Environment Agency
Pension Fund

Active pension fund

Annual Report and Financial Statements 2014 – 2015

Environment Agency Active Pension Fund Annual Report and Financial Statements 2014 - 2015

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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 by introducing changes to our contributing member's future pensions. The new LGPS Career Average pension came into effect from 1 April 2014, with significant updates required to our employers HR and payroll systems and processes.

We work hard with our employers to ensure that members are fully aware of the changes to their pensions. We used webinars for the first time to communicate more widely and flexibly for our members, with positive feedback. We are pleased with the outcome and it is good to see that our level of membership remains very high, with 95% of eligible employees continuing to contribute to the Fund.

A change to the way the LGPS is managed and governed has also been an important focus for the Fund during the year. This culminated in the implementation of the new LGPS governance arrangements from 1 April 2015, which brought in a new Pension Board to provide oversight of our work on the Pensions Committee. This Board will formally report to the new LGPS Scheme Advisory Board on the performance and management of the EAPF.

In 2015-16, we wait to see the impact on the EAPF of the new government "Freedom and Choice in Pensions" initiative, which helps to offer more flexibility to defined contribution scheme members. The new State pension will be introduced in April 2016. This will affect anyone under state pension age and also end "contracting out" which will result in increased national insurance contributions for our employers and contributing members. We will continue to keep you informed of changes and provide more information on the role of this new Board in our newsletters and at www.eapf.org.uk.

Improving the Fund's financial performance remains paramount throughout these changing times. I am therefore delighted to report that our investment strategy delivered excellent returns of +15.1% (0.1% above benchmark) during 2014-15, increasing the Funds assets by £350m to £2.7bn. Over three years the Fund has returned 12.3% p.a., 1.4% above benchmark which is a very strong result.

Our funding position remains amongst the best in the Local Government Pension Scheme (LGPS) and was estimated to be 93% at March 2015. We are preparing for the next triennial valuation of the Fund in March 2016. Our employers remain committed to providing good pension benefits for their employees and have agreed their contribution rates through to March 2017. These will be reviewed again following the outcome of our 2016 valuation.

This year we have undertaken the most radical review of the investment strategy since 2005, full details of which are in this report. A particular highlight is the delivery on our climate risk strategy aim to review our passive investments. We have transitioned our portfolio of passively managed global equities (£280m) to a new fund, to be run against the new MSCI Low Carbon Target Index. The new Index provides a substantial reduction in climate risk, 75-80% in terms of exposure to greenhouse gas emissions, and 85-90% in exposure to fossil fuel reserves.

We remain passionate about investing the Funds assets responsibly. We fully embrace the need to deliver a truly sustainable pension Fund that delivers financially to meet the 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. Two indicators of our success in doing this are the reduction of our fund's carbon footprint by 44% since 2008 and the industry leading £700m (25% of the Fund) invested in clean and strong sustainable companies.

Our work continues to be recognised globally. In November 2014, we won the inaugural award for our approach to Climate Related Risk Management at the Investment of Pensions Europe Awards. We were also joint winners of an award recognising the management of Environment, Social and Governance risk. Portfolio Institutional also recognised the EAPF's contribution to the wider development of Responsible Investment and presented us with the Winner of the Best implementation of responsible investment in May 2014.

2015 marks the 10 year anniversary of our global leading work to integrate Environmental Social Governance (ESG) risks in the management of the Fund. To mark this important milestone, we will be publishing 10 stories throughout 2015-16 covering our work on responsible investment to help keep you better informed on this area.

For more information on the fund and a full list of our awards please see our website at www.eapf.org.uk.

Finally, I would like to take this opportunity to thank everyone involved, including our employers, staff and external contractors, for helping the Committee manage the Active Fund over the last year.

John Varley
Chairman
Environment Agency Pensions Committee
16 June 2015

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 99 regional pension funds 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 an Act of Parliament (the Superannuation Act 1972).

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.

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.

Our pension fund has set up a Pension Committee to oversee its pension scheme responsibilities.
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 2014-15

The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (SI 2014/525) came into force on 1 April 2014.

This Statutory Instrument sets out the transitional and savings provisions relating to members of the Local Government Pension Scheme 2008 ("the 2008 Scheme") which was replaced by a new Local Government Pension Scheme through the Local Government Pension Scheme Regulations 2013 (SI 2013/2356) with effect from 1 April 2014. The effect of these regulations was to protect the benefits accrued by members of the 2008 Scheme before 1 April 2014.

The Local Government Pension Scheme (Amendment) Regulations 2015 (SI 2015/755) came into force on 11 April 2015, and amended:

- The Local Government Pension Scheme Regulations 2013 (SI 2013/2356)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (SI 2014/525)

Both sets of regulations came substantively into effect on 1 April 2014 and the amendments mostly take effect from that date in line with the provisions of section 3(3)(b) of the Public Service Pensions Act 2013 which allows that scheme regulations may make retrospective provision.

The Funded Public Service Pension Schemes (Reduction of Cash Equivalents) Regulations 2015 (SI 2015/892) came into force on 16 April 2015.

This Statutory Instrument enables a funded public service defined benefits scheme to be designated under sections 97A and 97B of the Pension Schemes Act 1993 c. 48 ('the 1993 Act') if a relevant person, such as the Treasury, considers that:

(a) There is an increased likelihood of payments out of public funds, or of increased payments out of public funds, having to be made into an LGPS Fund so that it can meet its liabilities; and

(b) The increased likelihood is connected with the exercise or expected future exercise of rights to take a cash equivalent.

When a member requires the scheme manager of an LGPS Fund to use a cash equivalent for acquiring a right or entitlement to flexible benefits under the rules of another pension scheme, and the Fund was already designated on the date that the member makes his or her application under section 95(1) of the 1993 Act, these Regulations require the scheme manager to reduce the cash equivalent. They also set out how the amount of the reduction is to be determined.

The reduction must not however be made if the scheme ceases to be designated before the date on which the scheme manager does what is needed to carry out the member's transfer request.

Other legislative changes affecting LGPS during 2014-2015

The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 (SI 2014/3138) come into force 1 April 2015.

This Statutory Instrument sets out the records that need to be kept by scheme managers of public service pension schemes as covered by the Public Service Pensions Act 2013. These recording duties have effect from 1 April 2015.

The Public Service Pensions (Employer Cost Cap) Regulations 2014 (SI 2014/575) came into force 1 April 2014.

This Statutory Instrument makes provisions to enable public service pension schemes that are covered by the Public Service Pensions Act 2013 to operate the employer cost cap mechanism mandated by section 12 of that Act. The employer cost cap mechanism will help control the costs of these pension schemes by providing a baseline cost against which future changes in scheme costs can be measured and thereby ensure the scheme continues to be sustainable.

The Statutory Instrument sets out an upper and lower margin around the employer cost cap within which scheme costs can move before corrective action is required to address any imbalance in the costs. They also set a target cost (at the level of the employer cost cap) to which the scheme costs must be returned in the event that the upper or lower margin is breached.

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 will change 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.

Changes to our annual reporting

We have taken advice from our auditors, NAO, and removed the audited Summary of contributions payable in the year statement in 2014-15. It was deemed that this was not an audit requirement and not adding any value to our reporting. This was decided at our audit planning meeting and agreed with our Pensions Committee.

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).

Pensions in payment and deferred pensions were increased by 1.2% with effect from 6 April 2015 (7 April 2014: 2.7%). Any pension which had been in payment for less than a year was increased by a proportionate amount depending upon the number of months it has been in payment.

The following table shows the rate of increases that have applied to pensions in payment and deferred pensions since 1992:

Year (April)	% Rate of Increase	Year (April)	% Rate of Increase	Year (April)	% Rate of Increase
1992	4.1	2000	1.1	2008	3.9
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

Pension Fund membership

Unless they have elected in writing not to be members, 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 2015 have seen a 5.0% decrease in the Fund's active members (2014: decrease of 1.1%). There was an increase of 0.6% in deferred members (2014: increase of 3.9%) and 5.4% increase in pensioners (2014: increase of 6.7%).

The number of deferred members at 1 April 2014 has been adjusted by 322 to reflect former employees who have left and are only entitled to a refund of their own pension contributions. The refund is paid when we are able to trace these former employees. They are not entitled to any benefits from the Fund.

Movement in number of members and pensioners

	Active members	Deferred members	Current pensioners	Total
At 1 April 2014	**11,250**	**6,883**	**5,453**	**23,586**
Adjustment for late notifications	(74)	86	9	21
Adjustment for unpaid refunds	-	(322)	-	(322)
	11,176	**6,647**	**5,462**	**23,285**
Add:				
New active members	241	-	-	241
New deferred members	-	427	-	427
New pensioners	-	-	395	395
	241	**427**	**395**	**1,063**
Less:				
Deferred benefits	(427)	-	-	(427)
New retirement pensions	(239)	(89)	-	(328)
Deaths in service	(9)	-	-	(9)
Refunds of contributions	(48)	-	-	(48)
Options pending	(8)	-	-	(8)
Transfers out	-	(54)	-	(54)
Deaths in deferment	-	(4)	-	(4)
Commutation of pension	-	(4)	(1)	(5)
Death in retirement	-	-	(98)	(98)
Suspended/Ineligible pensions	-	-	(9)	(9)
	(731)	**(151)**	**(108)**	**(990)**
At 31 March 2015	**10,686**	**6,923**	**5,749**	**23,358**

Age profiles of members and pensioners

Age profile of active members at 31 March	2015		2014	
	No.	%	No.	%
15 -19	4	0.1	4	0.1
20-24	124	1.1	139	1.2
25-29	770	7.2	870	7.7
30-34	1,570	14.7	1,655	14.7
35-39	1,787	16.7	1,851	16.5
40-44	1,689	15.8	1,742	15.5
45-49	1,720	16.1	1,762	15.7
50-54	1,454	13.6	1,464	13.0
55-59	1,008	9.4	1,084	9.6
60-64	488	4.6	574	5.1
65-69	68	0.6	103	0.8
70-74	4	0.1	2	0.1
Total	**10,686**	**100.0**	**11,250**	**100.0**

