share capped at 2%	+2.0	-4.3	-2.9	-1.4	+4.9	+8.5	-3.6
Diversifying Growth Assets												
Townsend	Mar-13	226.9	8.3	Real Assets (active segregated & pooled)	RPI (target RPI + 4% over rolling 5 years)	+4.0	+9.4	+1.6	+7.8	+13.6	+0.9	+12.7
Private Lending	Mar-15	34.5	1.3	Private Lending (active pooled)	3 Month Sterling LIBOR	+5.8	+8.0	+0.6	+7.4			
Wellington	Mar-15	150.9	5.5	GTR Bonds (active pooled)	3 Month Sterling LIBOR	+1.0	+0.3	+0.6	-0.3			
Bonds												
Corporate Bonds												
Royal London	Jul-07	262.3	9.6	Corporate Bonds (active segregated)	iBoxx £ Non Gilt all bonds	+1.3	+0.3	+0.5	-0.1	+13.0	+13.1	-0.1
Legal & General	Oct-15	271.4	9.9	Corporate Bonds (passive pooled)	iBoxx £ Non Gilt all bonds	+0.0						
Index Linked Gilts												
Legal & General	Nov-09	265.0	9.7	UK Index Linked Gilts (passive seg)	FTSE Index Linked Gilt > 15 Year	+0.0	+2.4	+2.4	+0.0	+28.1	+28.1	+0.0
Cash & Other												
Other net assets		17.8	0.7									
Total Fund		2,731.3	100.0		Strategic Benchmark	+0.9	+2.3	-0.3	+2.6	+15.0	+14.9	+0.1

Notes:

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

No comparative figures are applicable for mandates appointed in 2015/16 which includes L&G RAFI Developed World 1000 & L&G Buy and Maintain Corporate Bonds.

Standard Life's benchmark is a customised index similar to the FTSE All Share Index but with constituent weights capped at 2%.

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 97% 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.

With effect from 1 April 2012 the Strategic Benchmark of the Fund was revised to:

13.0% FTSE All Share GD (UK Equities), 31.2% FTSE All World (gross) and 7.8% FTSE All World (net) (Global Equities), 6% FTSE Emerging Markets GD (Emerging Markets) and 7.5% FTSE Actuaries ILGs > 15 Years and 0.5% Cash (3m Sterling LIBOR) and 20% iBoxx Sterling All Non-Gilts (Bonds) and 9% RPI (Real Assets) and 5% MSCI World GD (Private Equity).

Portfolio analysis

Distribution of net assets by market value as at 31 March 2016

	Private Lending	Private Equity	UK pooled equities	UK direct Equities	Overseas equities Inc Pooled						UK Fixed Interest	Overseas Fixed Interest	Pooled fixed interest	Pooled property & Infrastructure	Cash	Other net investments	Derivatives	£m Total
					North America	Europe (exc Uk)	Emerging Markets & other areas	Asia Pacific (exc Japan)	Japan	Total								
Legal & General			26.7		190.1	61.0	0.6	16.0	30.0	297.6	264.7		271.4			0.3	860.7	
Royal London											175.7	72.2	6.3	4.1	4.0		262.3	
Generation				7.1	168.0	24.3	19.0	13.4		224.6				14.0	0.6	0.6	246.9	
Standard Life				136.9										0.7	0.5		138.1	
Wellington													150.9				150.9	
Townsend		24.5												196.8	5.6		226.9	
Quoniam				7.3	59.8	12.9	18.8	6.0	17.1	114.8				1.5	0.6	0.4	124.6	
Robeco Low Vol Equity				5.2	64.5	19.8	11.2	13.0	8.1	116.6				0.4	0.4		122.5	
Ownership Capital			0.9		70.9	33.7				104.6							105.5	
Comgest						2.0	74.7	9.5		86.3				3.2			89.5	
Union				6.0	53.6	30.4			3.6	87.6				0.2	0.2		94.1	
Robeco Private Equity		62.3												4.3			66.7	
Stewart Investors				5.9		2.5	59.1	3.4	0.9	65.9							71.8	
Impax				6.6	34.4	18.1	10.0	2.8	4.5	69.7				1.5	0.3		78.1	
Targeted opportunities		40.4															40.4	
Illiquid credit		34.5															34.5	
Cash & other														17.6	0.2		17.8	
£m Total	34.5	127.2	27.6	174.9	641.4	204.7	193.4	64.1	64.2	1,167.7	440.4	72.2	428.7	196.8	53.1	7.2	2,731.3	
% of Fund	1.3	4.7	1.0	6.4	23.5	7.5	7.1	2.3	2.3	42.8	16.1	2.6	15.7	7.2	1.9	0.3	100.0	

Note: May not add up exactly due to roundings

Top 20 holdings of the Fund

Holding	Asset Class	2016	
		£m	% of Fund
L&G TSDD Buy & Maintain Corporate Bonds Fund	Pooled fixed interest - Overseas corporate bonds	271.4	10.0
L&G GPBT MSCI World Low Carbon Target Index Fund	Pooled equities - Global	220.1	8.1
Wellington Global Total Return Bond IV GBP T Acc Fund	Pooled fixed interest - Overseas corporate bonds	150.9	5.5
Ownership Capital Global Equity Fund Class A	Pooled equities - Global	105.6	3.9
L&G GPAE FTSE RAFI Developed 1000 Equity Index Fund	Pooled equities - Global	104.2	3.8
Stewart Investors Global Emerging Markets Sustainability Fund	Pooled emerging markets equity	71.8	2.6
Carbon Workplace Trust	Property - Real estate equity trust	26.4	1.0
Generation IM Credit Feeder Fund III LP	Private Lending - Partnerships	25.0	0.9
Bridges Property Alternative Fund III LP	Private Equity - Partnerships	22.7	0.8
UK Government 1.25% index-linked 22/11/55	Fixed interest - UK index linked gilts	22.6	0.8
UK Government 0.375% index-linked 22/03/62	Fixed interest - UK index linked gilts	20.1	0.7
UK Government 1.125% index-linked 22/11/37	Fixed interest - UK index linked gilts	19.9	0.7
UK Government 0.125% index-linked 22/03/68	Fixed interest - UK index linked gilts	19.1	0.7
Union Investment Lux SA Quoniam Select Em Markets Min Risk	Equities - Emerging Markets	18.8	0.7
UK Government 0.75% index-linked 22/11/47	Fixed interest - UK index linked gilts	18.6	0.7
UK Government 0.625% index-linked 22/03/40	Fixed interest - UK index linked gilts	18.5	0.7
UK Government 0.5% index-linked 22/03/50	Fixed interest - UK index linked gilts	18.5	0.7
UK Government 1.25% index-linked 22/11/32	Fixed interest - UK index linked gilts	17.8	0.7
UK Government 0.125% index-linked 03/44	Fixed interest - UK index linked gilts	17.6	0.6
UBS Global Asset Management (UK) Triton Property Unit Trust B	Property - Real estate equity trust	17.5	0.6
Total		1,207.1	44.2

Geographical distribution of quoted and pooled equity investments

Geographical distribution	2016		2015	
	£m	% of total equity	£m	% of total equity
North America	641.4	46.8	553.8	34.3
Europe (excluding UK)	204.7	14.9	296.1	18.4
United Kingdom	202.5	14.8	397.2	24.6
Emerging markets & other areas	193.4	14.1	169.8	10.5
Japan	64.2	4.7	76.7	4.8
Asia Pacific (excluding Japan)	64.1	4.7	120.1	7.4
Total	1,370.3	100.0	1,613.7	100.0

Top 10 global equities by sector

Sectors	2016	% of Fund	Sectors	2015	% of Fund
	£m			£m	
Technology	143.1	5.2	Industrial Goods & Services	129.4	4.9
Industrial Goods & Services	138.1	5.1	Technology	122.1	4.6
Healthcare	92.9	3.4	Healthcare	113.6	4.3
Insurance	53.6	1.9	Retail	55.5	2.1
Personal & Household Goods	50.8	1.8	Insurance	54.6	2.0
Telecommunications	48.8	1.8	Personal & Household Goods	51.6	1.9
Retail	46.7	1.7	Telecommunications	43.9	1.6
Utilities	42.5	1.6	Utilities	37.0	1.4
Financial Services	40.2	1.5	Financial Services	36.6	1.4
Banks	29.9	1.1	Banks	36.0	1.3
Total	686.6	25.1	Total	680.3	25.5

Note: The relative movements in this table are largely due to market movements from global economic conditions rather than any shift in strategic investment.

Top 20 direct equity holdings

Company	Country	2016	% of fund	Company	Country	2015	% of fund
		£m				£m	
Microsoft Corporation	United States	16.8	0.6	Check Point Software Tech.	United States	13.4	0.5
Ingersoll-Rand PLC	United States	13.0	0.5	MSCI Inc	United States	10.7	0.4
Linear Technology Corporation	United States	11.9	0.4	Prudential	United Kingdom	9.9	0.4
Qualcomm Inc	United States	11.4	0.4	Waters Corp	United States	9.8	0.4
Cerner Corporation	United States	10.8	0.4	Linear Tech Corporation Del	United States	9.4	0.4
Deere & Co	United States	10.2	0.4	Qualcomm Inc	United States	9.0	0.3
Check Point Software Tech.	United States	10.0	0.4	Varian Medical Systems Inc	United States	8.9	0.3
Waters Corp	United States	8.6	0.3	Microsoft Corporation	United States	8.8	0.3
Tencent Holdings Limited	China	8.0	0.3	Tencent Holdings Limited	China	7.7	0.3
Alphabet Inc	United States	7.3	0.3	BT Group	United Kingdom	7.6	0.3
Ansys Inc	United States	6.6	0.3	Edwards Life Sciences Corp.	United States	7.5	0.3
T Rowe Price Group Inc	United States	6.4	0.2	Sirona Dental Systems Inc	United States	7.5	0.3
Mastercard Inc	United States	6.3	0.2	Grainger WW Inc	United States	6.9	0.3
Akamai Technologies Inc	United States	6.2	0.2	Google Inc CL A	United States	6.9	0.3
Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	6.2	0.2	Intuit	United States	6.6	0.3
DS Smith PLC	United Kingdom	6.1	0.2	Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	6.5	0.2
Reckitt Benckiser Group PLC	United Kingdom	5.9	0.2	China Life Insurance Company 'H' CNY1	China	6.4	0.2
CSL Limited	Australia	5.8	0.2	Mediatek Inc	Taiwan	6.3	0.2
BT Group PLC	United Kingdom	5.7	0.2	Legrand SA	France	6.1	0.2
Vodafone Group PLC	United Kingdom	5.5	0.2	Novo-Nordisk	Denmark	5.8	0.2
Total		168.7	6.1			161.7	6.1

Note: These figures are active positions only, as overseas index stocks are pooled. 'Country' is country of listing.

Pension Fund administration

Administration arrangements

The Environment Agency Pension Fund (EAPF) is responsible for administering the current and future pension benefits for over 23,900 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 (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 and its Fund employers.

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 16,853 Fund member requests/queries and for paying pensions to over 6,000 pensioners. Over the year, Capita achieved the required service levels for 98.5% of casework processed.

The 5 largest case types processed by Capita for the Active Pension Fund during 2015/16 were:

Case type	2016	2015
Joiners	509	211
Retirement estimates	468	692
Leavers with deferred pensions	392	575
Retirements	387	456
Transfers out of the Fund	188	201

Active Fund administration costs for the year to the 31 March 2016 were £523k (2015: £506k) including member communications and postage costs. We benchmark our Fund administration costs annually through the public accounting body CIPFA. For 2014/15 the CIPFA average was £19 per member. Across both Active and Closed Funds, our average cost for 2014/15 was £21 per member.

The total number of staff allocated by Capita to the EAPF administration contract is 24, of which 14 deal solely with pension benefits administration. Based on a membership of 39,322 across both the Active and Closed Funds at 31 March 2016, this represents an average of 2,809 members per administrator. The CIPFA LGPS average for 2015 was 4,250 members per administrator.

We take a value for money approach looking for appropriate balance between cost, service and quality in pension administration delivery. For example, in all 9 industry standard performance indicators measured by CIPFA for 2014/15, we achieved 99% compared to the average of 76% to 92% across the range of those indicators. The CIPFA 2015/16 figure will not be available until October 2016.

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 2016, 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 complied fully with the provisions of the Pensions Schedule of the Financial Memorandum and new requirements from the Pensions Regulator's public sector Code of Practice.

The Risk audited also produced positive feedback on our risk management process and the application of our mitigating actions. We also obtained an independent audit of the implementation of the new LGPS on calculation and member benefits with positive results.

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. We expect the 2016 certificates to be available during June 2016. The latest available results from our 2015 certificates showed our post June 2010 data as 99.2%, with pre June 2010 data at 95.5%. The missing data for both categories relates to members moving house and not informing our administrators. We are carrying out an exercise to trace these members and will update their records accordingly.

More member specific data called 'Conditional data' has also been reviewed with positive results and both these tPR data checks are tested on an annual basis.

We continue to monitor this area closely as our employers have undergone significant change to their HR and payroll systems.

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 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.

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 or in care homes as well as those where power of attorney is held by a third party. 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 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 2015/16.

Communications

To read our full Communications Policy Statement please see Annex 6.

Following last year's implementation of our Communication Strategy, Professional Pensions magazine announced the Environment Agency Pension Fund as winners of its award for Best Communications for the Public Sector 2015.

We are happy to have been recognised for our work in developing a new brand based on modernity, accessibility and trust which incorporates both visual elements as well as a new, less complicated, writing style.

We restructured our website so that it focused on the new Scheme, and ensured that it enhanced member experience and improved navigation and catered for the complexity of 3 different benefit structures. The website and our self service portal are both device enabled so we have our members at the heart of what we do, enabling them to access their pension details via smart phone and tablets, and at a time of their choosing.

For 2015/16, we concentrated on member engagement, and we applied for, and received Customer Service Excellence (CSE) accreditation.

CSE is a government service standard developed to drive customer focused change within organisations, and we committed ourselves to achieving the CSE accreditation in 2016 and achieved this with a number of 'compliance plus' accreditations and perhaps most notably, no development areas identified which is virtually unheard of for the first attempt at meeting the standard.

Applying this standard has meant that there is emphasis placed on developing customer insight, understanding the user's experience and robust measurement of service satisfaction.

Service satisfaction has been measured by:

- Webinar evaluations
- Customer Surveys
- Usability Study (on the effectiveness of our annual benefit statement)
- Focus Groups

The effectiveness of our service is demonstrated below.