Age profile of deferred members at 31 March	2015		2014	
	No.	%	No.	%
20-24	38	0.5	23	0.3
25-29	372	5.3	310	4.5
30-34	913	13.1	884	12.8
35-39	1,265	18.3	1,273	18.5
40-44	1,297	18.8	1,303	19.0
45-49	1,351	19.5	1,363	19.8
50-54	987	14.3	976	14.2
55-59	576	8.3	553	8.0
60-64	118	1.7	172	2.5
65-69	5	0.1	24	0.3
70-74	1	0.1	2	0.1
Total	**6,923**	**100.0**	**6,883**	**100.0**

Age profile of current pensioners at 31 March	2015		2014	
	No.	%	No.	%
Child dependants	60	1.0	56	1.0
Pensioners and spouses				
Under 50	56	1.0	56	1.0
50-54	62	1.1	58	1.0
55-59	306	5.3	264	4.8
60-64	1,271	22.1	1,117	20.5
65-69	1,681	29.1	1,595	29.3
70-74	1,147	20.0	1,137	20.9
75-79	713	12.4	717	13.2
80-84	349	6.1	348	6.4
85-89	99	1.7	98	1.8
90-94	4	0.1	7	0.1
95-99	1	0.1	-	-
Total	**5,749**	**100.0**	**5,453**	**100.0**
Total membership	**23,358**		**23,586**	

Summary of active member retirements

	2015	2014
Ill Health Retirements (all ages) Tier 1	10	9
Ill Health Retirements (all ages) Tier 2	1	1
Ill Health Retirements (all ages) Tier 3	1	2
Early Retirements - efficiency/redundancy over age 55	59	134
Early Retirements – with employer consent	-	1
Flexible retirements - over age 55	36	21
Early Retirements - age 60 and under age 65	96	58
Normal Retirements - age 65	5	17
Late Retirements - over age 65	31	38
Total retirements	**239**	**281**

Pension Fund Governance

Committee governance

The Environment Agency is responsible for the administration of the Environment Agency Active and Closed Pension Funds and the disbursement of their benefits. The Board has assigned responsibility for pension's strategy, administration of both Funds' benefits and the investment and custody of both Funds' assets to the Pensions Committee and its sub-groups.

The Committee up to 31 March 2015 was supported by Investment and Benefits Sub-Groups, as well as by Environment Agency officers, external advisers, fund managers and fund administrators, who operate in accordance with the Local Government Pension Scheme (Benefits, Membership and Contribution) Regulations 2007 (as amended), The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended), The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) together with saved provisions from earlier regulations.

New governance arrangements come into effect from 1 April 2015 with the introduction of a Pension Board as required by the Public Services Pensions Act 2013. The Pensions Committee will be supported by an Investment Sub-Committee. The Pension Board will take on many oversight responsibilities that were provided through the Benefits Sub-Group. For more details on the new governance arrangements please visit our website **www.eapf.org.uk**

The responsibilities and duties of the Environment Agency Board, Pensions Committee, Investment Sub-Committee, Pension Board, Environment Agency officers and external administrators who are responsible for the management and investment of the Fund and the administration and disbursement of their assets are set out in the following governance documents:

1) Schedule 7 of the Environment Agency's Financial Memorandum

2) Pension Funds Governance Policy

3) Governance Compliance Statement which details the level of compliance with Government Guidance.

4) Terms of Reference and Standing Orders which details the status, composition and responsibilities of Pensions Committee, Investment Sub-Committee and Pension Board members. Statement of Delegation which prescribes the arrangements for, and limitations to, the delegation of powers and duties.

5) During the past year the Pensions Committee met on four occasions to fulfill its responsibilities as a sub-committee of the Environment Agency Board. There were also some training sessions which are detailed below in the section on Committee training. The Board appoints members in accordance with the Governance Compliance Statement. The Committee has delegated responsibility to manage the investment and administration of the Environment Agency's Pension Funds. The Committee's Investment Sub-Group and Benefits Sub-Group met on four occasions.

In December 2008 the Government issued statutory guidance on the preparation of Governance Compliance Statements. The Statement of Compliance with Government guidelines has been updated this year and may be found at page 16.

Committee 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.

Chairman and members

There were no changes in our Board appointed members or Executive member nominees during the year. There were two changes in our Active member nominees. Ian Woolven resigned in October 2014 and Ian Brindley was appointed for a 3 year period to October 2017. Stuart Martin resigned in December 2014 and Dorothy Holding was appointed for a 3 year period to December 2017. John Kerr resigned as our deferred member in June 2014 and we are currently recruiting a replacement.

Details of members, date of appointment and length of service are tabled below:

Membership of the Pensions Committee for the year ended 31 March 2015

Board members	Date of appointment	Length of service	End of current appointment	Residual period of current appointment
John Varley (Chair)	01/11/09	5 yr 5 mth	30/09/15	0 yr 6 mth
Robert Light	07/07/09	5 yr 8 mth	30/06/15	0 yr 3 mth
Clive Elphick	01/09/12	2 yr 7 mth	31/07/17	2 yr 4 mth
Emma Howard Boyd	18/10/12	2 yr 5 mth	30/06/19	4 yr 3 mth
Executive members				
Mark McLaughlin	01/11/09	5 yr 5 mth	n/a	n/a
Jonathan Robinson	01/04/12	3 yr 0 mth	n/a	n/a
Dawn Turner	01/05/13	1 yr 11 mth	n/a	n/a
Kevin Ingram	07/07/09	5 yr 8 mth	06/07/15	0 yr 4 mth

Active member nominees	Date of appointment	Length of service	End of current appointment	Residual period of current appointment
Jackie Hamer	01/04/08	7 yr 0 mth	31/03/17	2 yr 0 mth
Simon Peate	07/07/11	3 yr 8 mth	06/07/17	2 yr 4 mth
Colin Chiverton	01/04/13	2 yr 0 mth	31/03/16	1 yr 0 mth
Ian Brindley	01/11/14	0 yr 5 mth	31/10/17	2 yr 7 mth
Dorothy Holding	01/01/15	0 yr 3 mth	31/12/17	2 yr 9 mth
Ian Woolven	18/10/12	2 yr 0 mth	Resigned 31/10/14	n/a
Stuart Martin	17/11/09	5 yr 1 mth	Resigned 31/12/14	n/a
Pensioner member				
Brian Engel	22/05/05	9 yr 10 mth	22/05/15	2 mth
Deferred member				
John Kerr	09/02/10	5 yr 1 mth	Resigned 16/06/14	n/a

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.

John Varley has been a member of the Committee since 2009 and its Chairman since 2012. In these roles he has undertaken actuarial and investment training. John has previously undertaken business finance courses as part of a Masters Degree at McGill University in Montreal and in programmes at the Institute of Management Development (IMD) in Lausanne. Previously, John chaired the Audit Committee of both the Countryside Agency and Commission for Rural Communities. In his current role as Director of Clinton Devon Estates, John chairs the Investment Committee and works closely with external fund managers in achieving investment objectives. John is also a trustee of the Clinton Devon Estates pension scheme.

Robert Light has been a member of the Committee since 2009 and chaired the Benefits Sub-Group since 2010. He has 20 years experience of the LGPS as a member of Kirklees Council and as leading member for 13 years. In addition, he has knowledge of the Firefighters Pension Scheme as a member for 15 years of the West Yorkshire Fire Service and a former Chair & Deputy Chair. Being a member of the Local Government Association (LGA) Board, he actively contributes to the development of policy on the LGPS. He was also a member of the Audit Commission which audited most LGPS Funds. He was also a contributing member to the West Yorkshire LGPS Fund.

Clive Elphick has been a member of the Committee and chair of the Investment Sub-Group since 2012. 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 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, 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 the Environment Agency, ShareAction (Chair of Trustees), Future Cities Catapult (Vice Chair), 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.

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.

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. Jonathan is also a member of the Benefits Sub-Group of the Pensions Committee.

Dawn Turner is a CIMA qualified accountant. She is Head of Pension Fund Management following senior roles in Finance within the Environment Agency. She joined the Environment Agency in 1999 and has lead major change projects in addition to her financial roles. Dawn has public and private sector experience as well as owning a successful retail company for 9 years. Her private sector experience includes floatation of fashion and household company Laura Ashley and merger of brewing and retail company Courage.

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.

Simon Peate has been a member of the Committee since 2011. He has worked for the Environment Agency as an Environment Officer since 2001. Prior to this, over a period of 25 years, he held a number of senior management positions in the coal industry. He has been active in Unison since 2004 and is currently the Branch Secretary of the Environment Agency Midlands Branch. He is pensioner member of the British Coal Staff Superannuation and the Industry Wide Coal Staff Superannuation Scheme's and an active member of the EAPF.

Colin Chiverton has been a member of the Committee since 2013. He is an Area Environment Manager in West Thames Area in the South East region of the Environment Agency and has been an active member of the LGPS for 27 years. Colin has attended the induction training events on the LGPS and will develop his knowledge on pension fund investment and management over time. 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 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 Procurement Officer for Northern Ops working out of Richard Fairclough House.

Ian Woolven has been a member of the Committee since 2012. He has been with the Environment Agency for 23 years and currently works in field services operations in the Solent and South Downs area. He has been a member of Unison for 22 years and is a Pensions Representative of Unison, the national representative for operations delivery, sits on the NNG and the regional health and safety representative. Since joining the Committee, he has received formal Pension Committee training and training on risk and valuations.

Stuart Martin has been an active member of EAPF since 1999 and as a Scheme Members' Representative on the Pensions Committee since 2009. He was employed by, what was then the Department of Health & Social Security for sixteen years, over five years of which he served as a National Insurance Inspector. More recently he was employed in the Payroll Department of the Environment Agency for eleven years. He is trained as an UNISON Pensions Advisor and since joining the Pensions Committee has had training on a range of pension issues, including cost sharing; Active Fund funding strategy review; induction training on the new LGPS scheme; investment strategy; two day LGPS "Trustees" conference; asset allocation/investment strategy; and risk training. As a lead lay negotiator within UNISON, Stuart has also had significant involvement with pension issues within the trade union movement. He has dealt with, and resolved, pension issues on behalf of his members. Stuart also serves on the Benefits Sub-Group of the Pensions Committee.

Brian Engel has been a member of the Committee since April 2005, as the pensioner representative. He was a contributing member of the LGPS from 1975 and has been a pensioner since 2001. He qualified as a Chartered Civil and Structural Engineer and worked on the design and project management of a range of heavy civil engineering construction projects in both the private and public sector and the Waste Management field. Since joining the Committee he has attended courses and conferences and undertaken a range of training in the LGPS on governance, investments, and benefits administration.

John Kerr is a deferred member of the Environment Agency's Closed Fund following employment with the Anglian Water Authority. He comes with a broad knowledge of the financial and property markets and private sector pensions management experience, he represented two employers on their occupational pension schemes restoring low funding back to acceptable levels. In 2004 John oversaw an increase in the employees' contributions to their final salary scheme following extensive consultation and agreement. He has received training on many aspects of pension's management and investment regularly since 1989. John joined the Committee in 2009 while Chief Executive of a law practice.

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 Committee seeks to ensure that membership is both capable and experienced and will provide/arrange training for its members so that they can acquire and maintain an appropriate level of expertise, knowledge and skills. The Committee's training policy currently takes account of the requirements of the Pensions Act 2004. The Act requires that trustees of occupational pension schemes should have knowledge and understanding of the law relating to pensions and the role of trustees, the principles of scheme funding and investment and the management and administration of pension scheme benefits. Following the issue of CIPFA guidance "Pensions Finance Knowledge and Skills Frameworks", the training strategy seeks to ensure that it will fully reflect how the recommended knowledge and skills level requirements set out in the CIPFA guidance are to be acquired.

The training needs of Pension Committee members are assessed on an individual basis and take account of members' existing expertise and interests in specific areas. Members are also given the opportunity to attend more specialist courses on specific core competencies, many of which are presented by our advisors, as well as regional pension briefings for employees presented by Capita and Human Resources (HR) staff.

In each year 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. This year we have enhanced how we log training undertaken and planned by Committee members producing a certificate of Knowledge and Understanding. These certificates will be published on our website and will show the full training log throughout membership of the Pensions Committee for each individual member. During 2014-15, two full day formal training sessions were carried out covering funding and investment risk, responsible investment, benefits, communications and governance. Additional sessions on funding and investment strategy were also carried out as part of Committee meetings.

Committee training log

	Investment Essentials Training	LGPS Trustees' Conference	LGC Pension Fund Symposium	Being Responsible Owners Seminar	LGPS Trustee Training: Fundamentals	Investment Strategy for Investment Sub-Group	Governance and Investment Strategy	CIPFA LGPS Governance Summit	Pension Board and Committee Governance	10 Years of Responsible Investment
Environment Agency Board Members										
John Varley Chair of Pensions committee						✓	✓			
Robert Light					✓		✓		✓	✓
Clive Elphick					✓	✓	✓		✓	✓
Emma Howard Boyd				✓	✓		✓			
Executive members										
Mark McLaughlin	✓	✓					✓		✓	✓
Jonathan Robinson							✓			
Dawn Turner	✓		✓		✓	✓	✓	✓	✓	
Kevin Ingram Natural Resources Wales									✓	✓
Active member nominees										
Jackie Hamer						✓	✓		✓	✓
Simon Peate	✓					✓	✓		✓	✓
Colin Chiverton						✓	✓		✓	✓
Ian Brindley					✓		✓		✓	✓
Dorothy Holding										
Ian Woolven										
Stuart Martin										
Pensioner member										
Brian Engel		✓					✓			
Deferred member										
John Kerr										

Members' attendance at Committee meetings through the year

	Pensions committee meeting 4 in total	Pensions committee training	Investment Sub Group 4 in total	Benefit Sub Group 4 in total	Total
Number of meetings					
Board members					
John Varley (Chair)	3	4	2	1	10
Robert Light	4	2		4	10
Clive Elphick	4	4	4	2	14
Emma Howard Boyd	3	2	1		5
Executive members					
Mark McLaughlin	4	4	2	4	14
Jonathan Robinson	2	1		3	6
Dawn Turner	4	7	4	4	19
Kevin Ingram	2			3	5
Active members					
Jackie Hamer	4	3	4		11
Simon Peate	4	2	4		10
Colin Chiverton	3	3	4		10
Ian Brindley	2/2			2/2	4
Dorothy Holding	1/1				1
Ian Woolven	1				1
Stuart Martin	3	2		1	6
Pensioner Member					
Brian Engel	4	3		4	11
Deferred member					
John Kerr	1	2		1	4

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
Fund Manager Selection Adviser	bFinance Ltd
Governance and risk	Aon Hewitt
Investment Adviser	Mercer Investment Consulting
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

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:

(d) 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:
Dawn Turner
(Deputy Director) Head of Pension Fund Management
Environment Agency
Horizon House
Deanery Road
Bristol
BS1 5AH

E-mail - **dawn.turner@environment-agency.gov.uk**
Telephone - 0117 934 4353

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). The PC is supported by the Investment Sub-Group (ISG)and Benefits Sub-Group (BSG).
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 15 members and the sub-groups each have 8 members drawn from the PC.
(ii) the frequency of any committee or sub-committee meetings	The PC and sub-group 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 sub-groups include 3 Scheme Member Representatives and the BSG includes 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.

Statement of Compliance with Secretary of State Guidance

Compliance status – we are compliant with all 20 standards

Statutory Guidance Governance Standards and Principles	Our compliance status	Evidence of compliance and justification for non-compliance
A – Structure		
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	The responsibilities of the Pensions Committee (PC) are set out in the Pensions Committee Terms of Reference and Standing Orders approved by the EA Board.
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	Our PC has 15 members, appointed by the EA Board and includes: 4 Non-Executive EA Board members 3 EA Executive members 1 Non EA Employer Representative 5 Active Scheme Member Representatives 2 Pensioner or 1 Pensioner and 1 Deferred Member Representatives. 3 Scheme Member Representatives and potentially the 1 Non EA Employer Representative are also members of the Investment Sub-Committee (ISC)
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	The Chair of the Pensions Committee reports to each EA Board meeting. Reports of the sub-group meetings are available to all PC members on request. The Chair of the ISG and the Chair of the BSG provide 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 sub-groups 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 attends BSG.
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 sub groups include 3

		scheme member representatives (active, deferred or pensioner).
iii) independent professional observers	Compliant	Our independent investment adviser attends all ISG and PC meetings. Our other professional advisers also regularly attend our PC and sub-groups meetings.
iv) expert advisers (on an ad-hoc basis)	Compliant	We invite our expert advisers to attend our PC and sub-groups 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 sub-groups 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 sub-groups. 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.
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 sub-group 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 voting rights to each body or group represented on main LGPS committees.	Compliant	Our PC makes decisions by discussion and by building and creating a consensus. All members have equal voting rights on our main Pensions Committee and sub-groups.
E – Training, facility time and expenses		
a) That in relation to the way in which statutory and related	Compliant	Our PC has a Training Policy which is reviewed regularly. We provide induction training. All

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.		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 sub-groups are reimbursed the cost of travel and overnight hotel expenses. The cost of all PC and sub-groups 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 sub-groups 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 sub-groups meetings are synchronised to meet 4 times a year before the PC so they 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 sub-groups.
c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant	We have 7 "lay" members on our main PC, comprising 5 active scheme member representatives and 2 pensioner/deferred member representatives. Due to the geographical spread of our organisation and fund membership across England and Wales we do not hold an AGM but do hold annual briefings which provide a forum for fund members and stakeholders to be informed about the fund, particularly about changes to the LGPS. All active fund members are invited to attend regional or webinar pension briefings each year. We also organise an annual briefing for deferred and pensioner members. The briefings are generally presented by Capita (Pension Fund Administrator), with administering authority or HR staff. PC members chair or attend some briefings.
G – Access		
a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at	Compliant	All members of our PC and sub-groups 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 ISG and or BSG can request full sub-group papers and they also receive summary reports of all

meetings of the main committee.		meetings. All our PC and sub-groups members can ask questions of our professional advisers who attend the PC and sub-groups 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 sub-groups 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 sub-groups 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 in addition to this Governance Compliance Statement published here in our Annual Report & Financial Statements. All documents are also available in hard copy from our Pension Fund Management Team. We have an agreed procedure for our recognised Trades Unions to nominate new employee nominees to our PC when vacancies arise or to use an alternative process agreed by the PC. We have also advertised in pensioners' and deferred members' newsletters for representatives when vacancies have arisen.

Signed on behalf of the Environment Agency

John Varley
Chairman
Environment Agency Pensions Committee
23 June 2015

Paul Leinster
Accounting Officer
Environment Agency
23 June 2015

Responsible investment

In 2015, we are celebrating 10 years of being a responsible investor. 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.

Whilst all of this may seem like common sense, and we would agree, most pension funds and asset managers do not operate in this way. However, more and more funds are recognising that this approach adds to the value of the fund, particularly in managing risk.