Traditionally, as a defined benefit pension scheme, member interaction has been based on life events but we are now encouraging our members to engage with us throughout their working lives. We are using digital techniques such as audience segmentation to ensure our communications are as relevant as possible, and carrying out research, listening to our members, who have indicated that their key priority is a focus on delivery, timeliness, clarity of information, professionalism and staff attitude.

This is why we have placed a great deal of importance on member surveys and focus groups, and continued our use of webinars for educating and answering member queries. This has been a year of review, innovation and constant analysis leading to the creation of a communications dashboard and further developing our digital strategy.

We involve our members in everything that we do and we measure the results.

How has this success been measured?

Webinars

We ran 30 contributing member webinars in Q3 2015 to an overall total of 922 attendees and 37% completing evaluation forms. 70% of respondents were aged 41 to 60, with around 20% under age 40.

The majority of respondents provided positive feedback on the content and delivery and most members were appreciative of the pace and clear explanations. 98% said the presenter communicated clearly, 95% stated the topics were interesting, and 94% said the pace and delivery was at the right level.

The preferred delivery methods indicated by respondents are 40% prefer webinars, 38% would prefer a combination of webinars and face to face with only 6% indicating face to face.

Member feedback has confirmed that webinars allow us to:

- Reach a wider audience
- Remove the need for travel and time out of the office
- Deliver more sessions based on demand and more choice

Customer Survey

We undertook a customer survey with our registered EAPF Online users in Q1 2016, to help establish benchmarks and receive feedback on our pension communications. 8089 users were contacted by email, with 4703 (63%) of emails being opened, and 1950 (41%) clicking through the content. 1335 (28%) completed the survey.

From these 1335 members, 93% tell us that they get their information from newsletters and 41% from our website. The participants indicated that 38% prefer to receive information by post and email, 34% prefer email, 27% prefer post and 27% prefer a combination of email and website.

Some of the key drivers for using the website included viewing benefit statements, retirement pages, calculators for retirement forecasting, recent updates and important news. 42% had used the website within the last 6 months and a total of 65% used the site within the last year (16% did not use the website at all).

Some members wanted information to have more relevance to individuals, having newsletters sent online, reducing print but retaining the ability to print if required.

Focus Groups & Usability Study

We undertook two focus groups in Reading and Birmingham, and one usability study in Bristol to help establish the effectiveness of our annual benefit statement. Our members told us that what they want to know is:

- When can I get it?
- How much pension and cash will I get?
- What is the impact of reductions and any penalties for taking retirement early
- Tell me everything in plain English

Members also highlighted some comments on the current statement:

- It looks good
- I find it inviting
- I like the photography and I identify it as EAPF

Later this year, we will encourage members to participate in a digital only newsletter to assess member appetite for receiving information digitally, as well as targeting a proportion of users to use a digital annual benefit statement. This statement will be interactive and allow 'click through' options so members can find relevant information quickly. We will monitor and evaluate the responses and this will be underpinned by the use of focus groups with the data being collated in the communications dashboard.

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 Fund employer 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 disagree 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 he feels this is justified.

In 2015/16 Capita received 20 (2015: 13) formal complaints from members and these have all been resolved. There were 4 cases raised and under Stage 1 of the IDRP during the year and 3 remain in progress at year end. There were 2 Stage 2 IDRP cases raised, both of which remain in progress at year end. One case was referred to the Pensions Ombudsman who found in favour of the Fund.

Foreword to the financial statements

The EAPF is a statutory public service pension scheme (as defined by the Pension Schemes Act 1993) under the LGPS (Benefits, Membership and Contributions) Regulations 2007(as amended), the LGPS (Transitional Provisions) Regulations 2008 (as amended), the LGPS (Administration) Regulations 2008 (as amended) ('the 2007 regulations') and the LGPS Regulations 1997, 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).

Being part of the LGPS the members of the Fund are contracted out of the State Second Pension Scheme ('S2P') and the Fund is a Registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004. Full tax relief is granted on both members' and the Environment Agency's contributions paid to the Fund and on all United Kingdom investment income other than dividends arising from UK equities.

Roles and responsibilities of the Pensions Committee

With a membership of nominated Environment Agency Board members, senior officers, member nominees, a pensioner member nominee and a deferred member nominee, 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 has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgments and estimates that are reasonable and prudent.
- Followed applicable accounting standards, in particular the CIPFA guidance on narrative reporting and accounting disclosures for LGPS Funds.

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 Schedule 7 to the Financial Memorandum issued by Defra. However, responsibility for the regulations governing the LGPS lies with the Local Government Pensions Unit at DCLG.

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 Environment Agency's 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

The financial statements have been prepared on a market value basis.

Contribution income has risen by £4.2m to £91.1m (2015: fallen by £4.7m to £86.9m). The increase for the year ended 31 March 2016 was due, in the main, to deficit funding from the Environment Agency £14m and NRW £1.5m to fund historical past service deficits and increases. The 12 months ending 31 March 2016 have seen a 2.4% increase in total Fund membership (2015: increase of 1.0%).

Net income from all transfer values received in the year has increased by £1.9m to £4.3m (2015: decreased by £2.7m to £2.4m). The £1.9m is due to new joiners in the year and also members who joined prior to 31 March 2015 but transferred their funds from previous arrangements during this financial year. Retirement benefits and other payments made to or in respect of members during the year have increased by £1.5m to £77.7m (2015: increased by £5.5m to £76.2m). This is primarily due to an increase in retirements and dependants' pensions paid this year.

The net assets of the Fund at 31 March 2016 has increased by £73.4m to £2,730m (2015: increased by £342.1m to £2,656m). This is primarily due to an increase in the market value of its investments under management.

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 accounts.

The 2015 year-end figures were restated to remove these assets and the associated entries, as AVCs had been included in the accounts up to this point. This resulted in a reduction of £8,351k from the Fund's overall investment value as at 31 March 2015, with a reduction in change in market value for the 2014-15 year of £639k. Contributions reduced by £998k through removing the AVCS paid in the year, with an additional £1,193k shown as a transfer in of AVCS during the 2014-15 year, to account for the funds transferred from members' AVC funds to the EAPF during the year. Cash in transit also reduced by £27k and benefits payable reduced by £4k, representing the removal of life assurance paid through the AVC provider. The assets as at 31 March 2014 reduced by £7,938k, as this is the value of the AVCS at this date.

The value of the AVCS is disclosed for information purposes in Note 21 on page 82.

Statement by the consulting Actuary

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 2013. 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
- 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.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £2,118 million, were sufficient to meet 90% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £233 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 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 valuation report dated 28 March 2014.

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 2013 valuation were as follows:

Financial Assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.60%	2.40%
Pay increases	3.50%	1.30%
Price inflation/Pension increases	2.20%	-

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_2010 model, assuming the current rate of improvements has reached a peak and will converge to 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	22.6 years	24.5 years
Future pensioners	24.7 years	27.0 years

*Figures assume members aged 45 as at 2013 valuation

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from the Environment Agency, the administering authority to the Fund.

Experience over the period since April 2013

Experience has been volatile since the last formal valuation. Real bond yields have fallen dramatically placing a higher value on liabilities, however the effect of this has been offset by the effect of strong asset returns. Overall, the funding level has increased slightly over the period and is estimated to be 92% as at 31 March 2016.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.



Steven Scott
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
27 May 2016

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament, the Board of the Environment Agency and the Secretary of State for Environment, Food and Rural Affairs

I certify that I have audited the financial statements of the Environment Agency Active Pension Fund for the year ended 31 March 2016 under the Environment Act 1995. These comprise the Fund Account, the Net Assets Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer of the Environment Agency, the Pensions Committee and the auditor

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 preparing the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer and Pensions Committee; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on Regularity

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

Opinions on the financial statements

In my opinion:

- the financial statements show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2016, and of the amount and disposition at that date of its assets and liabilities; and
- the financial statements have been properly prepared in accordance with Schedule 7 to the Environment Agency Financial Memorandum issued by Defra, in accordance with the Local Government Pension Scheme Regulations 1997, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), the Local Government Pension Scheme Regulations 2013 and other related LGPS regulations and guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Date: 7 July 2016

Financial statements for the year ending 31 March 2016

	Notes	2016 £000	As restated 2015 £000
Fund account			
Contributions and transfers			
Contributions	7	91,085	86,863
Transfer values received	8	4,326	2,355
		95,411	89,218
Benefits and other payments			
Benefits payable	9	(77,738)	(76,186)
Payments to and on account of leavers	10	(2,564)	(2,298)
		(80,302)	(78,484)
Net additions from dealings with members		15,109	10,734
Management expenses	11	(16,632)	(17,745)
Return on investments			
Investment income	12	41,614	43,994
Taxes on income	13	(1,094)	(1,187)
Profit and loss on disposal of investments and changes in the market value of investments	14a	34,428	314,277
Net returns on investments		74,948	357,084
Net increase in the Fund during the year		73,425	350,073
Opening net assets of the Fund at 1 April		2,656,111	2,306,038
Net assets of the Fund at 31 March		2,729,536	2,656,111

Net assets statement	Notes	2016 £000	As restated 2015 £000
Investment assets	14c	2,737,258	2,659,507
Investment liabilities	14c	(5,918)	(3,447)
Net investment assets		2,731,340	2,656,060
Current assets	19	10,975	9,272
Current liabilities	20	(12,779)	(9,221)
Net assets of the Fund at 31 March		2,729,536	2,656,111

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 page 52 and these financial statements should be read in conjunction with it. The Actuary's statement dated 27 May 2016 is based on a valuation as at 31 March 2013. The notes on pages 58 to 82 form part of these financial statements.



Dr. Clive Elphick
Chairman
Environment Agency Pensions Committee
22 June 2016



Sir James Bevan
Accounting Officer
Environment Agency
4 July 2016

Notes to the financial statements

1. Description of the Fund

The Environment Agency Active Pension Fund is part of the Local Government Pension Scheme 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. 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 Amendments) Regulations 2014 (as amended).

The LGPS (Management and Investment of Funds) Regulations 2009.

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 Local Government Pension Scheme (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 Resource Wales and SSCL who were employees of the Environment Agency immediately before the transfer of services to those bodies. As at 31 March 2015, total membership of the Fund is 23,916, which represents 10,732 Active members, 7,121 deferred members and 6,063 current pensioners.

Funding

The Fund employers pay the balance of the cost of delivering the benefits to members. Contributions payable by the Fund employers are determined in accordance with the Regulations (principally Regulation 36 of the Administration Regulations) which require that the actuary completes an actuarial valuation, including a rates and adjustments certificate, every three years. Contributions to the Active Fund should be set so as to 'secure its solvency', whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible.

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 2015/16 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. They are prepared with a covenant from Defra and the Welsh Government who are the financial sponsors of the Environment Agency under the Environment Agency Act 1995 and the DCLG as the statutory guarantors of the LGPS. The accounting policies have been drawn up in line with recommended accounting principles as specified in the Code of Practice on Local Authority Accounting and as disclosed below.

3. Summary of significant accounting policies

The following principal accounting policies have been applied consistently in the preparation of the financial statements.

Investments

Investments are included at their market values, provided by the Fund's global custodian, which are determined as follows:

- (i) Quoted securities listed on recognised stock exchanges are valued at bid prices at the year end. UK Government securities are valued at Gilt-edged Market Makers Association (GEMMA) closing prices.
- (ii) Pooled investment vehicles are stated at the bid price as quoted by the relevant fund managers, which reflect the underlying investments. In the case of single priced pooled investment vehicles, the closing single price is used as the best estimate of fair value.
- (iii) Unquoted securities are valued by fund managers on the basis of latest dealings, professional valuations and financial information at the year end. In the case of private equity limited company funds, the investments are valued at latest values which are previous quarter (generally end of December) values, updated for new investment and distributions. For private equity direct investments the price taken is that as provided by the Fund Manager, which reflect the prices at the latest round of financing if available, or book cost, unless impaired when this value is reduced.
- (iv) Acquisition costs are included in the purchase cost of investments.
- (v) Investment management fees are accounted for on an accruals basis.
- (vi) The Fund's global custodian is not authorised to enter into stock lending arrangements.

Derivatives

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

Investment income

- (i) Income from fixed interest and index linked securities and other interest receivable is taken into account on an accruals basis. Income from all other marketable securities is taken into account on an accruals basis on the date when stocks are quoted ex-dividend.
- (ii) Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.
- (iii) Accrued interest is excluded from the market value of fixed interest securities but is included in investment income receivable.
- (iv) Income on investments in pooled investment vehicles with accumulation units is reflected in the unit price. Income on investments in property pooled investment vehicles is distributed and recognised on an accruals basis.
- (v) Income from cash and short term deposits is accounted for on an accruals basis.

Exchange rates

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

- (iii) Overseas dividends are valued at rates of exchange on the date when stocks are quoted ex-dividend. Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

Contributions

Standard contributions, both from the members and from the employer, are accounted for on an accruals basis, under the Schedule of Contributions received each month by the Pension Fund and are in compliance with the following:

- (i) Regulation 67 of The Local Government Pension Scheme Regulations 2013 (as amended), stipulates that the employer's standard contributions must be made at a rate as noted in the rates and adjustments certificate as determined by the Pension Fund Actuary under regulations 62 and 64 of those same regulations. The employer's standard contributions are necessary to ensure that the Fund is able to meet its existing and prospective liabilities including indexation.
- (ii) The employee's standard contributions are determined with reference to regulations 9 and 10 of The Local Government Pension Scheme Regulations 2013 (as amended).

Employer's further contributions, accounted for on an accruals basis, may be made to cover the costs of:

- (i) Awarding additional pension to an active member under Regulation 31 of the Local Government Pension Scheme Regulations 2013 (as amended). The costs for such an award are calculated and paid in accordance with Regulation 68 of the same Regulations.
- (ii) Any extra charge to the Pension Fund as a result of a member retiring on the grounds of ill health (Regulation 35), early retirement with employer consent, redundancy or efficiency or flexible retirement (Regulation 30) of the Local Government Pension Scheme Regulations 2013 (as amended).
- (iii) The costs for such an award are calculated and paid in accordance with regulation 68 of the same regulations.

Additional contributions from members are accounted for in the month deducted from the payroll and may relate to the:

- (i) Purchase of additional years payable under regulation 55 of the Local Government Pension Scheme 1997 Regulations (as amended).
- (ii) Purchase of additional pension payable under regulation 14 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended).
- (iv) Purchase of additional pension payable under regulation 16 of the Local Government Pension Scheme Regulations 2013 (as amended).
- (v) Payment of additional voluntary contributions (AVCs) payable under regulation 17 of the Local Government Pension Scheme Regulations 2013 (as amended).

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.

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 are disclosed as a note only (Note 21). As described in detail on page 51, a prior year restatement has been made to remove the AVCs from the 2015 figures.