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 new website developed during the year. In addition to the responsible investment area where there is access to our polices, 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 are writing ten articles. Each article will look at different aspects of pension fund investment, for example, do we think it is important that our mangers engage with companies and vote. Other articles will explore why there is a compelling case for all parts of the investment chain to think more long term.

The first article is available on our website **www.eapf.org.uk** and we would welcome your feedback.

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 participated in the groundbreaking study looking at the challenges of **Investing in a time of Climate Change** and highlighting the potential risks and opportunities. We will be publishing our own tailored report which together with a summary of our response, so our members can see how well the fund is positioned in managing climate risk in the decades to come.

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. Examples and case studies of our managers' approach to responsible investment in the asset classes are on our website.

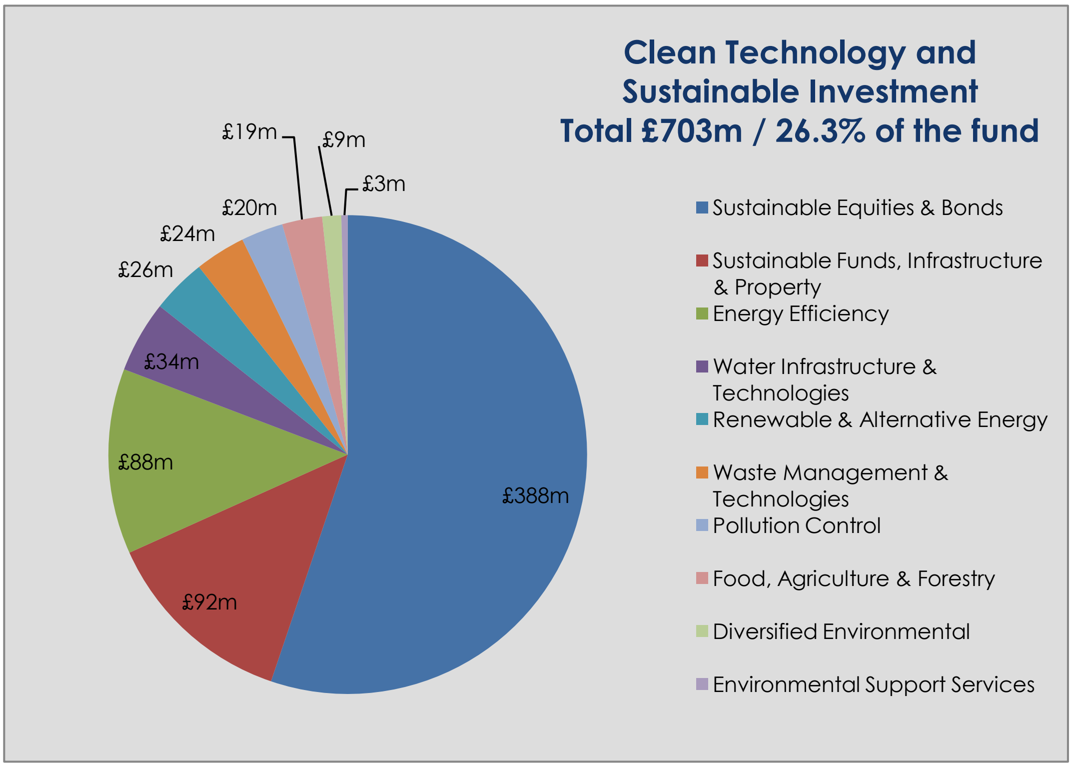
Sustainable investment

We set ourselves the target of 25% of our investments in clean technology and other sustainable opportunities – far more than any other pension fund worldwide. This was achieved in 2015.

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.
- Listed companies demonstrating best practice in sustainability, improving efficiency and reducing social and environmental impacts.

We are delighted that we have not only met but exceeded our target, so that by 2015 some 25 per cent of the fund will be invested in the sustainable and green economy. As at 31 March 2015, 26.3% (£703m) of the fund was invested these assets specifically invested 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 provided below.



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 2015 our environmental was 46.5% more environmental efficient per million pounds invested than the market average[2] for our active bonds and 0.58% for active equities which is an improvement on than last year. More detail on our disclosures on our website.

[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.

[2] Our benchmark for environmental and carbon footprinting in MSCI All Country Word index

Managing climate risk

Climate risk is a top priority for the fund. We have been managing climate risk in the Fund since 2001 when we became a founder member of Institutional Investor Group on Climate Change **www.iigcc.org.uk**.Working with the group is a vital part of our work with others in managing climate risk. In 2014-15 we actively promoted the **Global Investor Statement on Climate Change** which now has nearly 350 signatories representing $24trn of investments among global institutional investors. Last year we published our Strategy to Reduce Climate Risk and pledged to report our progress on actions, we have summarised them under the five key headings, but a more detailed report and updated strategy will be published in the autumn.

Transparency

- Report on fossil fuel exposure and planned strategy– published April 2014.
- Dedicated area of our website detailing the fund's approach to **Climate risk** - launched October 2014.

Integration

- Partner of Mercer Study - **Investing in a time of Climate Change.**
- Developed and invested in Low Carbon Target for our global index tracking investments.
- Our investments in the clean technology and other funds focus on climate solutions.

Measurement

- The first pension fund globally to assess its exposure to fossil fuel in all its listed equity and bond portfolios. We repeated the analysis as at 31 March 2015 and will publish the results and comprehensive progress report in autumn 2015.
- Carbon footprinting: our fund has its highest carbon efficiency per million pounds invested since we started monitoring in 2008, achieving a 44% reduction in carbon dioxide equivalent per million pounds invested.

Advocacy

- High profile promotion to other pension funds to consider climate risk in their investment strategies through panels, presentations, articles and training sessions. This has included promotion of **Share Action's Green Light Report**.
- Support of the Investor Group on Climate Change on a wide range of events and policy initiatives. These have included webinars on climate risk in real estate, and case studies in their annual report.
- Specifically we have led an initiative, with the support of our actuaries, to engage the actuarial profession in tackling climate risk. This has included presenting to a seminar to the Institute and Faculty of Actuaries.

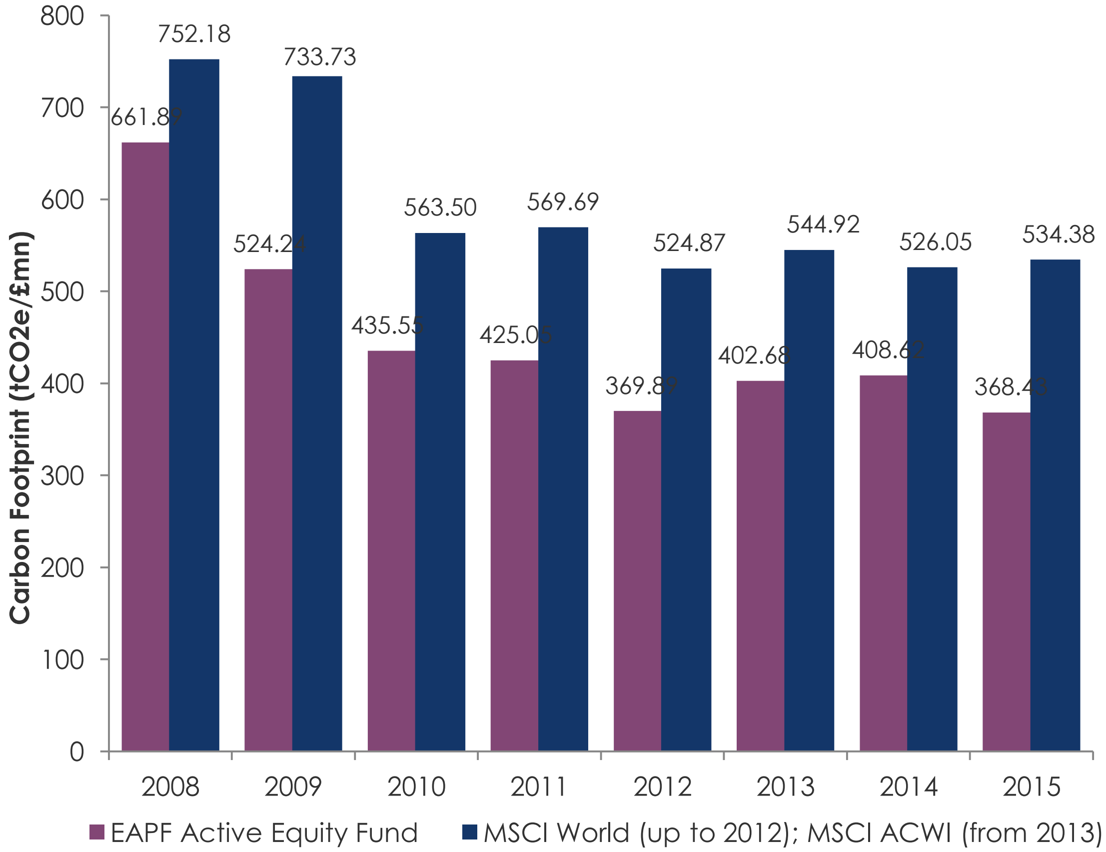
Working with fund managers

- Supported resolutions through voting at AGMs requesting more robust management and disclosure of climate risk in the companies in which we invest.
- Co-filed of resolutions at the AGMs of Shell and BP, see page 26.
- Climate risk and specifically carbon stranded assets has been included in manager engagement plans, where appropriate.
- Our voting policy was updated and approved in March 2014 to include voting on stranded assets.
- Managers have undertaken their own research and analysis of the issues, to better inform their stock selection issues.

We have reduced our carbon footprint by 44% since 2008[3]. The chart below illustrates the combined carbon footprint of all our active equities. We publish our environmental and carbon footprints for active equities[4] and corporate bonds on our website and in our annual report and financial statements. 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.

The **United Nations Environment Programme** has now asked us to join the **Portfolio Decarbonization Coalition**, which is a small group of investors who are seen as climate leaders, with the objective of finding solutions to decarbonizing the economy.

We have also reduced our active corporate bond carbon foot printing by 42% since starting to measure it in 2011 (48% than its index for 2015).



Each of our active managers analyses the carbon footprint of their portfolio each year. 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.

3 44% reduction in the carbon footprint of our combined active equities

4 Actively managed equities are where a manager specifically selects stocks or securities to achieve goal

Responsible investment monitoring in all asset classes

Private equity

In addition to the investments above, we look to all our managers to monitor the environmental, social and governance performance of all the assets they manage on our behalf. Robeco, our private equity manager, undertakes an annual survey of the underlying funds in which we invest against a wide range of ESG criteria. It is a pre-requisite of investment that the funds sign up to the Robeco Sustainable Private Equity (RSPE) programme developed by Robeco with its investment partner, the Dutch bank, Rabobank. The average ESG score for 2014 is 75.3% and improvement on last year at 72.4% and when we began in 2007 with a score of 63.9% in 2007, despite increasing the thresholds for each criterion, making it harder to score well and allowing better differentiation in performance.

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.

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. For our index tracking funds[5], where we own small amounts of a large number of companies, we employ as specialist provider, **Hermes Equity Ownership Services**, who bring together over 30 clients to represent £134bn of assets. We work with Hermes' other clients to set the engagement priorities and undertake to meet senior executives of over 400 companies per year. Hermes also undertakes policy engagement work, for example supporting the development of the Japanese Corporate Governance code. Each quarter we publish a report on our website on the engagement and voting activity undertaken by Hermes.

BP and Shell - Ownership for influence

The Fund approach is to be very active and work with others to achieve change. A great example of this was in early 2015 we co-filed (alongside 150 other investors) a special resolution at the **2015 AGMs of BP and Shell** respectively to improve the transparency of those companies with respect to how they are managing climate related risk.

By asking BP and Shell to do this, through their routine annual reporting, it will provide all shareholders equally (including many individuals), with the information to assess the effectiveness with which these companies are managing this risk and protecting shareholder value.

We were delighted that the management of BP and Shell both supported the resolutions, recommending that all their shareholders support it. BP's AGM was held on 14 April and the resolution was passed with 98.28% and Shell's on 19 May with 98.91% of votes in favour. Our approach is to engage with companies to improve performance that benefits us as shareholders and wider society.

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 **www.eapf.org.uk.**

[5] An index fund (also index tracker) is an investment fund that aims to replicate the movements of an index of a specific financial market, or a set of rules of ownership that are held constant, regardless of market conditions. The advantage is they are highly diversified with low management costs

Working with others

Working with others increases the effectiveness of the Fund's engagement activities. We will normally act through partnerships and alliances with other institutional pension funds, shareholder bodies, and asset owner organisations, but we reserve the right to act independently. This will include the UNPRI, the Institutional Investors Group on Climate Change (IIGCC) and the UK Sustainable Investment and Finance Association (UKSIF).

We have supported the work of the IIGCC through participation In both the Policy Working Group and the Property Working Group. Further details of the work of the IIGCC are available on their website **www.IIGCC.org.**

In January 2015, the Environment Agency Pension Fund, together with 15 other institutional investors published a guide to Responsible Investment Reporting in Public Equity. The report has been very well received, has been used by funds globally and with the help of one of our managers it will shortly be translated into Japanese.

To further support the integration of responsible investment and meet our corporate disclosure objectives, we are signatories to the Investor Statement on Climate Change, the Carbon Disclosure Project (CDP) and its programmes focusing on water and forestry.

Transparency

We publish regular updates on voting and engagement, research reports and articles on our website **www.eapf.org.uk.** We were delighted our communications on responsible investment in our Annual Report and Financial Statements 2013-14 was highly commended in the 2015 Responsible Investor Reporting Awards (for funds under $25 billion) in June 2015.

Pension Fund investment

Investment strategy development and implementation

As responsible investors, we fully embrace the need 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 in the light of the triennial actuarial valuation, as well as consideration of the Fund's net contribution inflows and the maturity profile of its liabilities. The investment strategy is then agreed by the Committee to meet this objective. It aims to maximise the return of the Fund, within an appropriate level of risk, by diversifying its investments throughout world markets.

For 2014-15, the Fund's investments were based on the investment strategy agreed in 2012-13, which includes a more flexible approach to asset allocation, within strict guidelines set out in an investment strategy framework, a focus on alternative indexation ("smart beta"), and a material commitment to real assets (property, infrastructure, forestry and agriculture) of up to 12% of the Fund.

During the year, our asset allocation broadly followed this strategy; however, the actual investment in real assets was significantly below the intended allocation, with the holding of equities and bonds increased instead. This was because it takes time for suitable investments in real assets to be identified and even longer for the money to be invested. Holdings and undrawn commitments to real assets stand at £230m, or 8.6% of the fund at year end with further investments already made in 15-16.

The investment strategy was reviewed during 2014-15, with a focus on further understanding the risks in our investments: in particular the possible impact on future employer contributions, with the ambition of being able to stabilise and ideally reduce these in the longer term. The analysis found the Fund's investment risks were dominated by exposure to equity risks, and there was merit in reducing this equity exposure. However, investments in bonds, while effective at reducing risk were not attractive from a return perspective, with yields extremely low. Therefore the Committee considered alternative investments able to add diversification while still delivering return.

Our allocation to real assets already fits into this category. Investment in hedge funds and commodities was considered but these were not felt to comply with our investment principles and focus on long term, responsible investment. In contrast, illiquid credit/ private debt is seen as an appropriate and worthwhile area. Typically, this involves lending money directly to companies. With banks withdrawing from this area after the financial crisis, opportunities have been created for investors. Done appropriately, it can support economic activity, employment creation and sustainable businesses, while providing the Fund with attractive returns. Alternative approaches in the bond (fixed income) markets were also considered potentially interesting. These "growth fixed income" approaches seek to exploit a wide range of specific opportunities while avoiding significant exposure to long term interest rates. After consideration, it was decided to allocate 5% to each of these areas, with the 10% coming from equities.

This new strategy is outlined in the Statement of Investment Principles in Annex 3. The strategy remains focused on aiming to get maximum value from our assets 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.

The implementation of this strategy primarily took place after the year end: the investment in the Wellington Total return bond fund was transferred to form the "growth fixed income" allocation; our previous investment in the Generation Credit Fund was recognised as our first investment in private debt, and increased by $30m to reflect our strategic commitment to the area. More significantly, the switch out of equities has been started by selling our UK passive equity portfolio. Part of our bond allocation has been re-focused on 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.

Climate Risk and Passive Investment

Our strategic review also considered our responsible investment strategy and in particular our exposure to climate risk. Our analysis of the Fund's exposure to fossil fuels in 2013 had identified our passive equity portfolio as at greatest risk from stranded assets. However, there were no available equity indices which would allow us to address these risks satisfactorily. We therefore engaged with various index providers to see what indices could be developed to meet our needs. MSCI developed a risk based index which targets a low level of variation from the conventional index, while seeking to reduce exposure to green house gas emissions and fossil fuel reserves. It is key features are:

- Significant reduction in exposure to carbon emissions
- 90% reduction in exposure to fossil fuel reserves
- Low risk against the conventional index (targeted expected variation of 0.3% p.a.)
- Quantitative approach enables engagement with companies

Given these characteristics, and reasonable costs, it was considered to offer a compelling alternative to the conventional benchmark and the decision was taken to switch all our conventional passive global equities to the new index.

In order to rebuild our allocation to Private Equity, which has fallen below its 4-6% target range, the decision was taken to create a new Target Opportunities Portfolio, whereby the Fund will invest directly in a few outstanding opportunities with strong financial and sustainability credentials, with a scope broader than just traditional private equity. Investments will be of the size of 0.5 to1% of the Fund and will be subject to careful due diligence. We transferred our investment in Generation Climate Solutions Fund II into the portfolio, and have made two further investments since the year end.

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 2014-15	% Weight 2013-14
UK equities	FTSE All Share	13.0	13.0
Global equities	FTSE All World*	39.0	39.0**
Emerging market equities	FTSE Emerging Markets	6.0	6.0
Index-linked gilts	FTSE-Actuaries UK Index-Linked Gilts over 15	7.5	7.5
Corporate bonds	iBoxx Sterling all non-gilt	20.0	20.0
Private equity	MSCI World	5.0	5.0
Real Assets	Retail Price Index	9.0	9.0
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.
** In 2013-14 the allocation to global equities included a temporary declining 4% allocation pending investment in the real assets as planned under the investment strategy.

Investment Performance

The fund had a successful year in performance terms. The return of on our assets was 15.1%, well ahead of our actuary's assumptions. The Fund outperformed its strategic benchmark by 0.1% (after fees), a reasonable result in a year which was more challenging for our managers. Over three years the fund has returned 12.3% annualised 1.4% above benchmark which is a very strong result.

Our active managers generally outperformed, adding some £20m in value over the year in excess of their fees, including a £14m contribution from active equity managers. Most of our managers performed well, with notably positive contributions from Generation, Robeco Low Volatility, our emerging market managers, First State and Comgest, and our new sustainable equity manager Ownership Capital (for part of the year). However, there were disappointing results from Impax and our private equity manager Robeco, largely reflecting a poor year for clean technology investments more broadly – this is a long term investment story.

Other contributors were more mixed. The decision to invest in equities pending investment in real assets was significantly positive, but our decision to hold a market neutral bond fund, rather than normal bond exposure was a drag on performance this year, reversing the gains made last year. Allocations to smart beta were mixed this year, with "Low Volatility" performing well, but "Fundamental Value" being more mixed, but since inception this approach has added value and we consider it valid long term.