Benefits

Members can choose whether to take a proportion of their retirement benefits as a pension and/or lump sum. Pensions and lump sums are accounted for on an accruals basis from the date the option is exercised. Lump sum death grants and refunds of contributions are included from the date of death or date the member leaves the Scheme.

Transfers to and from other schemes are those amounts paid to, or received from, other pension schemes relating to previous periods of pensionable employment. Individual transfers are included in the financial statements when paid or received, but bulk transfers are accounted for on an accruals basis when the amounts have been agreed.

Other expenses

Investment management and administration expenses are accounted for on an accruals basis. 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. Fees are also payable to the Fund's global custodian. In cases where expenditure relates to both the Active and Closed Pension Fund, this has been respectively apportioned during the year as follows:

Apportionment of common expenditure	2016 %	2015 %
Custodial arrangements	80/20	80/20
Other (e.g. Environment Agency administration costs)	60/40	60/40

Taxation

UK income tax and capital gains tax

The Fund was exempt approved under Chapter I of Part XIV of the Income and Corporation Taxes Act 1988 and became a registered pension scheme under Chapter 2 Part 4 of the Finance Act 2004 with effect from 6 April 2006. It is therefore not liable to UK income tax on interest and dividend income (other than dividends arising from UK equities), or to capital gains tax.

Value added tax

VAT input tax is recoverable on all administration expenses. The accounts are shown exclusive of VAT.

US withholding tax

The income earned from investments in stocks and securities in the United States is exempt from US tax pursuant to Section 892 of the Income Tax Code and is not subject to the withholding of any tax under Section 1441. This exemption has continued to be applied thus far under the US Tax Reform Act of 1986.

Overseas tax deductions

Where possible, tax deducted at source is recovered by the investment managers.

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 2016 was £127.4m (2015: £80.5m).

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 used is in line with accepted guidelines 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.

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

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 2016 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 16 June 2016 and Audit and Risk Assurance Committee on 22 June 2016. The financial statements are signed under delegated authority of the Board. They were also noted at a meeting of the Board on 21 July 2016. There are no adjusting events that need to be recognised in the financial statements after the net asset statement date. On the 23 June the UK voted to leave the European Union. Scheme members should be reassured that retirement benefits and the structure of the scheme will not be directly affected, as these are provided under UK legislation. In terms of our investments, the vote had an immediate impact on financial markets with sterling and the stock markets falling sharply. However, the fund is very internationally diversified which has protected the sterling value of our assets, and we have reduced our overall equity exposure to lower risk in the Fund. We continue to focus on having a diversified asset allocation, investing based on a long term view, managing risk carefully and taking a professional approach to managing our investments as the best way to ensure the long term success of the Fund.

7. Contributions receivable

	2016 £000	As restated 2015 £000
Employer		
Normal	50,486	46,960
Deficit Funding	15,500	14,500
Special	896	1,558
	66,882	63,018

Members		
Normal	23,730	23,368
Purchase of added years	473	477
	24,203	23,845
Total	91,085	86,863

Normal contributions are regular employer and employee contributions paid across by our employers. Special contributions are additional amounts paid by our employers in respect of early retirements and also include a contribution to fully fund a bulk transfer. The deficit funding contributions were advanced contributions paid by our employers in relation to the historical past service deficit.

	2016 £000	As restated 2015 £000
Total contributions split by employer		
Environment Agency	80,417	76,742
Natural Resources Wales	10,192	9,445
SSCL	476	676
Total	91,085	86,863

8. Transfer values received

	2016 £000	As restated 2015 £000
Individual transfers from other schemes	798	1,162
AVC transfers	1,096	1,193
Group transfers from other schemes	2,432	-
Total	4,326	2,355

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.

AVC transfers represent amounts disinvested from the AVC arrangements disclosed in Note 21 during the year and subsequently used to fund benefits.

The group transfer in represent a transfer from the Torfaen Fund in relation to the transfer of employees from the Caldicot and Wentloog Drainage Board into the Fund.

No discretionary benefits have been included in the calculation of transfer values

9. Benefits payable

	2016 £000	As restated 2015 £000
Retirement and dependants' pensions	62,993	59,286
Lump sum retirement grants	13,470	15,276
Lump sum death grants	1,270	1,624
Taxation where annual allowance exceeded	5	-
Total	77,738	76,186

10. Payments to and on account of leavers

	2016 £000	2015 £000
Individual transfers to other schemes	2,527	2,161
Bulk transfer to other schemes	-	40
Refunds of contributions	35	96
AVC transfers	2	1
Total	2,564	2,298

The bulk transfer amount in 2015 represents a transfer to the Principal Civil Service Pension Scheme regarding a transfer of employees to Welsh Government.

11. Management expenses

	2016 £000	As restated 2015 £000
Administration costs		
Environment Agency Pension Fund management	547	488
Scheme administration	523	506
	1,070	994
Oversight and governance costs		
Specialist advice	706	991
External audit	47	44
	753	1,035
Investment management expenses	14,809	15,716
Total	16,632	17,745

The investment management expenses above were occurred in achieving a £71 million positive contribution (2015: £20million) to investment returns from outperformance by managers (after fees). The expenses include £4,518,000 (2015: £5,612,000) in respect of performance related fees paid/payable to the fund's investment managers. Fund Manager base fees were £10,167,000 (2015: £8,292,000). The rise in base fees is primarily due to an increase in directly held funds investing in the more expensive asset classes of private debt and equity, which resulted from changes in investment strategy and investment approach, notably moving away from fund of fund mandates, where the direct costs are lower, but the total costs higher. The investment management expenses also include £785,322 (2015: £806,090) in respect of transaction costs.

The external auditor remuneration does not include any fees in respect of non-audit services for 2016 and 2015.

12. Investment income

	2016 £000	2015 £000
Dividends from equities	21,233	24,874
Income from fixed interest securities	13,339	13,483
Income from pooled property and infrastructure	5,637	3,680
Income from private equity	372	527
Income from pooled investment vehicles	640	797
Interest on cash deposits	393	633
Total	41,614	43,994

13. Taxes on income

	2016 £000	2015 £000
Withholding tax – equities	(958)	(1,006)
Withholding tax – pooled property	(136)	(181)
Total	(1,094)	(1,187)

14. Investments

a) Investment movements summary

Financial year to the 31 March 2016	Market value at 01.04.15	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value at 31.03.16
	£000	£000	£000	£000	£000
Equities	956,300	311,603	(340,892)	13,279	940,290
Fixed interest	503,945	91,009	(76,850)	(5,548)	512,556
Pooled equities	657,400	559,782	(785,288)	(2,034)	429,860
Pooled fixed interest	269,634	257,279	(111,605)	13,402	428,710
Private debt	-	37,479	(3,179)	191	34,491
Private equity	80,538	70,969	(30,538)	6,370	127,339
Pooled property	138,644	77,286	(31,563)	12,433	196,800
FX and derivatives	(1,948)	2,746,029	(2,738,730)	(4,312)	1,039
	2,604,513	4,151,436	(4,118,645)	33,781	2,671,085
Cash deposits and instruments	43,580			641	53,103
Other investment balances	7,967			6	7,152
Total	2,656,060			34,428	2,731,340

Financial year to the 31 March 2015	As restated Market value at 01.04.14	As restated Purchases at cost and derivative payments	As restated Sales proceeds and derivative receipts	As restated Change in market value	As restated Market value at 31.03.15
	£000	£000	£000	£000	£000
Equities	1,044,995	642,259	(860,271)	130,123	956,300
Fixed interest	418,340	49,390	(39,950)	76,165	503,945
Pooled equities	351,039	513,855	(287,418)	79,924	657,400
Pooled fixed interest	264,565	152,803	(162,913)	15,179	269,634
Private equity	83,908	13,200	(15,358)	(1,212)	80,538
Pooled property	89,123	48,758	(13,526)	14,289	138,644
FX and derivatives	86	2,186,102	(2,186,457)	(1,679)	(1,948)
	2,252,056	3,606,367	(3,566,699)	312,789	2,604,513
Cash deposits and instruments	46,097			1,483	43,580
Other investment balances	4,664			5	7,967
Total	2,310,755			314,277	2,656,060

Note: FX and derivatives turnover is primarily due to the currency hedging for one of our low volatility mandates. This is rolled over monthly for efficiency and accuracy, and although this generates high turnover, it is extremely low cost and has no market impact.

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.

b) Investment value details

Investment assets	2016 £000	As restated 2015 £000
Equities		
Overseas quoted	765,422	733,597
UK quoted	174,868	222,703
	940,290	956,300
Fixed interest		
UK index linked gilts public sector	264,703	257,932
UK corporate quoted	177,071	170,638
Overseas corporate quoted	68,644	73,102
Overseas public sector quoted	2,138	2,273
	512,556	503,945
Pooled equities		
Overseas unit trusts	402,230	482,855
UK unit trusts	27,630	174,545
	429,860	657,400
Pooled fixed interest		
Overseas corporate quoted unit trusts	157,281	171,119
UK corporate quoted unit trusts	271,429	98,515
	428,710	269,634
Private equity		
Overseas unquoted	95,354	68,362
UK unquoted	31,985	12,176
	127,339	80,538
Pooled property and infrastructure		
UK unit trusts	-	38,006
UK managed funds	-	10,367
UK unquoted collective limited partnership investments	2,853	3,322
Overseas unquoted collective limited partnership investments	8,988	4,354
UK infrastructure funds	143,012	69,585
Overseas infrastructure funds	41,947	13,010
	196,800	138,644
Private debt	34,491	-
Derivative contracts		
Futures	43	15
Forward foreign exchange	996	(1,963)
	1,039	(1,948)
Cash deposits and instruments		
Cash with custodian and fund managers	52,905	42,971
Cash margin with brokers	198	609
	53,103	43,580
Other investment balances		
Amounts due from trade and currency brokers	4,622	2,077
Accrued income	6,678	6,610
Income tax recoverable	925	681
Amounts due to trade and currency brokers	(5,073)	(1,401)
	7,152	7,967
Net investment assets	2,731,340	2,656,060

c) Financial assets and liabilities

	2016 £000	2015 £000
Financial assets		
Equities (includes pooled and private equity)	1,497,490	1,694,238
Bonds (includes pooled and gilts)	941,265	773,579
Pooled property and infrastructure	196,800	138,644
Cash	53,103	43,580
Private debt	34,491	-
Derivatives – Futures and forward foreign exchange	1,884	98
Other investment assets	12,225	9,368
Total financial assets	2,737,258	2,659,507
Financial liabilities		
Derivatives – Futures and forward foreign exchange	(845)	(2,046)
Amounts due to trade and currency brokers	(5,073)	(1,401)
Total financial liabilities	(5,918)	(3,447)
Net financial assets	2,731,340	2,656,060

d) Derivative contracts

Derivatives	2016		2015	
	Asset £000	Liability £000	Asset £000	Liability £000
Futures contracts	55	(12)	29	(14)
Forward foreign currency contracts	1,829	(833)	69	(2,032)
	1,884	(845)	98	(2,046)
Net derivatives	1,039			(1,948)

Type of futures contract	Expiration	2016	2015	2016	2015
		Nominal value £000	Nominal value £000	Fair Value £000	Fair Value £000
E-mini S&P 500 US exchange traded June 2016 (Generation)	3 months	2,497		55	
Eurostoxx 50 index exchange traded June 2016 (Generation)	3 months	697	-	(12)	-
E-mini S&P 500 US exchange traded June 2015 (Generation)	3 months	-	5,414	-	(14)
Eurostoxx 50 index exchange traded June 2015 (Generation)	3 months	-	2,811	-	29
Total		3,194	8,225	43	15

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.

In the table above, the 'nominal value' of the futures contracts is the 'economic exposure' of those futures as at 31 March. The 'Fair value' is the unrealised profit or loss of the futures as at 31 March.

Forward over the counter foreign currency contracts

At 31 March 2016 there was an unrealised gain of £996,000 on the currency forwards (2015: unrealised loss of £1,963,000). The main currency hedging programme has been terminated, and the current position relates to specific hedging undertaken by individual managers.

Currency bought	Currency sold	Settlement dates	2016 Asset £000	2016 Liability £000	2015 Asset £000	2015 Liability £000
Australian Dollar	Sterling	14 days	2	-	-	(13)
Australian Dollar	US Dollar	15 days	251	-	-	-
Brazilian Real	Sterling	1 day	6	-	-	-
Canadian Dollar	US Dollar	15 days	363	-	-	(196)
Euro	Sterling	1-14 days	39	-	-	(10)
Japanese Yen	Sterling	13 days	-	-	2	(2)
Japanese Yen	US Dollar	15 days	262	-	-	(76)
New Zealand Dollar	Sterling	14 days	4	-	7	-
South African Rand	Sterling	5 days	9	-	-	-
Sterling	Danish Krone	14 days	-	(28)	11	(3)
Sterling	Euro	1-14 days	-	(85)	3	(12)
Sterling	Israeli Shekel	14 days	-	(32)	-	-
Sterling	Japanese Yen	1-14 days	174	(4)	-	(493)
Sterling	Norwegian Krone	-	-	-	6	-
Sterling	Canadian Dollar	14 days	-	(189)	-	(72)
Sterling	Australian Dollar	1-14 days	-	(98)	-	(26)
Sterling	New Zealand Dollar	1-14 days	-	(33)	-	(68)
Sterling	Singapore Dollar	-	-	-	-	(17)
Sterling	Swedish Krone	14 days	-	(23)	19	-
Sterling	Swiss Franc	14 days	-	(51)	3	(94)
Sterling	US Dollar	1-14 days	712	(11)	17	(943)
Swiss Franc	Sterling	14 days	3	-	-	-
US Dollar	Sterling	1-15 days	4	(50)	-	-
US Dollar	Australian Dollar	-	-	-	1	-

US Dollar	Euro	15 days	-	(229)	-	-
US Dollar	Thai Baht	-	-	-	-	(7)
Total			1,829	(833)	69	(2,032)

e) Investments exceeding 5% of net investment assets

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

Holding	2016		2015	
	Market value £m	% of net assets	Market value £m	% of net assets
L&G Global Environmental Low Carbon Fund	-	-	283.0	10.6
Wellington Global Return Fund Pooled Bonds	150.9	5.5	150.2	5.6
L&G Uk Equity Index Fund	-	-	140.2	5.3
MSCI World Low Carbon Leaders Index	220.1	8.1	-	-
TSDD Bespoke	271.4	10.0	-	-

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 2016	Designated as fair value through profit and loss £'000	Receivables £'000	Financial liabilities at amortised cost £'000
Financial assets			
Equities	940,290	-	-
Fixed interest	512,556	-	-
Pooled equities	429,860	-	-
Pooled fixed interest	453,748	-	-
Private equity	136,792	-	-
Pooled property and infrastructure	196,800	-	-
Derivatives	1,039	-	-
Cash deposits and instruments	-	57,569	-
Other investment assets	-	12,225	-
Debtors	-	6,509	-
	2,671,085	76,303	-
Financial liabilities			
Derivative contracts	-	-	-

Other investment liabilities	-	-	(5,073)
Creditors	-	-	(12,779)
Net assets of the Fund	2,671,085	76,303	(17,852)

31 March 2015	As restated Designated as fair value through profit and loss £000	Receivables £000	Financial liabilities at amortised cost £000
Financial assets			
Equities	956,300	-	-
Fixed interest	503,945	-	-
Pooled equities	657,400	-	-
Pooled fixed interest	269,634	-	-
Private equity	80,538	-	-
Pooled property and infrastructure	138,644	-	-
Derivatives	98	-	-
Cash deposits and instruments	-	46,592	-
Other investment assets	-	9,368	-
Debtors	-	6,260	-
	2,606,559	62,220	-
Financial liabilities			
Derivative contracts	(2,046)	-	-
Other investment liabilities	-	-	(1,401)
Creditors	-	-	(9,221)
	(2,046)	-	(10,622)
Net assets of the Fund	2,604,513	62,220	(10,622)

b) Net gains and losses on financial instruments

	2016 £000	As restated 2015 £000
Financial assets		
Fair value through profit and loss	34,428	315,956
Financial liabilities		
Fair value through profit and loss	-	(1,679)
Total change in market value	34,428	314,277

c) Valuation of financial instruments carried at fair value

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

Level 1

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

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

Level 2

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

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Environment Agency Active Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value. 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:

Values at 31 March 2016	Quoted market price	Using observable inputs	With significant unobservable inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Financial assets				
Financial assets at fair value through profit and loss	1,585,480	520,039	566,411	2,671,930
Receivables	76,301	2		76,303
Total financial assets	1,661,781	520,041	566,411	2,748,233

Financial liabilities				
Financial liabilities at fair value through profit and loss	-	-	(845)	(845)
Financial liabilities at amortised cost	(17,852)	-	-	(17,852)
Total financial liabilities	(17,852)	-	(845)	(18,697)
Net assets of the Fund	1,643,929	520,041	565,566	2,729,536

Values at 31 March 2015	Quoted market price	Using observable inputs	With significant unobservable inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Financial assets				
Financial assets at fair value through profit and loss	2,501,930	23,993	80,636	2,606,559
Receivables	62,220	-	-	62,220
Total financial assets	2,564,150	23,993	80,636	2,668,779
Financial liabilities				
Financial liabilities at fair value through profit and loss	-	-	(2,046)	(2,046)
Financial liabilities at amortised cost	(10,622)	-	-	(10,622)
Total financial liabilities	(10,622)	-	(2,046)	(12,668)
Net assets of the Fund	2,553,528	23,993	78,590	2,656,111

16. Nature and extent of risks arising from financial instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund's portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall pension Fund risk management programme.

Considerations of investment risk are integrated into the Fund's Investment strategy, responsibility for which rests with the Pension Fund Committee. In addition, the Fund maintains a Register of risks which includes investment risks, and the Fund, working with its advisers, regularly monitors investment risks within the Fund, enabling the Pensions Committee to consider risk as required.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. All securities investments present a risk of loss of capital. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the potential for long term return within a given risk framework – long term investment returns fundamentally depend on the willingness to take on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. Specific risks on individual investments, caused by factors specific to the individual instrument, can be largely managed and reduced through diversification. Broader market risk, arising from factors affecting all instruments in the market, can only be reduced to a limited extent through diversification without affecting long term returns.

To mitigate specific market risk, the Fund and its investment advisers undertake appropriate monitoring of individual manager's selection of securities, their performance against benchmarks and their compliance with their individual Investment Management Agreement and the Fund's overall investment strategy. Broader market risk, analysed below, is regularly monitored by the Fund and its advisers, and is a key consideration in determining the Fund's overall Asset Allocation. The Fund also considers the use of risk management tools such as currency hedging. However, the Fund does not attempt to manage market risk by short term shifts in asset allocation, as this may increase rather than reduce risk.

Market risk – sensitivity analysis

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 2015/16 reporting period.

Asset Class	Potential change in value from market risk	
	31 March 2016 £000	31 March 2015 £000
UK equities	34,558	67,532
Global equities (ex UK)	229,098	244,507
Private equity	36,838	23,034
Property	2,485	20,381
Global corporate bonds	28,908	48,986
UK index linked gilts	64,342	22,182
Other	25,431	1,119
Cash	360	261
(Less impact of diversification)	(121,609)	(100,330)
Total Fund volatility	300,410	327,672

Asset Class	1 Year expected volatility %	% of Fund
UK equities	17.1	7.4
Global equities (ex UK)	19.6	42.8
Private equity	28.7	4.7
Property	14.7	7.2
Global corporate bonds	9.5	24.8
UK index linked gilts	9.6	9.7
Other	7.0	1.3
Cash	0.6	2.2
Total Fund volatility	11.0	100.0

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment adviser's most recent review. The Total Fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

Due to the approach taken to determine the Total Fund volatility (in which the impact of diversification is recognised), the monetary impact on the total Fund assets is determined using the total Fund volatility rather than the sum of the monetary impact for each asset class.

Had the market price of the Fund's investments increased/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 below):

	31 March 2016	31 March 2015
Total net investment assets (£000)	2,731,430	2,664,411
Percentage change (%)	11.0	12.3
Value on increase (£000)	3,031,787	2,992,134
Value on decrease (£000)	2,430,893	2,336,688

Interest rate risk

Many investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct interest rate risk exposure is primarily due to its fixed income holdings. The Fund may also have indirect interest rate exposure through its holdings of other assets however, it is not possible to quantify these. Note that interest rate risk is also included in the overall estimate of market risk earlier. There is a small interest rate exposure arising from the Fund's cash holdings, where changes in interest rates will change the income received from cash, however, capital values will not be affected.

More significantly, the Fund's liabilities are also estimated using long term interest rates. The interest rate exposure in the Fund's liabilities is materially greater than, and in an opposite direction to, the exposures in the fixed interest portfolios. Thus the overall impact of interest rate movements on the funding level of the Fund is significantly different from that implied below. Effectively, the holdings of fixed income assets provide a partial hedge to the interest rate risk in the Fund's liabilities. The Fund monitors this position through regular estimation of its funding position which includes sensitivity analysis of these risks.

	As at 31 March 2016	Interest rate sensitivity duration 2016	As at 31 March 2015	Interest rate sensitivity duration 2015
UK Index Linked Gilts	264,703	29.6	257,932	28.5
Pooled Sterling Bonds Indexed	6,726	7.7	98,515	8.0
Sterling Bonds Actively Managed	694,875	7.6	417,132	8.0
Total	966,304		773,579	

Interest rate risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 1% movement in interest rates provides an appropriate indication of the sensitivity of the fixed interest portfolio and the Fund's Net Assets to a change in interest rates. The Fund advisers have indicated that long term average interest rates are expected to move less than 1% from one year to the next. This interest rate exposure has to be multiplied by the modified duration of the investments to obtain the risk to capital values.

The analysis that follows assumes that all other variables remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates. Note that changes on rates on Index Linked Gilts do not necessarily correspond with changes in rates on other sterling bonds, so total figures are provided for information only.

	Carrying amount as at 31 March 2016 £000	Possible change in the net assets available to pay benefits	
		+1%	-1%
		£000	£000
UK Index linked Gilts	264,703	78,617	(78,617)
Pooled Sterling bonds indexed	6,726	518	(518)
Sterling bonds actively managed	694,875	52,811	(52,811)
Total	966,304	131,946	(131,946)

	Carrying amount as at 31 March 2015 £000	Possible change in the net assets available to pay benefits	
		+1%	-1%
		£000	£000
UK Index linked Gilts	257,932	(73,511)	73,511
Pooled Sterling bonds indexed	98,515	(7,881)	7,881
Sterling bonds actively managed	417,132	(33,371)	33,371
Total	773,579	(114,763)	114,763

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 exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£). Currency risk is also included in the overall estimate of market risk earlier. 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, such as UK equities, but these are impossible to quantify. During the year the Pensions Committee decided to end the Fund's currency hedging programme as it was not

effective at reducing the Fund's overall risk. The Pension Fund's currency rate risk are routinely monitored by the Fund and its investment advisors.

The following table summarises the Fund's currency exposure as at 31 March 2016 and as at the previous period end:

Currency exposure – asset type	Asset value as at 31 March 2016	Asset value as at 31 March 2015
	£000	£000
Overseas quoted securities	771,310	733,597
Overseas pooled equities	414,021	482,855
Overseas unquoted private equity	104,807	68,362
Total overseas assets	1,290,138	1,284,814

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Fund's advisers, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10% (as measured by one year expected standard deviation).

This analysis assumes that all other variables, in particular interest rates, remain constant. A 13% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure – asset type	Asset value as at 31 March 2016	Possible change to net assets available to pay benefits	
	£000	+10% £000	-10% £000
Overseas quoted securities	771,310	77,131	(77,131)
Overseas pooled equities	414,021	41,402	(41,402)
Overseas unquoted private equity	104,807	10,481	(10,481)
Total value/change in assets available	1,290,138	129,014	(129,014)

Currency exposure – asset type	Asset value as at 31 March 2015	Possible change to net assets available to pay benefits	
	£000	+13% £000	-13% £000
Overseas quoted securities	733,597	95,368	(95,368)
Overseas pooled equities	482,855	62,771	(62,771)
Overseas unquoted private equity	68,362	8,887	(8,887)
Total change in assets available	1,284,814	167,026	(167,026)

Credit risk

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

Credit risk also arises inevitably with transactions and trading. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

To minimise credit risk exposure most of the Fund's cash is held in money market funds run by the Fund's custodian Northern Trust and the Fund's index fund provider Legal & General – these funds invest in a wide range of cash instruments and have limited exposure to any individual institution. Furthermore they are legally separate from the manager, which should safeguard the Fund's investments in the case of the default of the manager.

The Fund believes it has managed the Fund's exposure to credit risk, and has had no experience of default in cash deposits or uncollectible deposits over the past five financial years. The Fund's cash holding under its cash management arrangements at 31 March 2016 was £58 million (31 March 2015 was £47 million). This was held with the following institutions:

Summary	Rating by Moody's	Balances as at 31 March 2016 £000	Balances as at 31 March 2015 £000
Money market funds:			
Northern Trust	Aaa	53,103	43,580
Bank current accounts:			
National Westminster Bank plc	A2	4,466	3,012
Total		57,569	46,592

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments. The Pension Fund has immediate access to its cash holdings.

The Fund defines liquid assets are those that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash, and are assumed to be the private equity and property holdings. As at 31 March 2016, the value of potentially illiquid assets was £333.6m, which represented 12.2% of the total Fund assets (2015: £219.2m, which represented 8.2% of the total Fund assets).

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund's investment strategy. All financial liabilities at 31 March 2016 are due within one year.

Refinancing risk

The key risk is that the Fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

17. Funding arrangements

In line with the Local Government Pension Scheme (Administration) Regulations 2008, 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 2013. The next valuation will take place as at 31 March 2016.

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, over broadly 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 Environment Agency's, as the employer, 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 solvency of the Fund and keeping employer contribution stable.

At the 2013 actuarial valuation, the Fund was assessed as 90% funded (94% at the March 2010 valuation). This corresponded to a deficit of £233m (2010 valuation: deficit of £95m) at that time.

The following table shows the minimum contributions payable after allowing for discretionary lump sum payments paid to the Fund in March 2014, March 2015 and March 2016.

Employer name	Minimum contributions for the year ending:					
	31 March 2015		31 March 2016		31 March 2017	
	% pay	£	% pay	£	% pay	£
EA	13.0	Nil	14.0	£14m	14.0	Nil
NRW	20.2	Nil	21.2	£1.5m	21.2	Nil
SSCL	22.7	Nil	22.7	nil	22.7	Nil

Full details of the contribution rates payable can be found in the 2013 actuarial valuation report, the FSS and the Rates and Adjustment Certificate dated 19 April 2016. 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)	4.6	Yield on long term fixed interest Government bonds plus Asset Outperformance Assumption of 1.6%
Retail Price Inflation (RPI)	3.0	The difference between yields on long term fixed and index linked Government bonds less 0.3% p.a. in respect of the inflation risk premium
Salary Increases*	3.5	RPI plus 0.5%
Pension Increases	2.2	CPI (assumed to be 0.8% less than RPI)

*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 2010 model assuming that the current rate of improvement has reached a peak and will converge to a 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	22.6 years	24.5 years
Future pensioners*	24.7 years	27.0 years

* Figures assume members aged 45 as at the last formal valuation date.

Commutation assumption

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

18. Actuarial present value of promised retirement benefits

IAS26: Accounting and reporting by retirement benefit plans

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 17). The actuary has also used 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 £3,233m (2015: £3,461m). 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.

Assumptions

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

Financial assumptions

The financial assumptions adopted are summarised below:

Year ended	31 March 2016 % p.a.	31 March 2015 % p.a.
Inflation/Pensions Increase Rate	1.9	2.1
Salary Increase Rate	3.4	3.5
Discount Rate	3.5	3.2

Demographic assumptions

The demographic assumptions (including longevity) used to determine the actuarial present value of promised retirement benefits as at 31 March 2016 are those adopted for the formal actuarial valuation as at 31 March 2013.

The actuary has estimated the impact of the change of assumptions to 31 March 2016 as an decrease to the actuarial present value of £353m.

19. Current assets

	2016 £000	As restated 2015 £000
Debtors		
Contributions due – employers	4,094	4,282
Contributions due – employees	1,929	1,795
VAT to be reimbursed to the Fund	453	165
Overpaid pensions on death to be refunded to the Fund	12	14
Sundry – amount due from Closed Fund/Bank interest	21	4
	6,509	6,260
Cash at bank	4,466	3,012
Total	10,975	9,272

Analysis of debtors

	2016 £000	As restated 2015 £000
Government Agencies – Environment Agency	6,002	5,299
Admitted Bodies – NRW and SSCL	41	780
Central government bodies – HMRC	453	165
Other entities and individuals	13	16
Total	6,509	6,260

Amounts due from the Environment Agency, shown above under Government Agencies, are:

- Employers' and employees' contributions of £3,810,000 (2015: £3,302,000) and £1,920,000 (2015: £1,784,000) respectively outstanding in the normal course of collection at the year end and subsequently paid over within the statutory time limit.
- £252,000 (2015: £210,000) for special contributions due in respect of augmentations to members' Benefits.
- £20,000 (2015: £2,000) is due from the Environment Agency Closed Fund in respect of member and administration expenses.