The total return of the Fund over the year and over three years to 31 March 2015 is as follows:

Financial Performance	**2015 %**	**2014 %**
1 year		
Fund performance	+15.1	+8.4
Benchmark performance	+14.9	+4.5
Active fund relative performance	+0.1	+3.9
3 year		
Fund performance	+12.3	+9.1
Benchmark performance	+10.9	+8.0
Active fund relative performance	+1.4	+1.1

Details of financial performance by fund managers are available on pages 33 to 34.

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 33 to 34.

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 reviewed our sustainable equity mandate during the year and decided to award two new mandates to Ownership Capital and Union Investments, replacing Sarasin & Partners. The review was triggered after the departure of a significant proportion of the team at Sarasin. The new appointments were made after a comprehensive search including a full public tender which attracted over 60 responses, and demonstrated the growth of capability in sustainable equity. Notably, the majority of respondents providing credible responses with a level of integration and commitment to stewardship that we would not have seen a few years ago. Reflecting the breadth of responses, and to improve the Fund's resilience, we decided as part of the tender process to appoint two further managers, Natixis / Mirova and Hermes, but not to fund them immediately. They join our other managers leading on the integration of sustainability in equity investment, Generation, First State and Impax.

We decided to liquidate our investment in the PIMCO Unconstrained bond fund, after considerable team instability, culminating in the departure of the CIO and our lead fund manager. The proceeds were reinvested in the Wellington Global Total Return Bond Fund later in the year, partly in anticipation of the new strategy.

We continue to be very conscious of costs and value for money. Our managers added considerable value over the year, after fees. Investment management fees have increased this year, partly reflecting the appointment of new managers last year, but particularly significant performance fees due to two of our most successful managers. Nonetheless, we have continued to negotiate further fee reductions or concessions with managers this year. This year's negotiations have led to savings of around £300,000 per annum for future years, in addition to the estimated £320,000 per annum saved last year, 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 at 93% at 31 March 2015, a 3% improvement on the level for the triennial valuation at March 2013, but a 6% decline on the estimated level last year. These moves primarily reflect moves in level of real yields on Index linked government bonds, which are used to value our liabilities. Recent falls in yields have led to an increase in the current value of our liabilities. However, this has been offset be the strong investment performance of the Fund.

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

We have won a number of prestigious awards over the years and 2014-15 is no exception with The Asset Owners Disclosure Project (AODP) ranking the EAPF as 5th out of 500 of the World's largest investors, as global leaders in managing climate risk. We are one of only 9 investors who have achieved a AAA rating this year.

In November we won the inaugural award for our approach to Climate Related Risk Management at the Investment of Pensions Europe Awards. We were also joint winners of an award recognising the management of Environment, Social and Governance risk.

Portfolio Institutional also recognised the EAPF's contribution to the wider development of Responsible Investment and presented us with the Winner of the Best implementation of responsible investment in May.

For a full list of our awards and for further information on our Fund Investments please see our website at **www.eapf.org.uk**

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

Manager	Date appointed (closed)	Value at 31 Mar 2015 £m	Fund %	Asset class/ Mandate	Benchmark	2014-15 Performance				2013-14 Performance		
						Target %	Fund return %	Benchmark return %	Relative to benchmark %	Fund return %	Benchmark return %	Relative to benchmark %
Bonds												
Index Linked Gilts												
Legal & General	Nov-09	258.2	9.7	UK Index Linked Gilts (passive)	FTSE Index Linked Gilt > 15 Year	+0.0	+28.1	+28.1	+0.0	-3.3	-3.4	+0.1
Corporate Bonds												
Royal London	Jul-07	261.5	9.8	Corporate Bonds (active)	iBoxx £ Non Gilt all bonds	+1.3	+13.0	+13.1	-0.1	+4.5	+1.6	+2.9
Legal & General	Nov-09	101.8	3.8	UK Corporate Bonds (passive)	iBoxx £ Non Gilt all bonds	+0.0	+13.1	+13.1	+0.0	+0.5	+0.9	-0.4
Growth Fixed Income												
Wellington	Mar-15	150.2	5.6	GTR Bonds (active)	Merrill Lynch 3-Month T-Bill Index	+1.0						
Generation Credit Feeder Fund III LP	May-13	6.6	0.3	Illiquid Credit / Private Debt (active)	3 Month Sterling LIBOR	+5-8						
Equities												
UK Equities												
Standard Life	Apr-05	184.4	6.9	UK Equity (active)	Customised FTSE All Share capped at 2%	+2.0	+4.9	+8.5	-3.6	+15.6	+10.4	+5.2
Legal & General	Nov-07	140.6	5.3	UK Equity (seg to passive 02/03/15)	FTSE All Share	+0.0	+6.6	+6.6	+0.0	+8.9	+8.8	+0.1
Global Equities												
Quoniam	Mar-13	117.6	4.4	Global Equity (low volatility - active	85% MSCI AC World NDR (hedged to GBP) & 15% MSCI EM NDR (unhedged)	> 0	+15.6	+14.5	+1.1	+14.3	+14.7	-0.4
Robeco	Mar-13	112.5	4.2	Global Equity (low volatility – active	MSCI AC World GD	> 0	+23.5	+18.4	+5.1	+3.2	+6.2	-3.0
Legal & General	Mar-15	283.0	10.6	Global Equity (passive)	MSCI World Low Carbon Target	+0.0						
Legal & General	Dec-12	131.3	4.9	Global Equity (passive)	FTSE RAFI 3000 All World	+0.0	+14.7	+14.9	-0.2	+10.9	+10.6	+0.3

Union	Mar-15	92.3	3.5	Global Equity (active)	MSCI TR Gross World Sterling Index	+2.0						
Generation	Aug-08	228.5	8.6	Global Equity (active)	MSCI AC World NDR	+3.8	+24.1	+18.4	+5.7	+12.7	+6.2	+6.5
Impax	Aug-08	228.5	8.6	Global Equity (active)	MSCI AC World NDR	+3.8	+24.1	+18.4	+5.7	+12.7	+6.2	+6.5
Ownership Capital	Jun-14	102.9	3.9	Global Equity (active)	MSCI Kokusai (World ex Japan) ND	+3.0						
Emerging Markets Equities												
Comgest	Nov-10	98.2	3.7	Emerging Markets Equity (active)	MSCI Emerging Market TR GD	+3.0	+20.0	+12.8	+7.2	+0.6	-10.2	+10.8
First State	Oct-12	76.1	2.9	Emerging Markets Equity (active)	MSCI Emerging Market ND	+0.0	+17.4	+12.8	+4.6	-5.7	-10.2	+4.5
Alternatives												
Robeco	Oct-05	76.8	2.9	Private Equity (active)	MSCI World (Gross)	+5.0	n/a	n/a	n/a	n/a	n/a	n/a
Targeted Opportunities Fund	Apr-15	7.0	0.3	Private Equity (active)	Absolute Return 8.0% pa	+0.0	+2.6	+8.0	-5.4			
Townsend	Mar-13	144.2	5.4	Real Assets (active)	RPI (target RPI + 4% over rolling 5 years)	+4.0	+13.6	+0.9	+12.7	+9.1	+6.5	+2.6
Cash & Other												
AVC & other net assets		17.3	0.6									
Total Fund		**2,664.4**	**100.0**		**Strategic Benchmark**	**+0.9**	**+15.0**	**+14.9**	**+0.1**	**+8.4**	**+4.5**	**+3.9**

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 2014-15 which includes Wellington GTR bonds, Union and Ownership Capital global equities.
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.
With effect from 1 October 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 5% RPI (Real Assets) and 5% MSCI World GD (Private Equity).

Portfolio analysis

Distribution of net assets by market value as at 31 March 2015

£m	Legal & General	Royal London	Generation	Standard Life	Wellington	Townsend	Quoniam	Robeco Low Vol. Equity	Ownership Capital	Comgest	Union	Robeco Priv Equity	First State	Impax	Cash /Other	Targeted Opps.	£m Total	% of Fund
OS equities (inc. pooled)	380.0		203.0				106.9	105.8	102.9	94.0	85.2		76.1	62.6			**1,216.5**	45.7
North America	*225.2*		*134.8*				*52.5*	*55.6*			*54.9*			*30.8*			***553.8***	*20.8*
Europe	*81.8*		*36.2*				*12.2*	*18.6*	*102.9*	*5.2*	*24.4*			*14.8*			***296.1***	*11.1*
Emerging markets & other areas	*12.1*		*14.4*				*17.4*			*47.8*			*76.1*	*2.0*			***169.8***	*6.4*
Asia Pacific	*22.0*		*17.6*				*6.3*	*22.5*		*41.0*				*10.7*			***120.1***	*4.5*
Japan	*38.9*						*18.5*	*9.1*			*5.9*			*4.3*			***76.7***	*2.9*
UK fixed interest	257.9	170.6															**428.6**	16.1
UK equities	174.6		8.5	182.9			9.7	6.0		0.9	6.1			8.6			**397.2**	14.9
OS fixed interest		75.4															**75.4**	2.9
Pooled property & infrastructure						138.6											**138.6**	5.2
Pooled fixed interest	108.4	11.1			150.2												**269.7**	10.1
Private equity												73.5				7.0	**80.5**	3.0
Cash	0.1	1.1	16.9			5.6	1.8	0.4		3.0	1.0	3.3		1.8	8.6		**43.6**	1.6
AVC investments															8.4		**8.4**	0.3
Other net investments	0.5	3.2	0.4	1.5			0.9	0.3		0.3	0.1			0.4	0.3		**7.9**	0.3
Derivatives			(0.3)				(1.7)										**(1.9)**	(0.1)
£m Total	**921.5**	**261.5**	**228.5**	**184.4**	**150.2**	**144.2**	**117.6**	**112.5**	**102.9**	**98.2**	**92.3**	**76.8**	**76.1**	**73.4**	**17.3**	**7.0**	**2,664.4**	**100**