20. Current liabilities

	2016 £000	2015 £000
Creditors		
Administration and investment expenses	(10,394)	(6,993)
Benefits payable	(1,647)	(1,513)
PAYE	(737)	(711)
Tax payable on refunds	(1)	(4)
Total	(12,779)	(9,221)

Analysis of creditors

	2016 £000	2015 £000
Other entities and individuals – Benefits and admin fees	(11,994)	(8,463)
Central Government bodies – HMRC	(738)	(715)
Independent Parliamentary Bodies – NAO fees	(47)	(43)
Total	(12,779)	(9,221)

21. Additional Voluntary Contributions

The table below shows information about these separately invested AVCs.

	2016 £000	2015 £000
Standard Life	3,569	3,554
Clerical Medical	1,920	2,399
Prudential	1,514	1,306
The Equitable Life Assurance Society	977	1,092
Total AVC investments	7,980	8,351

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 pay 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.

22. Related party transactions

During the year ended 31 March 2016 there have been the following related party transactions:

- Pensions administration costs of £397k (2015: £426k) were recharged to the Active Fund by the Environment Agency.
- Seven members of the Pensions Committee are contributing members of the Active Fund. This will increase again to eight once we have appointed a new active member nominee.
- One member of the Committee has deferred benefits in the Active Fund.
- Payment of unfunded liabilities of £360k (2015: £426k) recharged to the Environment Agency and funded by grant-in-aid from Defra in respect of compensatory added years.
- During the year, special contributions of £100,616 (2015: £6,092) were paid over to the Active Fund outside of our agreed timescales. As at the year end, no special contributions were outstanding.

23. Contingent liabilities and assets

In accordance with authorised investment strategy and mandates, the outstanding investment commitments at 31 March 2016 are, Private equity £39.5m (2015: £43.0m) and Property and infrastructure £121.7m (2015: £86.2m). There are no contingent assets as at 31 March 2016 (2015: £nil).

24. Impairment losses

For the year to 31 March 2016 the Fund has recognised an impairment loss of less than £0.1m (2015: less than £0.1m) for the non-recovery of pensioner death overpayments.

25. IAS10: Authorisation for issue

The Environment Agency Closed 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

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 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 you are, or during that period become, an *Eligible Jobholder* you will be brought into the scheme from either:
- The automatic enrolment date (unless your employer issues you with a postponement notice to delay bringing you into the scheme for up to a maximum of 3 months).
 - If your contract is extended to be for 3 months or more, or you opt to join by completing an application form, you will be brought into the scheme from the beginning of the pay period after the one in which your contract is extended or you opt to join.

Members' contributions are deducted from pensionable pay and the rate is dependent on the value of the permanent pensionable earnings paid. The rate the member pays depends on which earnings band the members falls into, but the rate will fall between 5.5% and 12.5% of permanent pensionable earnings. If the member works part time, the rate will be based on the full time equivalent permanent pensionable pay for the job, although the member will only pay contributions on the pensionable pay actually earned.

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 EAFP pension, or membership for pension purposes (if the employee has continuously paid additional voluntary contributions since prior to 13 Nov 2001).
- Purchase additional EAFP 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 transfer payment is received within 12 months of joining the Environment Agency Pension Fund (or such a longer date that the Fund employer may allow).
- (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 early retirements (other than dismissal on the grounds of ill health) and any discretionary award of additional membership and/or 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 2009.

Outline of pension benefits provided by the LGPS

	Prior to 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)
Accrual rate	1/80th final salary for each year	1/60th final salary for each year	1/49th
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	2 x salary, 5 year Guarantee	3 x salary, 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% 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 60 if employee has 25 years' service	From age 60 but with reductions	from age 55 but with reductions
85 year rule	Can retire 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 65)

Contributions Table

The following table displays the 2015/16 employee contribution bands. These have not increased from 1 April 2016 and remain at 2015 levels.

Pay range (based on actual Pensionable pay paid)	Contribution rate Main Section	Contribution rate 50/50 Section
Up to £13,600	5.50%	2.75%
£13,601 to £21,200	5.80%	2.90%
£21,201 to £34,400	6.50%	3.25%
£34,401 to £43,500	6.80%	3.40%
£43,501 to £60,700	8.50%	4.25%
£60,701 to £86,000	9.90%	4.95%
£86,001 to £101,200	10.50%	5.25%
£101,201 to £151,800	11.40%	5.70%
£151,801 or more	12.50%	6.25%

Annex 2 – Funding Strategy Statement

1. Introduction

(Administration) Regulations 2008 and the guidance paper issued in October 2012 by the Chartered Institute of Public Finance and Accountancy (CIPFA) this statement sets out the funding strategy for the Environment Agency Active Pension Fund (the 'Fund'). This statement has been reviewed and updated as part of the 2013 actuarial valuation process.

The Active Fund is part of the Local Government Pension Scheme (LGPS) and 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 2013, the Active Fund contained 11,356 active members, 5,119 pensioners and 6,310 deferred pension members whose benefits have yet to come into payment.

The Active Fund had two participating employers – the Environment Agency (EA) and, from 1 April 2013, Natural Resources Wales (NRW). This increased to three employers from November 2013.

Regulation 35 of the respective legislation referred to above provides the statutory framework from which the Administering Authority is required to prepare and review a Funding Strategy Statement ('FSS'). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with relevant interested parties involved with the Active Fund the Administering Authority will prepare and publish its funding strategy.
- In preparing the FSS, the Administering Authority must have regard to:-
 - The guidance issued by CIPFA for this purpose.
 - The Statement of Investment Principles (SIP) for the Fund published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles
- The revised FSS should be complete and approved by the Pensions Committee prior to the completion of each actuarial valuation; and
- The Fund Actuary must have regard to the FSS as part of the fund valuation process

The Fund is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Regulations). 'The Regulations' are defined as:

- The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) – 'the Administration Regulations'.
- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) – 'the Benefit Regulations'.
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended) – 'the Transitional Regulations'.
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) – 'the Investment Regulations'.

Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure. The required levels of employee contributions are also specified in the Regulations.

EA and NRW ('the employers') pay the balance of the cost of delivering the benefits to members. Contributions payable by the employers are determined in accordance with the Regulations (principally Regulation 36 of the Administration Regulations) which require that the actuary complete an actuarial valuation, including a rates and adjustments certificate, every three years. Contributions to the Active Fund should be set to 'secure its solvency', whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible.

Public Service Pension Scheme Reform

In December 2012, the Department of Communities & Local Government (CLG) published its consultation on draft Local Government Pension Scheme Regulations for the new scheme in England & Wales. This first set of draft Regulations covers membership, contributions and benefits and related administration issues and is due to come into force on 1 April 2014.

The high level features of the new scheme are set out below:

- CARE scheme with a 49th accrual.
- Survivor benefits, on a similar CARE basis, based on a 160th accrual.
- New employee contribution rates, where the rate payable is dependent on the member's actual pay (rather than full time equivalent pay).
- 50:50 Section, reduced contribution rates for reduced benefit accrual.

The final design of the reformed LGPS is expected to be confirmed in a single, consolidated set of regulations before 1 April 2014.

Following the 2013 actuarial valuation, and subject to ministerial approval, the cost of the scheme will be potentially shared between the employer and employees as part of a locally applied national LGPS 'Employer cost cap' arrangement introduced under section 11 of the Public Service Pension Bill. However, it is not yet clear how the 'Employer cost cap' arrangements will work in practice.

The interaction of the 'Employer cost cap' with the 2014 scheme regulations should become clearer during 2013. The FSS does not make any allowance for these changes. It is expected that any changes to the LGPS arising from the 'Employer cost cap' will first apply at the 2016 actuarial valuation.

The FSS focuses on the pace at which these liabilities are funded, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure. The actuary must have regard to the FSS in carrying out the valuation.

2. Purpose of the FSS in policy terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Environment Agency Pensions Committee as the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is to:

- Establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward.

- Support the regulatory requirement to maintain as nearly constant employer contribution rates as possible.
- Take a prudent longer term view of funding those liabilities.
- Adopt appropriate funding strategies that reflect any key risk or demographic differences that exist between the employers that participate in the Fund, e.g. if open or closed to new entrants.

These objectives are desirable individually, but not necessarily deliverable together.

In developing this strategy, which is intended to be both cohesive and comprehensive, the Environment Agency Pensions Committee as the Administering Authority has focused on balancing the desirability of affordability of contributions, transparency of processes, stability of the employer's contributions, and prudence in the funding basis.

3. Aims and purpose of the Pension Fund

The **aims** of the fund are to:

- 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.
- Maximise the returns from investments within reasonable risk parameters.

The **purpose** of the fund is to:

- Receive monies in respect of contributions, transfer values and investment income;
- Pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses as defined in the Regulations.

4. Responsibilities of the key parties

These are as set out in the Regulations (as amended from time to time), in guidance, in professional standards and by agreement between parties (such as the contractual relationship between administering authorities and their advisors).

The Environment Agency Pensions Committee as the Administering Authority should:

- Operate the pension fund.
- Collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in LGPS regulations.
- Pay from the pension fund the relevant entitlements as stipulated in LGPS Regulations.
- Invest surplus monies in accordance with LGPS Regulations.
- Ensure that cash is available to meet liabilities as and when they fall due.
- Take measures as set out in LGPS Regulations to safeguard the fund against the consequences of employer default.
- Exercise discretions within the regulatory framework.
- Monitor all aspects of the Fund's performance and funding and amend the FSS/SIP as necessary.

- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Fund employer.

Each individual employer should:

- Deduct contributions from employees' pay correctly.
- Pay all contributions to the Fund, including their own as determined by the actuary, promptly by the due date.
- Develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework.
- Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of pension benefits, and early retirement strain costs.
- Notify the Administering Authority promptly of all changes to active membership which affect future funding.
- Exercise discretions within the regulatory framework.

The Fund actuary should:

- Prepare valuations including the setting of the employers' contribution rates at a level to agree fund solvency after agreeing assumptions with the Administering Authority and having regard to the FSS and the LGPS Regulations.
- Prepare advice and calculations in connection with bulk transfers and individual benefit related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc.
- Provide advice and valuations on the cessation of participating employers.
- Provide advice to the administering authority on bonds or other forms of security against the financial impact on the Fund of employer default.
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as required by the regulations.
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Fund.
- Advise on funding strategy, the preparation of the FSS, and the interrelationship between the FSS and the SIP.

5. Funding time horizon

Long term, secure open employers

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.
- Cuts in employer contributions are easy to implement, but very slow to reverse.

To meet the requirements of the Regulations, the Administering Authority's long term funding objective is to achieve and then maintain assets equal to at least 100% or more of the present value of projected accrued liabilities, assessed on an ongoing basis including allowance for projected final pay.

For secure, long term, open employers only, the Administering Authority, after taking advice from the Fund actuary, uses 'stochastic' modeling techniques to project future asset and liability values forward from the valuation date to assess the likelihood that this long term funding objective will be met.

Closed employers

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. The deficit recovery period for a closed employer is typically based on the future working lifetime of its active membership. If the employer has no guarantor within the Fund, the funding strategy will change over time as the membership matures. The use of an ongoing funding basis will be subject to review at future valuations.

Fixed period employers

If the employer is expected to participate in the Fund for a fixed period (e.g. a contractor) then the deficit recovery period would be based on the remaining contract period of the employer. Typically an ongoing basis will be targeted for a fixed period employer.

6. 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 2014. 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	Pay growth check	In return for reducing the pay growth assumption by 0.5% p.a. at this valuation, 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 its discretion.
3	Deficit recovery period	Determined separately for each participating employer by reference to the Future Working Life (FWL) of active members to avoid passing historic deficit costs onto future generations. Outstanding contract period is adopted for any contractors with fixed periods of participation in the Fund.
4	Past service deficit recovery contributions	Covered by fixed monetary amounts in order to ensure that deficit continues to be repaid at the correct level if payroll reduces.

7. Assumptions at the 2013 valuation

Key assumptions

The key financial assumptions adopted for the 2013 actuarial valuation are:

	31 March 2013
Past Service (Current Yields Basis)	
Asset Valuation	£2,118m
Asset out-performance assumption (pre retirement)	1.6%
Asset out-performance assumption (post retirement)	1.6%
Discount rate (pre retirement)	4.6%
Discount rate (post retirement)	4.6%
Retail Price Inflation (RPI)*	3.0%
Pension Increases**	2.2%
Earnings Inflation***	3.5%
Future Service (Current Yields Basis)	
Discount rate (pre retirement)	4.6%
Discount rate (post retirement)	4.6%
Retail Price Inflation (RPI)*	3.0%
Pension Increases**	2.2%
Earnings Inflation***	3.5%

* based on market implied RPI less 0.3% p.a. (the premium that investors are prepared to pay for inflation protection in current bond markets).

** based on RPI less 0.8% pa (the long term expected gap between CPI and RPI).

*** with an allowance for age related promotional increases currently worth around 1.4% p.a. made in addition.

The assumptions underpinning the stochastic asset liability modelling adopted to set contribution rates are set out in the Actuary's report on the valuation.

Underlying these assumptions are the following two tenets:

- That the Active Fund and its participating employers are expected to continue for the foreseeable future.
- Favourable investment performance can play a valuable role in achieving adequate funding
- Over the longer term.

Baseline longevity assumptions continue to be based on pooled experience from occupational pension schemes and allow for observed variations in mortality according to age, gender, salary and postcode based lifestyle groups. By adopting baseline longevity assumptions that are matched to each member's characteristics, the assumption is based on the Active Fund membership rather than that of a typical pension fund. Also, member based assumptions automatically allow for demographic differences that exist between the membership of different employers of the Fund.

The Actuary allows for future improvements by using the CMI 'core' projections on a 'peaked' basis with a long term rate of improvement of 1.25% p.a.

Club Vita incorporates a range of factors into its analysis including environmental factors. Extreme weather events such as harsh winters and warm summers clearly influence longevity so are therefore monitored and factored into the analysis.

8. Solvency and Target Funding Levels

The Active Fund's actuary is required to report on the 'solvency' of the whole fund at least every three years.

'Solvency' is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary's ongoing funding basis. This quantity is known as a funding level. As at 31 March 2013, the ongoing funding level was **90%**.

The employers' future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

For **open employers**, the future service rate will be derived using the Projected Unit Method of valuation with a one year control period. If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

For **closed employers**, the future service rate will be derived using the Attained Age Method of valuation. Under this method, the rate should be broadly stable over time for a closed employer if future experience is in line with assumptions.

The funding method is described in the Actuary's report on the valuation.

The future service rate includes expenses of administration to the extent that they are borne by the Active Fund and an allowance for benefits payable on death in service and ill health retirement.

The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority.

The key financial assumption is the anticipated return on the Fund's investments. 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). There is, however, no guarantee that the Fund's assets will outperform gilts but historical data demonstrates that over the long term returns from investing in equities and other non gilt assets tend to be greater than those from investing in gilts. When returns are measured over short periods such as the three years between formal actuarial valuations, actual returns and assumed returns can deviate sharply.

Given the very long term nature of the liabilities, a long term view of prospective returns from equities and other assets is taken. For the 2013 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 at the time of the valuation.

The retail price inflation assumption is taken to be 'break even' inflation, i.e. the level of future inflation that would give an investor in a conventional (non-inflation protected) gilt the same return as another who invested in an index linked gilt. The pension increase assumption is based on break even inflation, but reduced by 0.8% a year to allow for consumer price inflation and by a further 0.3% a year to allow for the inflation risk premium (the premium that investors are prepared to pay for inflation protection in current gilt markets).

At the moment the target funding level for both of the employers that participated in the Fund at the 2013 valuation date is calculated using ongoing funding assumptions. However, as NRW is a closed employer, this target is likely to change over time as its membership matures. The ultimate target for NRW at the point at which it ceases to participate is to have assets that are equal in value to liabilities calculated using a 'gilts cessation basis' (see section 14 for further details).

9. Employer contributions

Derivation of Employer Contributions (before stability overlay)

Employer contributions are normally made up of two elements:

- The estimated cost of future benefits being accrued, referred to as the 'future service rate'.
- An adjustment for the funding position (or 'solvency') of accrued benefits relative to the Fund's solvency target, 'past service adjustment'. If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over the remaining working lifetime of the active membership of each employer (calculated to be 11.6 years at the 2013 actuarial valuation for the Environment Agency and 12.0 years for NRW).

The Fund's actuary is required by the regulations to report the Common Contribution Rate, for the Fund at each triennial valuation. It combines both of the items above across the Fund as a whole, and is expressed as a percentage of pay. The common contribution rate at the 2010 valuation was 16.5%, which was made up of the future service rate (13.0%) and the contributions required to meet the past service shortfall, measured at the 2010 valuation, over the deficit recovery period of 9 years (3.5%).

EA and NRW are each paying 13.0% of pay in 2013/14, which represents the future service rate calculated at the 2010 valuation. This is set out in the current Rates and Adjustments certificate. Advance payment of the required historic deficit recovery contributions for 2013/14 were made by EA England and Environment Agency Wales (the predecessor to NRW) following the 2010 valuation.

The results of the 2013 valuation show that the *Common Contribution Rate* for the Fund has increased to 23.8% of pay. This is made up of a future service rate of 17.6% and a past service adjustment of 6.2%. Given the uncertainties about the size of both employers' payroll in future, it was further recommended that the elements relating to deficit recovery should be expressed as a monetary amount.

Stability of Employer Contributions

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 Active Fund. With this in mind, there are a number of prudent strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible.

These include:-

- The use of extended deficit recovery periods for open employers.
- The phasing in of contribution increases / decreases.
- Capping of employer contribution rate increases / decreases within a pre-determined range for long term, secure employers ('the contribution stability overlay').

Contribution stability overlay

There can be occasions when, despite the deployment of contribution stabilising mechanisms such as phasing and the extension of deficit recovery periods, the pre-stabilised employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

At the 2010 valuation a contribution stability mechanism was set. This mechanism put a limit on annual changes to contributions payable by the Environment Agency, as the sole employer at that time, to no more than +0.5% / -0.5% of pay from 1 April 2014.

The contribution stability mechanism applies only to open long term, secure employers in the Fund (currently only the Environment Agency).

Making use of asset liability modeling, the Administering Authority commissioned a review of the contribution stability overlay to determine if this remained appropriate at the 2013 valuation, given the change in market conditions experienced since the mechanism was set in 2010. The modelling assumes that current gilt market yields revert closer to historical levels over the long term.

In the interests of stability and affordability of the Environment Agency's contributions, the Administering Authority, on the advice of the Active Fund Actuary, believes that the results of the modelling demonstrate that stabilising contributions can be viewed as a prudent longer term approach. The Administering Authority has agreed that the current level of contributions should increase by 2% of pay over the period from 1 April 2014 to 31 March 2017. This includes a flexible strategy for the timing of past service deficit repayments. Please see the Fund's formal valuation report for more details.

The Active Fund currently has a strong net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets' volatility to be managed so as not to cause volatility in employer contribution rates. The LGPS Regulations require the longer term funding objectives to be achieved and the Fund to maintain assets to meet the projected accrued liabilities. The role of the Active Fund Actuary in performing the necessary calculations and determining the key assumptions used is an important feature in determining the funding requirements.

Non stabilised employers

The contribution stability mechanism does not apply to those employers who do not meet the criteria of being a long term, secure employer, as determined by the Administering Authority. This currently applies to one employer, NRW, as it is closed to new entrants and from 1 April 2014. In addition, the time horizon of NRW's participation in the EAPF is currently uncertain and will depend on future direction from Cabinet Office.

The contribution rate payable by such employers may be adjusted at the discretion of the Administering Authority. This will depend on the nature of the employer's admission in the EAPF and may include, for example, the phasing of contribution rate increases.

10. 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 2034 and 2036 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 Environment Agency's Pensions Committee (the Administering Authority) has consulted with the actuary, be charged additional contributions on the same basis as apply for non ill health cases.

11. 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 surplus/deficit spreading period 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 upfront 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.

12. Risk sharing

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.

13. Bulk transfers payable to and from the Fund

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 any supplementary guidance (in particular the Cabinet Office Statement of Practice on Staff Transfers in the Public Sector 2000 (COSOP) and Fair Deal guidance) as they pertain to bulk transfers are adhered to. The Fair Deal guidance, in as much as it relates to LGPS employers, is currently under review.

At the time of drafting the outcome of this review it was still unknown.

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.

14. 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.
- 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.

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.

In the event that the Fund is not able to recover the required 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.

15. Link to investment policy set out in the Statement of Investment Principles

Funding and investment strategies are inextricably linked.

In assessing the value of the Active Fund's liabilities in the valuation, allowance has been made for asset out-performance as described in Section 7, taking into account the investment strategy adopted by the Active Fund, as set out in the SIP.

It is not possible to construct a portfolio of investments that produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio that closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long term index linked gilts.

Investment of the Active Fund's assets in line with the least risk portfolio would minimise fluctuations in the Active Fund's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Active Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the investments. On this basis of assessment, the assessed value of the Active Fund's liabilities at the

2013 valuation would have been significantly higher and the declared funding level would be correspondingly lower.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The Administering Authority has adopted a benchmark, which sets the proportion of the Active Fund's assets to be invested in key asset classes. This is set out in the SIP and shown below:

Asset Class	Strategic Benchmark Current
Equities (UK and overseas)	50% – 63%*
Emerging Market equities	5% – 12%
Private Equity	4% – 6%
Property	3% – 6%
Timberland and Agriculture	0% – 4%
Infrastructure	0% – 4%
Corporate Bonds	13% – 28%
Index linked gilts	5% – 20%
Cash	0% – 3%
Total	100%

*including emerging markets

The Active Fund's benchmark (2014 target allocation) includes significant allocations to equities, corporate bonds property and alternative assets in the pursuit of long term returns higher than those from investing in just indexlinked gilts. It is the Administering Authority's belief that this strategy will, in the long term result in a better funded and more affordable scheme.

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 Active Fund actuary's best estimate of the portfolio long term return at the 2013 valuation date is around 2.9% a year in excess of the return available from investing in indexlinked government bonds.

In order to reduce the volatility of employers' contributions, the funding strategy currently anticipates returns of 1.6% a year, that is around 1.3% a year less than the best estimate return from the Active Fund's portfolio of assets (if no active manager out-performance is achieved).

In this way, the employer contributions anticipate returns from Active Fund assets for which, in the Fund actuary's opinion, there is a better than 50:50 chance of delivering over the long term (measured over periods in excess of 20 years).

The Active Fund has set its investment managers performance targets so that the return for the Active Fund should exceed the return on the strategic benchmark, after allowing for the active managers' fees. However, no allowance has been made for this in the funding strategy.

The funding strategy has been tested against variations of the investment strategy with the ranges outlined and found to be sufficiently robust to meet the funding objectives.

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short term and even medium term, asset returns will fall short of this target. The stability measures described in Section 9 will dampen down, but not remove, the effect on employers' contributions.

The Active Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

Balance between risk and reward

In setting the investment strategy, the Environment Agency's Pensions Committee, as the Administering Authority, considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes such as equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future funding levels and the impact on future contribution rates.

Intervaluation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the change in the value of liabilities by means of quarterly inter-valuation monitoring reports.

16. Identification of risks and counter-measures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Environment Agency's Pensions Committee, as the Administering Authority, has been advised by the actuary that the greatest risk to the Fund's funding is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall 1.6% per annum assumed in the long term.

The following key risks have been identified:

Financial

Risk	Summary of Control Mechanism	Impact
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long term.	<p>Only anticipate long term returns on a relatively prudent basis to reduce risk of under performing.</p> <p>Analyse progress at three yearly valuations.</p> <p>Inter-valuation roll-forward of liabilities between formal valuations on a quarterly basis.</p> <p>Contribution stability overlay for long term, open</p>	High

	employers will reduce risk of volatile employer contributions.	
Inappropriate long term investment strategy.	Set fund specific benchmark, informed by asset-liability modelling. A mechanism for enabling strategy to be linked to funding level could enable asset outperformance relative to liabilities to be locked in.	High
Risk free returns on Government bonds fail to rise in line with assumptions, leading to liabilities being more highly valued than anticipated.	Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.	High
Active investment manager under performance relative to benchmark.	Short term (quarterly) investment monitoring analyses market performance and managers relative to their index benchmark.	Medium
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 index linked bonds also helps to mitigate this risk. Investment in other 'real' assets (e.g. equities and property) also helps to mitigate risks. Employers will be encouraged to make additional top up contributions if future pay increases are in excess of the 2013 valuation salary increase assumption.	Medium
Effect of possible increase in employer's contribution rate on service delivery.	Mitigate impact through deficit spreading and continuation of the contribution stability mechanism for long term, open, secure employers at 2013 valuation to increase those employers' budgeting certainty.	Low
Effects of possible shortfall in cash required to meet benefit outgo due to reduced cash contributions and/or maturing demographic profile.	Mitigate risk by introducing a cash flow monitoring process, whereby any possible future cash shortfall is identified early enough for appropriate action to be taken. Accuracy of cashflow projections is improved by use of bespoke baseline longevity assumptions.	Medium

Demographic

Risk	Summary of Control Mechanism	Impact
Pensioners living longer.	Actuary quantifies potential scale of risk associated with continuing improvements in longevity, and identifies separate reserve in the actuarial valuation. The reserve for future longevity improvements was increased in the 2013 actuarial valuation. The Fund is a member of Club Vita which provides annual monitoring of longevity experience amongst occupational pension scheme members. This	Medium

	<p>monitoring will provide an early warning of the adequacy of the assumption and reserve for future longevity improvements.</p> <p>Also, as a member of Club Vita the Fund is able to use bespoke 'baseline' longevity assumptions, based on the pooled mortality experience of over 150 large occupational pension schemes. These bespoke assumptions allow for the individual characteristics of each individual member in the Fund providing a best estimate of current life expectancy for that individual, based on the information held.</p>	
Deteriorating patterns of early retirements.	Employers are charged the extra capital cost of non ill health retirements following each individual decision. Employer ill health retirement experience is monitored.	Low

Regulatory

Risk	Summary of Control Mechanism	Impact
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part time employees, public sector pension reform.	<p>The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.</p> <p>It considers all consultation papers issued by the CLG and comments where appropriate.</p>	Medium
Changes to national pension requirements and/or HM Revenue & Customs rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006.	It considers all applicable HM Revenue & Customs regulations and pensions' legislation.	Low

Structural Changes in Employer

Risk	Summary of Control Mechanism	Impact
Administering Authority unaware of structural changes in the employers' membership (e.g. large fall in employee members, large number of retirements).	<p>The Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings.</p> <p>The Actuary may be instructed to consider revising the Rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations.</p> <p>Past service deficit recovery element of each employers' regular contribution rate to be based on monetary amounts (rather than a percentage of payroll) to protect the Fund against falling payroll.</p>	Medium
New employers, Arm's Length Bodies (ALBs) review and bulk transfers in or out may crystallise funding deficits.	<p>Administering Authority will manage this by adherence to Pensions Committee's policies on the participation of new admission bodies and bulk transfers.</p> <p>The use of bespoke, member specific, longevity assumptions automatically allows for demographic differences that exist between the membership of</p>	Low

	different employers of the Fund. This ensures that payments out of the Fund are assessed accurately in respect of baseline longevity.	
--	---	--

Governance

The Environment Agency as the administering authority for the Environment Agency Active Pension Fund has delegated the responsibility and accountability for overseeing all aspects of management of the Active Fund to the Pensions Committee in accordance with its terms of reference and standing orders.

Further information on the Environment Agency Pension Fund Governance structure can be found in the Governance Compliance Statement.

17. Monitoring and Review

The Environment Agency's Pensions Committee, as the Administering Authority, has taken advice from the actuary and its investment consultants in preparing this Statement, and has also consulted with the employers. A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will reflect any legislative changes.

The Environment Agency's Pensions Committee, as the Administering Authority, will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- If there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy.
- If there have been significant changes to the Fund membership e.g. as a result of the Government's Arms Length Body review or to LGPS benefits.
- If there have been changes to the circumstances of any of the employers, to such an extent that they impact on or warrant a change in the funding strategy.
- If there have been any significant special contributions paid into the Fund.

Approved by the Pensions Committee on 16 December 2013 and will be reviewed in 2016.

Annex 3 – Statement of Investment Principles

Introduction

The Environment Agency Active Pension Fund (the Fund or 'EAPF') is a funded, final salary (defined benefit) pension scheme with over 23,000 members and assets of £2.77bn as at 31 March 2016. Full details of the Environment Agency Pension Fund and our activities can be found on www.eapf.org.uk.

This Statement sets out the principles and basic framework that govern our process for investing the assets of the Environment Agency Active Pension Fund as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. This Statement was made and approved by the Environment Agency Pension Fund Pensions Committee on 16 June 2015, after taking 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 these principles. 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 also supplemented 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 with respect to 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 advice from professional investment officers, specialist investment consultants, an independent investment adviser, the Fund's 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.