Top 20 holdings of the Fund

		2015	
Holding	**Asset Class**	**£m**	**% of fund**
L&G GBPU MSCI World Low Carbon Target Index	Pooled equities - Global	283.0	10.6
Wellington MP IV Global Total Return Bond TGBP Fund	Pooled fixed interest - Overseas corporate bonds	150.1	5.6
L&G N - UK Equity Index	Pooled equities - Global	140.2	5.3
L&G YX - FTSE RAFI All World 3000 Equity Index	Pooled equities - Global	131.4	4.9
Ownership Capital UK Pension Class CCF	Pooled equities - Global	102.9	3.9
L&G Investment Grade Corporate Bond All Stocks Index	Pooled fixed interest - UK corporate bonds	101.8	3.8
First State Global Emerging Markets SU-B	Pooled emerging markets equity	76.1	2.9
UK Government 1.25% index-linked 22/11/55	Fixed interest - UK index linked gilts	23.0	0.9
UK Government 1.125% index-linked 22/11/37	Fixed interest - UK index linked gilts	19.9	0.7
UK Government 0.375% index-linked 22/03/62	Fixed interest - UK index linked gilts	19.6	0.7
UK Government 0.75% index-linked 22/11/47	Fixed interest - UK index linked gilts	19.1	0.7
UK Government 0.5% index-linked 22/03/50	Fixed interest - UK index linked gilts	18.7	0.7
UK Government 0.75% index-linked 22/03/34	Fixed interest - UK index linked gilts	18.1	0.7
Carbon Workplace Trus	Property - Real estate equity trust	18.0	0.7
UK Government 2.00% index-linked 26/01/35	Fixed interest - UK index linked gilts	17.6	0.7
UK Government 0.75% index-linked 22/03/34	Fixed interest - UK index linked gilts	17.6	0.7
UK Government 1.25% index-linked 22/11/32	Fixed interest - UK index linked gilts	17.4	0.7
UK Government 0.625% index-linked 22/11/42	Fixed interest - UK index linked gilts	17.4	0.6
Union Investment Lux SA Quoniam Select Em Markets Min Risk	Equities - Emerging Markets	17.4	0.6
UK Government 0.625% index-linked 22/03/40	Fixed interest - UK index linked gilts	17.1	0.6

Geographical distribution of quoted and pooled equity investments

Geographical distribution	2015		2014	
	£m	% of total equity	£m	% of total equity
North America	553.8	34.3	480.6	28.1
United Kingdom	397.2	24.6	391.6	34.4
Europe (excluding UK)	296.1	18.4	217.3	15.6
Emerging markets & other areas	169.8	10.5	148.1	10.6
Asia Pacific (excluding Japan)	120.1	7.4	95.6	6.8
Japan	76.7	4.8	63.1	4.5
Total	**1,613.7**	**100.0**	**1,396.3**	**100.0**

Top 10 global equities by sector

Sectors	2015 £m	% of Fund	Sectors	2014 £m	% of Fund
Industrial goods and services	129.4	4.9	Industrial goods and services	146.7	6.3
Technology	122.1	4.6	Healthcare	108.2	4.7
Healthcare	113.6	4.3	Technology	88.9	3.8
Retail	55.5	2.1	Retail	62.4	2.7
Insurance	54.6	2.0	Insurance	60.8	2.6
Personal and household goods	51.6	1.9	Banks	60.0	2.6
Telecommunications	43.9	1.6	Oil and Gas	56.5	2.4
Utilities	37.0	1.4	Food and beverage	50.9	2.2
Financial services	36.6	1.4	Personal and household goods	50.1	2.2
Banks	36.0	1.3	Telecommunications	39.8	1.7
Total	**680.3**	**25.5**	**Total**	**724.3**	**31.2**

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	2015 £m	% of fund	Company	Country	2014 £m	% of fund
Check Point Software Technologies	United States	13.4	0.5	Qualcomm Inc	United States	13.5	0.6
MSCI Inc	United States	10.7	0.4	Waters Corp	United States	9.5	0.4
Prudential	United Kingdom	9.9	0.4	Unilever NV	Netherlands	8.9	0.4
Waters Corp	United States	9.8	0.4	MSCI Inc	United States	7.7	0.3
Linear Tech Corporation Del	United States	9.4	0.4	Intuit	United States	7.3	0.3
Qualcomm Inc	United States	9.0	0.3	Novo-Nordisk	Denmark	6.9	0.3
Varian Medical Systems Inc	United States	8.9	0.3	Varian medical Systems Inc	United States	6.3	0.3
Microsoft Corporation	United States	8.8	0.3	Becton Dickinson & Co	United States	6.2	0.3
Tencent Holdings Limited	China	7.7	0.3	Pentair Inc	United States	6.0	0.3
BT Group	United Kingdom	7.6	0.3	Ecolab Inc	Sweden	5.7	0.2
Edwards Life Sciences Corporation	United States	7.5	0.3	Check Point Software Technologies	United States	5.6	0.2
Sirona Dental Systems Inc	United States	7.5	0.3	LKQ Corporation	United States	5.4	0.2
Grainger WW Inc	United States	6.9	0.3	Legrand SA		5.3	0.2
Google Inc CL A	United States	6.9	0.3	C R Bard	United States	5.2	0.2
Intuit	United States	6.6	0.3	Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	5.2	0.2
Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	6.5	0.2	Jones Lang Lasalle Inc	United States	4.7	0.2
China Life Insurance Company 'H' CNY1	China	6.4	0.2	Danaher Corp	United States	4.7	0.2
Mediatek Inc	Taiwan	6.3	0.2	International Business Machines	United States	4.5	0.2
Legrand SA	France	6.1	0.2	Banco Bilbao Vizcaya Argentaria S.A.	Spain	4.3	0.2
Novo-Nordisk	Denmark	5.8	0.2	Union Pacific Corporation	United States	4.3	0.2
Total		**161.7**	**6.1**			**127.2**	**5.5**

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 23,300 members of the Active Pension Fund.

While the Committee (and Benefits Sub-Group) 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. Capita is the largest UK third party administrator and were awarded a new contract by the Environment Agency Pension Fund in 2010 following an EU procurement exercise.

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 pay slips, 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.

In December 2014, Capita moved our pensions operations from Sheffield to Darlington. We will be part of their public sector hub in Darlington and hope to bring improvements in the way we deliver your pension.

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 16,467 Fund member requests/queries and for paying pensions to over 5,700 pensioners during the year. Over the year, Capita achieved the required service levels for 99% of casework processed.

The 5 largest case types processed by Capita for the Active Pension Fund during 2014-15 were:

Case type	2015	2014
Retirement estimates	692	603
Leavers with deferred pensions	575	387
Retirements	456	313
Joiners	211	621
Transfers out of the Fund	201	231

The total number of staff allocated by Capita to the EAPF administration contract is 24, of which around 14 deal solely with pension benefits administration. Based on a membership of 39,647 across Active and Closed Funds at 31 March 2015, this represents an average of 2,832 members per administrator. This compares well with the CIPFA LGPS average of 4,160 (2014).

Active Fund administration costs for the year to 31 March 2015 were £506k (2014: £513k) including member communications and postage costs. Across both Active and Closed Funds, this is equivalent to £24 per member. We benchmark our Fund administration costs annually through the public accounting body CIPFA. The CIPFA average for 2014 was £21. Through our pension administration costs, we take a value for money approach looking for appropriate balance between cost, service and quality.

2014-15 has been a challenging year for our pension administration. As part of the Local Government Pension Scheme (LGPS), we started the year by introducing changes to our contributing member's future pensions. The new LGPS Career Average pension came into effect from 1 April 2014, with significant updates required to our employers HR and payroll systems and processes. With pensions built up prior to April 2014 protected, we also worked closely with Capita to implement changes to calculations and letters.

We worked hard with our employers to ensure that members are fully aware of the changes to their pensions. We used webinars for the first time to communicate more widely and flexibly for our members, with positive feedback. We are pleased with outcome and it is good to see that our level of membership remains very high, with 95% of eligible employees continuing to contribute to the Fund.

We have continued to work in collaboration with Local Government Pension Funds with the aim of improving efficiency and service standards and have been active participants on a number of advisory boards.

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. During 2014 we undertook a radical reform of risk management and reporting, undertaking risk training and deeply embedded risk in all committee papers and discussions.

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 2015, 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 the Pension Fund has complied fully with the provisions of the Pensions Schedule of the Financial Memorandum and that it has been able to maintain compliance with the range of activities mandated in the Financial Memorandum whilst responding to significant changes that include the implementation of the new LGPS from April 2014.

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

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 has been carried out for the Active Fund during 2014-15 and a certificate issued reflecting compliance with TPR guidance. Our post June 2010 data is 98.8% (2013-14: 99.6%) with pre June 2010 data at 95.4% (2013-14: 97.4%). 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 will monitor this area closely during 2015-16 as our employers undergo 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 2014-15.

Communications

Last year we reviewed the way that we communicate with our members and other stakeholders. This review was driven in part by the introduction of the new look LGPS and the need to better inform members about these important changes.

We recognised the need to introduce a program of communications that changed the way we approached our member interaction over the longer term, highlighting 3 key areas that were critical to enhancing our services.

Firstly, we developed a new brand to help our members identify with their own Pension Fund. The brand was based on modernity, accessibility and trust which incorporated both visual elements as well as a new, less complicated, writing style. This was launched in 2014 for all print and digital communications and I'm pleased to say that this rebranding was successfully completed; with an ongoing wider project to improve our administration and simplifying our written correspondence for 2015-16.

The second part of our program involved restructuring our website using information provided by 3 focus groups. This Customer Journey Mapping (CJM) helped to ensure that our website was effective in allowing all members to navigate around the website easily.