We have delegated day to day management of the Funds asset's 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 policies including this SIP. 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 safekeeping of the directly held assets of the Fund and who works in close liaison with each fund manager.

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 SIP.

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

The EAPF 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, second, to keep the contribution rate as stable as possible. To achieve this, the fund needs to invest in assets which differ in return characteristics from our pension liabilities. These investment principles provide high level guidance on how we seek to meet these objectives and manage the risks arising from the differences between assets and liabilities.

- We are long term investors: we invest in productive assets that contribute to economic activity, such as equities, bonds and real assets, and thereby aim to earn a sustainable and sufficient return on our investments.
- We are responsible investors: we believe that we will overall generate better returns by investing in companies and assets that contribute to the long term sustainable success of society.
- We adopt best practice fund governance with appropriate prioritisation, decision making at the right level, and internal accountability.
- We make our decisions based on extensive expertise: trained and insightful committee members; experienced and professional officers; and high quality, knowledgeable advisers.
- 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.
- We are prepared to be innovative and demonstrate thought leadership in investment, within the requirement of prudence and our fiduciary duty.
- We will make our investments work as hard as possible to meet our objectives: we recognise the importance of getting the right asset allocation, but also the value of getting the right structure and managers within asset classes. While we take account of market and economic levels in our decision making, we avoid making decisions on a purely short term basis.
- We will be comprehensive in our consideration of risk, and efficient in where we take risk: we will base our assessment of risk on our liabilities and contributions; consider financial and non-financial risk as appropriate; diversify risk as much as possible, 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.
- We will exercise responsible stewardship of the assets we hold, and act as a responsible voice in the broader investment community.
- We will seek the most cost effective solutions to achieving our objectives and implementing these principles: we recognise the impact of costs on the Fund, 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 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.
- 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.

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 adversely 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 our Policy to Address the Impacts of Climate Change. Managers are expected to comply with these policies when complying with this Statement of Investment Principles.

A summary of the key Responsible Investment principles;

- Apply long term thinking to deliver long term sustainable returns.
- Seek sustainable returns from well governed and sustainable assets.
- Apply a robust approach to effective stewardship.
- Responsible Investment is core in our skills, knowledge and advice.
- Seek to innovate, demonstrate and promote RI leadership and ESG best practice.
- Apply evidence based decision making in the implementation of RI.
- Achieve improvements in ESG through effective partnerships that have robust oversight.
- Share ideas and best practice to achieve wider and more valuable RI and ESG outcomes.
- Be transparent and accountable in all we do and in those in which we invest.

We believe the application of these principles will enable the delivery of our commitments as a signatory to the United Nations Principles of Responsible Investment (UNPRI) and the UK Stewardship Code and facilitate the implementation of the Kay Principles.

We became the first Local Government Pension Scheme (LGPS) signatory of the UNPRI in July 2006. 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. We complete the annual report on progress in implementing the principles and publish on our website.

We also comply with the UK Stewardship Code and other global codes. Our Stewardship Compliance Statement is available on our website. We also require all our managers to comply and apply best practice standards of global stewardship.

Investment objectives

Our investment return objective is to achieve 100% funding on an ongoing basis by 2031, with a reasonable probability of reaching 90% funded by 2022 and our risk objective is to limit the likelihood of a fall in the funding level below 80% at the 2016 and subsequent actuarial valuations. These objectives are currently being reviewed as part of the Triennial Valuation process. The aim of these objectives is to achieve a return on our assets which:

- Achieves sufficient long term returns for the benefits to be affordable to employers, while keeping the contribution rate as stable as possible;
- Is sufficient to meet Funding Strategy Statement objectives arising from triennial actuarial valuations of the Fund;
- Contributes towards achieving and maintaining a future funding level of 100%;
- In overall terms, seeks to outperform a fund specific benchmark;
- Is set at a level which does not force the Fund to take unnecessary risks.

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, and taking these together with other actions we have set ourselves the target that, as a whole, the Fund should outperform its strategic benchmark by 1% per annum, averaged over several years, (or £20-£30m in cash terms). Over the long term this will lead to significantly lower contributions than would otherwise occur.

In addition the Fund seeks to use its influence as a large institutional investor to support and develop best practice in responsible investment, through best practice in responsible investment and good global stewardship.

Types of investment to be held

The Fund may invest in any category of investment permitted by LGPS regulations. In selecting categories of investments to invest in, the Fund will have regard to return potential, financial risk, liquidity, management costs and any potential environmental, social and governance risks and opportunities. 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 equities (both listed and unlisted), index linked gilts, corporate and other bonds, private debt and real assets including property, infrastructure, forestry and agriculture assets.

Asset allocation

The strategic asset allocation of the Fund uses different types of assets to achieve diversification. It is set after considering the results of an asset and liability modelling exercise. In setting the strategic asset allocation we seek a long term rate of return sufficient to meet our investment objectives, which has been determined as a return of +3.25% over the expected return on gilts. We also consider the challenges presented by volatile market conditions, changes to the benefit structure of the LGPS, the demographics of the fund, possible transfers out, and potential changes to the investment regulations; all of which potentially impact on the most suitable investments and the appropriate allocation to them.

At the highest level, the asset allocation splits the investment portfolio into three – equities, bonds and diversifying growth assets. Equities and bonds are traditional asset classes. 'Diversifying growth assets' covers a range of assets that we consider to offer reasonably attractive returns without many of the risks associated with equities. They include real assets (property, infrastructure and forestry/agriculture), 'growth fixed income' and 'illiquid credit/private debt'.

We have adopted a flexible approach to asset allocation using three levels. The first level provides a broad framework, identifying key asset classes and setting allocation ranges to these areas. The second level is to define our medium term strategic asset allocation target, which indicates the allocation we are moving towards. The final level is the current Fund benchmark, reviewed at least each year, which reflects the practical limitations on where and the pace at which we can invest (e.g. due to the time taken to invest in illiquid assets) and provides a fair comparator for performance measurement purposes.

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. We have updated the framework this year, to provide for increased potential to reduce investment risk in the Fund when appropriate. The asset allocation framework is reviewed at least annually by the Pensions Committee. The actual asset allocation may vary outside the target ranges because of movements in markets and the availability of suitable investment opportunities.

Within this Framework the medium term target asset allocation is set, with the input of 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 medium term target is typically expected to be achieved in around 3 years. The Investment Sub-Committee then sets the current benchmark. This reflects the medium term target asset allocation but allows for the fact that our investments in illiquid assets may take some time to achieve, and therefore sets current allocations to these assets at realistic levels. The underweight exposure (against the medium term target) to diversifying growth assets is then reallocated to bonds and equity on a pro-rata basis.

Previous Framework %	Asset Class	Framework Range %	Medium term Target Allocation
45-60	Equities	40-60	50
40-55 5-12	Public Global Equities of which emerging markets	35-55 5-12	45
0-6	Private equity / specialist opportunities	0-6	5
15-25	Diversifying Growth assets	15-30	22
9-14	Real assets	9-20	12
3-6	property	3-10	5
0-4	infrastructure	0-10	5
0-4	farmland and timberland	0-4	2
0-8	Illiquid Credit / Private Debt	0-8	5
0-6	Growth Fixed Income	0-6	5
25-35	Fixed income assets	25-40	28
5-20	Index-Linked gilts	5-20	7.5
13-25	Corporate bonds	13-30	20
<3	Cash	<3	0.5

The asset allocation results in a significant weight being given to equities, which we consider appropriate given the long-term nature of our liability 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 target asset allocation, rebalance the portfolio back to the target asset allocation. The Fund's strategic benchmark and manager performance targets and their achievement are 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. They are required to comply with the investment provisions and limits prescribed in relevant regulations (currently the LGPS Investment Regulations 2009).

Subject to these statutory constraints and compliance with both this Statement of Investment Principles 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's preference is for segregated portfolios in which the Fund is the direct beneficial owner of the underlying investments, but the Fund also uses collective investments (pooled) funds when we consider them to be appropriate, based on considerations including speed of implementation, costs, flexibility, ease of administration and impact on voting and active ownership.

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. They are used for gilts, equities and corporate bonds, in both pooled and segregated approaches. 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 'smart beta': to both a fund based on an alternative index using a fundamental value approach to construction, 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, with an average outperformance target

of +1.5% p.a. This portion of the Fund is spread across UK equities, global equities, corporate bonds, and other fixed income assets, property/real assets, and private equity and debt. 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.

Schedule 1 of the LGPS (Management and Investment of Funds) Regulations 2009 imposes limits on certain categories of investments. There is a provision in Section 15 for a fund to change these limits to higher limits set out in column 2 of the Schedule, if certain conditions are met. We have considered the increased amount of risk associated with the higher limits and do not believe that it is material and so have decided to adopt them.

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, and use this to monitor 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 (volatile), particularly in the 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 asset allocation.

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 different managers reduces the risk of significant underperformance.

The Fund also believes that other financially material risks including, but not limited to, corporate governance, climate change, pollution, and other environmental issues, need to be considered and controlled. Our Responsible Investment policy details our approach to these issues. Our active Fund managers are required to consider these sources of risk (and opportunity) when evaluating investments on our behalf, and they are also considered in our investment strategy and asset allocation

Climate change is a key financially material environmental risk for the Fund, and as such we have developed a comprehensive and robust strategy to minimise the long term impacts on the Fund value. Our website has a dedicated area focusing on climate risk, outlining the plans and actions undertaken by the Fund.

The Fund is aware of the nature of its liabilities, and considers how closely its different assets match its liabilities. We have considered the case for liability driven investments, including explicit liability hedging, but do not consider it appropriate at this time given current market levels, but will continue to keep it under review. We have preferred to focus on assets which have some liability-like characteristics, for example offering some inflation linkage, such as real assets.

The Fund reviews the potential for active hedging of any aspects of risks (e.g. currency risk). At present the Fund does not hedge the currency risk in its equity exposure, as it is not considered effective in reducing overall risk. However, any currency risk in overseas fixed interest exposure would normally be hedged. We continue to monitor the case for hedging such risks.

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 'illiquidity premium' to compensate 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

Our fund managers can generally vote all the Fund's shares at their discretion. However, in our investment management agreements, we reserve the right to do this ourselves or via a specialist service provider, if we wish to do so. Before appointment, our fund managers have to confirm that they subscribe to the principles of good corporate governance and, when voting at company AGMs, take them into account. In respect of investments in the United Kingdom, this requires its managers to have due regard to the UK Corporate Governance Code and, in respect of overseas investments, have due regard to relevant recognised standards. We also require our managers to apply the highest standards of global stewardship.

When specific environmental resolutions are proposed at company AGMs, our fund managers are required, wherever possible, to refer such resolutions to the EAPF, who will direct the investment manager how to vote the Fund's shares on that resolution. The Fund's policy is to be generally supportive of resolutions calling for greater disclosures of a company's environmental performance or for improvements in environmental practice. Each resolution is considered on its own validity and merits, and due regard is paid to any possible adverse effect on investment performance that our voting may have. Further information is provided in our Voting Policy, available at www.eapf.org.uk

Collaboration

The Fund actively engages in collaboration with other pension funds, investors, asset managers, advisers, industry bodies and associated organisations to share best practice, improve efficiencies, promote product development and save money. To deliver our Responsible Investment policies we work closely with organisations including the UN Principles for Responsible Investment, 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 online. We are working closely with other LGPS funds in response to the Government's initiative calling on LGPS funds to pool assets to reduce costs, maintain or improve performance and consider infrastructure more fully.

Stock lending

The Fund does not directly engage in stock lending, although some pooled funds in which the Fund invests may have a different policy.

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 internet site www.eapf.org.uk

Approved by the Pensions Committee on 16 June 2016.

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 produces 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.

We are global investors and apply our principles of good stewardship globally, whilst recognising the need for local market considerations in its application. Reflecting on this we have summarised of our compliance with the various codes and principles relating to good stewardship, including those published in the UK, Japan, Malaysia, South Africa (CRISA), Italy, Canada (CCGG), Switzerland, the Netherlands and Code for External Governance for the European Union (EFAMA). Where practical we have provided mapping linking the principles to the compliance statement below.

Policy Commitment	Our Fund fully follows this principle:	And in practice:
<p>Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.</p> <p>UK principle 1 Japan principle 1 Malaysian 1 CRISA 5 EFAMA 1 Italy 1</p>	<p>Our Stewardship responsibilities extend over all the assets held by the Fund.</p> <p>The EAPF has a comprehensive suite of published policy documents which define how we discharge our Stewardship responsibilities, including but not limited to our Statement of Investment Principles, Responsible Investment Policy and our Voting policy.</p> <p>All new Investment Management Agreements (IMAs) include requirements to observe the FRC's UK Corporate Governance Code and UK Stewardship Code.</p> <p>We do not undertake any stock lending.</p>	<p>Our website provides comprehensive information on our policy commitments and evidence of implementation of our stewardship responsibilities.</p> <p>We have a dedicated area of the website on our Stewardship activities which is updated regularly.</p> <p>Roles and responsibilities with respect to the discharge of Stewardship activities are set out in our Responsible Investment Policy.</p>
<p>Conflict of Interest</p> <p>Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.</p> <p>UK principle 2 Japan principle 2 Malaysian 4 CRISA 4</p>	<p>We have a comprehensive Conflicts of Interest Policy. Our policy is part of our overarching Governance Policy.</p> <p>A public register of Pensions Committee members' declaration of interests is also maintained and audited annually.</p>	<p>And in practice:</p> <p>Declaration of conflict of interests is a standing agenda item at the start of all Pensions Committee and Investment Sub-Group meetings.</p> <p>The need to avoid conflicts of interest is also highlighted in our Investment management agreements (IMAs) and contracts with external parties.</p>
<p>Corporate engagement</p> <p>Institutional investors should monitor their investee companies. Orientation to sustainable growth.</p>	<p>Our Fund fully follows this principle:</p> <p>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</p>	<p>And in practice:</p> <p>Monitoring of specific investee companies is detailed in our quarterly reports and discussed at</p>

<p>UK principle 3 Japan principle 3 Malaysian 2 CRISA 2 EFAMA 2 CCGG 1 Italy 2</p>	<p>responsibly and improve their practices. 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 Funds assets in clean and sustainable companies by 2020.</p>	<p>each fund manager review meeting. Each quarter we publish a report on our website on the engagement and voting activity undertaken by Hermes EOS.</p> <p>A dedicated Responsible Investment report is presented to our quarterly Investment Group and summarised in Pensions Committee reports.</p>
<p>Enhancing value & integration</p>	<p>Our Fund fully follows this principle:</p>	<p>And in practice:</p>
<p>Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.</p> <p>Common understanding to solve problems.</p> <p>Incorporating corporate governance and sustainability considerations UK principle 4 Japan principle 4 CRISA 1 EFAMA 3 CCGG 3 Italy 3</p>	<p>Our Responsible Investment Policy details our engagement policies.</p> <p>We review each 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.</p>	<p>A public report on engagement activity undertaken on our behalf by Hermes EOS (external engagement provider) is available on our website.</p> <p>We identify engagement plans with each active equity manager on an annual basis.</p> <p>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.</p>
<p>Working with others</p>	<p>Our Fund fully follows this principle:</p>	<p>And in practice:</p>
<p>Institutional investors should be willing to act collectively with other investors where appropriate.</p> <p>UK principle 5 CRISA 3 EFAMA 4 Italy 3</p>	<p>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.</p> <p>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, NAPF and UKSIF.</p>	<p>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.</p>
<p>Monitoring and engaging with regulators and policy makers</p> <p>CCGG 4</p>	<p>Our direct engagement is focused on working with regulators, other institutional investors and services providers to the financial industry.</p>	<p>Engagement activity with regulators includes responding to public consultations both individually and collectively through industry groups as</p>

		well as support of public advocacy events.
Voting	Our Fund fully follows this principle:	And in practice:
<p>Institutional investors should have a clear policy on voting and disclosure of voting activity.</p> <p>The policy should be designed to contribute to sustainable growth on investee companies.</p> <p>UK principle 6 Japan principle 5 Malaysian 6 EFAMA 5 CCGG 2 Italy 5</p>	<p>We detail on what basis our votes are cast and the guidelines we direct our managers to use in our Responsible Investment Policy.</p> <p>We publish specific guidelines on our Voting on Environmental Issues and publish all the votes on environmental resolutions.</p> <p>All our equity manager have voting polices and most are publicly available. Similarly, our larger managers publish voting records on their website and others on request.</p>	<p>We vote directly on environmental resolutions. Reports on these votes are available on our website.</p> <p>Information on the voting undertaken on our behalf by Hermes EOS (overlay on our passive index funds) is also available on our website.</p>
Reporting	Our Fund fully follows this principle:	And in practice:
<p>Institutional investors should report periodically on their stewardship and voting activities.</p> <p>This report should include voting and be shared with clients and beneficiaries.</p> <p>UK principle 7 Japan principle 6 EFAMA 6 CCGG 5 Italy 6</p>	<p>We include a comprehensive annual review of our activities in our Annual Report and Financial Statements and member communications.</p>	<p>Our website provides comprehensive information on our policy commitments and evidence of implementation of our stewardship responsibilities</p> <p>Public Engagement Reports are updated quarterly on our website.</p> <p>We require all our managers to provide us with annual assurance on internal controls and compliance through international standard or a UK framework.</p>
Skills and knowledge		
<p>To contribute positively, Institutional investors should have in-depth knowledge of the investee companies and their business environment with the skills and resources needed.</p> <p>Japan principle 7</p>	<p>We believe in being an active owner. We do this directly, through our managers or through specialist service providers.</p> <p>We have dedicated internal resource for Responsible Investment strategy, policy and oversight. In-depth of knowledge of investee companies is delegated to the managers that select and monitor the companies on a day to day basis.</p>	<p>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.</p> <p>Monitoring of fund manager performance is reviewed and reported regularly to Investment Sub-committee and forms part of formal annual review of each manager.</p>

Approved by the Pensions Committee on 23 March 2016 and will be reviewed in 2017.

Annex 5 – Responsible investment policy

Introduction

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.

The Fund's fiduciary duty is to act in the best long term interest of our members and to do so, requires us to recognise that environmental, social and governance (ESG) issues can adversely impact on the Fund's financial performance and should be taken into account in the funding and investment strategies and throughout the funding and investment decision making process.

Responsible investment principles

Our Statement of Investment Principles (SIP) (Annex 3) fully embeds our commitment to Responsible Investment (RI) and the balance of responsibilities in delivering a sustainable and sufficient return on all our investments.

A summary of the key Responsible Investment principles:

- Apply long term thinking to deliver long term sustainable returns;
- Seek sustainable returns from well governed and sustainable assets;
- Apply a robust approach to effective stewardship;
- Responsible investment is core in our skills, knowledge and advice;
- Seek to innovate, demonstrate and promote RI leadership and ESG best practice;
- Apply evidenced based decision making in the implementation of RI;
- Achieve improvements in ESG through effective partnerships that have robust oversight;
- Share ideas and best practice to achieve wider and more valuable RI and ESG outcomes; and
- Be transparent and accountable in all we do and in those in which we invest.

We believe the application of these principles will enable our delivery of our commitments as a signatory to the United Nations Principles of Responsible Investment (UNPRI), best practice standards of national and global stewardship and facilitate the implementation of the Kay Principles.

We became the first Local Government Pension Scheme (LGPS) signatory of the UNPRI in July 2006. 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. We complete the annual report on progress in implementing the principles and publish on our website.

We also comply with the UK Stewardship Code and other global codes. Our Stewardship Compliance is available on our website. We also require all our managers to comply and apply best practice standards of global stewardship.

Implementation

We acknowledge that goals we set to demonstrate our implementation take time and perseverance. We are committed to making continual improvement to the processes that underpin the delivery and provide updates on our progress through our website, newsletters and annual reporting.

Priorities

We believe in a risk based approach to setting priorities at both a strategic and fund level. Two key priorities for the fund are reducing the impact of climate change and improving the communication of our work on responsible investment to all our stakeholders.

Climate change

In October 2015, we made the commitment to ensure that our Fund's investment portfolio and processes are compatible with keeping the global average temperature increase to remain below 2°C relative to pre-industrial levels, in line with international government agreements.

We set out our policy to address the impacts of climate change, in which we detail our beliefs, our goals to invest, decarbonise and engage. We have a dedicated area on our website regarding climate change as well as all aspects of work to deliver a responsibly managed pension fund.

Our climate change investment beliefs

We believe 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.

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.

Considering the impacts of climate change is both our **legal duty** and is entirely consistent with **securing the long term returns** of the Fund and is therefore acting in the best long term interests of our members.

Selective risk based disinvestment is appropriate but **engagement for change** is an essential component in order to move to a low carbon economy.

Our climate change goals to invest, decarbonise and engage

We aim by 2020 to:

Invest 15 per cent of the fund in low carbon, energy efficient and other climate mitigation opportunities. This will contribute to our wider target to invest at least 25 per cent of the Fund in clean and sustainable companies and funds, across all asset classes.

Decarbonise the equity portfolio, reducing our exposure to 'future emissions' by 90 per cent for coal and 50 per cent for oil and gas by 2020 compared to the exposure in our underlying benchmark as at 31 March 2015. 'Future emissions' 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.

Supported progress towards an orderly transition to a low carbon economy through actively working with asset owners, fund managers, companies, academia, policy makers and others in investment industry.

The full policy is available here <https://www.eapf.org.uk/investments/climate-risk>

Engaging with our stakeholders

A comprehensive overview of our responsible investment approach is available on our website, with updates in our newsletter and other media. We are committed to providing regular updates on key topics, voting and engagements.

Through actively working with asset owners, fund managers, companies, academia, policy makers and others in investment industry we address a wide range of environmental, social and governance risks. We aim to be flexible and respond to opportunities and risks as they emerge but we also identify key themes or ESG risks that as a fund will be more actively involved these include;

Fiduciary duty – promoting the implementation of the Law Commission recommendations.

Long termism – furthering the implementation of the Kay review recommendations.

Sustainable capitalism – communicating positive case studies from our portfolio.

Climate change – engaging with pension funds and other stakeholders to develop and share best practice.

Water risk – promote the risk identification and integration

Human capital – promoting business case for diversity/ inclusion and consideration of the Living Wage.

Funding strategy and strategic asset allocation

We adopt a flexible approach in our 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. Responsible investment considerations form part of the asset allocation decisions and as such form a core component of training and briefings to ensure our Pensions Committee and Investment sub-committee maintain their high level of knowledge. ESG is integrated into our decision making for all asset classes, additional guidance on ESG risks and opportunities is available on our website and reviewed regularly.

Example: Use of Index Funds

Indexed or tracker funds are an important part of our overall investment strategy. They offer highly diversified investments and low management costs. The use of pooled and indexed products can be cost effective. However, it does reduce the range of governance tools open to us. Although we have much less control in an index fund, we are still able to exercise some measure of influence – primarily through voting and company engagement. **Hermes Equity Ownership Services (HEOS)** provide comprehensive engagement and voting service on our index funds. To provide context, they vote at over 11,000 company meetings a year. They are able to exert more influence on the companies we invest in by representing the combined assets of all their clients.

Working with our fund managers

We believe in being an active owner. We do this directly, through our managers or through specialist service providers. With respect of investments in the United Kingdom, we require our managers to have due regard to the **UK Corporate Governance Code** and, in respect of overseas investments, have due regard to relevant recognised standards. We can therefore delegate much of the day to day environmental, social and governance activities to our managers and overlay service provider.

The capability and performance of each manager, in this area, is a key component of our selection and retention criteria and is detailed in our investment management agreements. Together, with our managers, we identify engagement opportunities from within their portfolio. We receive regularly reports on and monitor progress throughout the year.

For our listed equity investments we aim to exercise the Fund's voting rights in all markets, where practicable. Our fund managers vote at their discretion and must confirm that they subscribe to the principles of good corporate governance and, when exercising their vote, take this into account. A detailed voting policy is available on our website.

Working with others

We work collaboratively with other funds in both the public and private sector on a wide range of responsible investment topics. A key area is working with the financial sector, particularly asset managers on supporting the development and innovation in integrating ESG into investment decision making. We actively work with and support the initiatives of other bodies with similar goals, including the **Local Authority Pension Fund Forum (LAPFF)**, **Institutional Investors Group on Climate Change (IIGCC)**, **Carbon Disclosure Project (CDP)**, **Carbon Tracker Initiative**, **ShareAction** and the **UK Sustainable Investment and Finance Association (UKSIF)**.

Approved by the Pensions Committee on 23 March 2016 and will be reviewed in 2017.

Annex 6 – Communications Policy Statement

Introduction

The Environment Agency Pension Funds (EAPF) is part of the Local Government Pension Scheme (LGPS), and 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 10,739 active members, 7,156 deferred members and 6,007 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 active members, 1,933 deferred members and 13,635 pensioners. This Communications Policy Statement is effective from 16 June 2016.

We have an agreed strategy for implementing a move to more electronic communication which commenced in 2012 and continues to evolve. The changes 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 policies 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:

Pension Fund Management

Horizon House

Deanery Road

Bristol BS1 5AH

Email: info@eapf.org.uk

Tel: 0203 025 4205

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 on any of the matters mentioned in paragraph (3)
- 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, 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 Finance Director and the Pension Fund Management team and a variety of external advisors, taking overall responsibility for Administering Authority functions. The EA's Director of Resources and Legal Services and the HR Pensions team perform 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, 1 pensioner nominee and 1 deferred member nominee. 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 but Capita carries out 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 in Finance, the HR Pensions' team in Resources and Legal Services and Capita.

All communications including any web based or electronic material are developed jointly by the Pension Fund Management team, Capita's 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 Capita 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:

- Active members
- Deferred members
- Pensioner members
- Prospective members
- The employing authorities – Human Resources (HR) and Payroll
- The EA Board and executive managers
- Pensions Committee members
- Pension Board members
- Recognised Trades Union representatives
- Pensions staff in Finance and HR and at the Funds' Administrator

How we communicate

General communication

2015/16 has seen the EAPF develop a specific Fund identity to meet its needs as a multi-employer Fund. A brand and style guide has been introduced in collaboration with our members that reflects a range of communication specifics ranging from vocabulary, placement of logo, through to colour themes and use of photography. It also provides standard templates for brand consistency.

The EAPF brand is a representation of what the Fund stands for. Applying it consistently in all communications helps re-enforce our integrity, builds trust and familiarity. The brand provides context and a voice to the Fund, helping all stakeholders identify with what we stand for. All our communications are now developed within these guidelines.

Our website was re-launched in 2014 having undergone a restructure that makes it suitable for members of the new CARE scheme and wider stakeholders. This has been achieved by involving user groups to better inform the navigation of the site and by providing a more interactive experience by embedding a modeler, roll over technology, video, and drop down boxes providing pertinent information in bite sized chunks, signposting more in depth information in adjacent factsheets and guides.

The Investment section of our website now caters for Fund members, our Investment partners and other stakeholders and the site has also been re-designed to provide information for our Trustees and employers.

The new website and EAPF Online (member self service), are both fully device enabled so users can access information at a time of their choosing, and via the use of their smart phone or tablet.

September 2014 saw the introduction of webinars for the very first time and this provided us with an opportunity of reaching our employees nationwide. This led to a very successful implementation and excellent attendee feedback. This approach is beneficial as it helps us to reach a wider audience, it removes the need to travel and time out of the office, and enables us to deliver more sessions based on demand, and offer more choice.

The Pensions Committee supports the use of webinars going forward.

Our Communications strategy

This year sees a focus on member engagement. We applied for, and received Customer Service Excellence (CSE) accreditation. CSE is a government service standard developed to drive customer focused change within organisations, and we committed ourselves to achieving the CSE accreditation in 2016 and achieved this with a number of 'compliance plus' accreditations.

Applying this standard means that we place emphasis on developing customer insight, understanding the user's experience and put in place robust measurements of service satisfaction, and this includes webinar evaluations, customer surveys, use-ability studies and the use of focus groups.

Later this year, we will encourage members to participate in a digital only newsletter to assess member appetite for receiving information digitally, as well as targeting a proportion of users to use a digital annual benefit statement. This statement will be interactive and allow 'click through' options so members can find relevant information quickly. We will monitor and evaluate the responses and this will again be underpinned by the use of focus groups with the data being collated in a communications dashboard.

Accessibility

In accordance with the Welsh Language Act 1993, we provide key publications for pension scheme members in Wales in bilingual versions.

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 active, deferred and pensioner members, we will 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
Annual estimated Benefit Statements as at 31 March	Contributing & deferred members	By 1 April the following 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 five 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 and our website include invitations for comment on content and offer suggestions for future editions and contact details are provided.

Capita became the first pension administration provider to be awarded the Investors in Customers (IIC) accreditation. Comments received in the past have provided many useful suggestions that we have been able to incorporate in later publications.

Results

We will publish an overview of how we are performing within our annual report and financial statements and in our annual Spotlight. Full details will be reported regularly to our Pensions Committee.

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. Paper copies are available on request.

Approved by the Pensions Committee on 16 June 2016 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

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: www.eapf.org.uk

www.gov.uk/government/publications

ISBN 978-1-4741-2823-0



9 781474 128230