The website has been rebuilt placing the new CARE scheme at its center and making sure that user experience and navigation within the site catered for the complexity of 3 different benefit structures needed for the vast majority of members.

Running parallel to this was the introduction of improved functionality on the site using rich text materials such as video, info-graphics, carousels and a link to EAPF Online. This is a member self service area that provides a personal space for registered members and it allows access to a Retirement Illustrator, calculating early retirement reductions and enhancements using data from the members' own pension record, and calculating total benefits across all 3 Schemes. It will also take into account individual member protections.

The website is also device enabled so that it can be easily read and navigated on smart phones and tablets. This means that members can also use the self service calculator on their hand held devices which is a unique development to the EAPF, to the best of our knowledge.

The third and final element of our communication program saw us use webinars for the very first time. From September 2014 we used this method to better engage with all our members nationwide, and this resulted in nearly 1,100 online attendees from 16 sessions. The satisfaction ratings and level of feedback was extremely high.

The introduction of the webinars proved successful as it allowed 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

How do we measure its success?

The basis of our communication program involved representation from our members with volunteers across a broad cross section of employees from the outset.

The feedback provided by the focus groups led to a fully integrated approach in all our digital and published materials, from the website through to forms, factsheets, posters and other forms of documentation.

Feedback from members

'the information is clear and well presented'.

'videos are a good way of presenting the difference between old and new and gives me a good grasp of what I'm getting'.

'the Retirement Illustrator is an excellent addition and will make it easier for me to make a personal forecast'.

'worked examples in the factsheets are relevant and helpful'.

We have also seen an increase in our EAPF Online registrations which is up from 14% to 20% over the last year.

Our member helpline has seen a dramatic decrease by 37% in call volume since the launch of the new website and this is largely attributed to the improved navigation.

Our member engagement work proved particularly successful with 1,071 attendees providing positive feedback on content and the presentation style. 60% of the attendees responded to our evaluation questionnaire and perhaps the most revealing aspect of the exercise was that 48% of respondents preferred this methodology, 19% preferred face to face presentations with 33% having no preference.

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

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 cannot agree with the decision you can apply to the Pensions Ombudsman who will make a binding decision and who has the power to award compensation if he feels this is justified.

In 2014-15 Capita received 13 (2013-14: 34) 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. No cases have been referred to the Pensions Ombudsman.

Foreword to the financial statements

The EAPF is a statutory public service pension scheme (as defined by the Pension Schemes Act 1993) under the 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 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 fallen by £3.7m to £87.9m (2014: risen by £23.3m to £91.6m). The decrease for the year ended 31 March 2015 was due, in the main, to reduced special contributions to fund early retirements. Deficit funding, from the Environment Agency £14m and NRW £0.5m, were paid in the year to fund historical past service deficit. The 12 months ended 31 March 2015 have seen a 1.0% decrease in total Fund membership (2014: increase of 2.0%).

Net income from all transfer values received in the year has decreased by £3.9m to £1.2m (2014: decreased by £0.7m to £5.1m). The £1.2m is due to new joiners in the year and also members who joined prior to 31 March 2014 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 £5.5m to £76.2m (2014: increased by £9.5m to £70.7m). This is primarily due to an increase in lump sum retirement grants.

The net assets of the Fund at 31 March 2015 has increased by £350.5m to £2,664m (2014: increased by £188.3m to £2,314m). This is primarily due to an increase in the market value of its investments under management.

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, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014-15.

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 reasonable cost whilst achieving and maintaining fund solvency, which should be assessed in light of the risk profile of the fund and the risk appetite of the administering authority and employers;
- manage the employers' liabilities effectively; and
- maximise the returns from investments within reasonable risk parameters.

The FSS sets out how the administering authority seeks to balance the 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 my 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

The Pensions Committee monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31 March 2015. Assets had a market value of £2,656m as at 31 March 2015. Liabilities were estimated to be £2,866m on an ongoing funding basis as at 31 March 2015, implying that the Fund's funding level (excluding the effect of any membership movements) has increased to 93% over the period since the formal valuation.

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
15 May 2015

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 2015 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 Pension 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, certify and report on 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 Department; 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 2015, and of the amount and disposition at that date of its assets and liabilities.

- 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) 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
SWIW 9SP

Date: 1 July 2015

Financial statements for the year ended 31 March 2015

	Notes	2015 £000	2014 £000
Fund account			
Contributions and transfers			
Contributions	7	87,861	91,633
Transfer values received	8	1,162	5,079
		89,023	**96,712**
Benefits and other payments			
Benefits payable	9	(76,190)	(70,696)
Payments to and on account of leavers	10	(2,298)	(3,143)
		(78,488)	**(73,839)**
Net additions from dealings with members		**10,535**	**22,873**
Management expenses	11	**(16,939)**	**(13,357)**
Return on investments			
Investment income	12	43,994	42,140
Taxes on income	13	(1,187)	(915)
Change in market value of investments	15a	314,110	137,574
Net returns on investments		**356,917**	**178,799**
Net increase in the Fund during the year		**350,513**	**188,315**
Opening net assets of the Fund at 1 April		2,313,976	2,125,661
Net assets of the Fund at 31 March		**2,664,489**	**2,313,976**
Net assets statement			
Investment assets	15c	2,667,858	2,321,753
Investment liabilities	15c	(3,447)	(10,998)
Current assets	20	9,299	14,075
Current liabilities	21	(9,221)	(10,854)
Net assets of the Fund at 31 March		**2,664,489**	**2,313,976**

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 46 and these financial statements should be read in conjunction with it. The Actuary's statement dated 15 May 2015 is based on a valuation as at 31 March 2013. The notes on pages 51 to 75 form part of these financial statements.

John Varley
Chairman
Environment Agency Pensions Committee
23 June 2015

Paul Leinster
Accounting Officer
Environment Agency
23 June 2015

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 23,357, which represents 10,685 Active members, 6,923 deferred members and 5,749 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 2014-15 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).

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 Pension Fund and the Closed Pension Fund, this has been respectively apportioned during the year as follows:

Apportionment of common expenditure	2015 %	2014 %
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 2015 was £80.5m (2014: £83.9m).

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 2015 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 the Pensions Committee on 16 June 2015 and were approved and signed at the Audit and Risk Committee on 23 June 2015 under delegated authority of the Board. They were also noted at a meeting of the Board on 9 July 2015. There are no adjusting or non-adjusting events that need to be recognised in the financial statements after the net asset statement date.

From 1 April 2014, the Government introduced changes to the LGPS and this will affect the members of our Pension Fund. For more details on the changes that affect the member please refer to **www.eapf.org.uk.**

7. Contributions receivable

	2015 £000	2014 £000
Employer		
Normal	46,960	46,091
Deficit Funding	14,500	14,850
Special	1,558	5,863
	63,018	**66,804**
Members		
Normal	23,368	23,215
Additional voluntary contributions (AVCs)	998	983
Purchase of added years	477	631
	24,843	**24,829**
Total	**87,861**	**91,633**

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.

8. Transfer values received

	2015 £000	2014 £000
Individual transfers from other schemes	1,162	5,079
AVC transfers	-	-
Total	**1,162**	**5,079**

Transfer values have been paid ("cash equivalents" within the meaning of Part 1 of Schedule 5 to the Pensions Scheme Act 1993), and service credits given for transfers received, calculated in accordance with the method and assumptions on the advice of the Actuary and based on guidelines issued by the Institute and Faculty of Actuaries.

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

9. Benefits payable

	2015 £000	2014 £000
Retirement and dependants' pensions	59,286	53,963
Lump sum retirement grants	15,276	15,279
Lump sum death grants	1,624	1,451
Purchase of annuities	1	-
Life assurance through AVC provider	3	3
Total	**76,190**	**70,696**

10. Payments to and on account of leavers

	2015 £000	2014 £000
Individual transfers to other schemes	2,161	2,391
Bulk transfer to other schemes	40	747
Refunds of contributions	96	5
AVC transfers	1	-
Total	**2,298**	**3,143**

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

11. Management expenses

	2015 £000	2014 £000
Administration expenses		
Environment Agency Pension Fund management	488	498
Scheme administration	506	513
	994	**1,011**
Oversight and governance costs		
Specialist advice	991	893
External audit	44	41
	1,035	**934**
Investment management expenses	**14,910**	**11,412**
Total	**16,939**	**13,357**

The external auditor remuneration does not include any fees in respect of non-audit services for 2015 and 2014. A breakdown of the Investment expenses is shown in note 14.

12. Investment income

	2015 £000	2014 £000
Dividends from equities	24,874	24,592
Income from fixed interest securities	13,483	11,689
Income from pooled property and infrastructure	3,680	3,075
Income from private equity	527	1,912
Income from pooled investment vehicles	797	554
Interest on cash deposits	633	318
Total	**43,994**	**42,140**

13. Taxes on income

	2015 £000	2014 £000
Withholding tax – equities	(1,006)	(915)
Withholding tax – pooled property	(181)	-
Total	**(1,187)**	**(915)**

14. Investment management expenses

	2015 £000	2014 £000
Fund manager base fees	8,292	7,522
Fund manager performance fees	5,612	3,040
Irreclaimable VAT	865	720
Global custody	141	130
Total	**14,910**	**11,412**

Total fund manager fees include management charges that are settled within the pooled funds in accordance with the fund prospectus. The irreclaimable VAT represents 70% of the VAT paid on investment management fees.

15. Investments

a) Investment movements summary

Financial year to the 31 March 2015	Market value at 01.04.14	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value at 31.03.15
	£000	£000	£000	£000	£000
Equities	1,044,995	642,259	(860,271)	129,317	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
AVC investments	7,938	998	(1,224)	639	8,351
Derivatives	86	2,186,102	(2,186,457)	(1,679)	(1,948)
	2,259,994	**3,607,365**	**(3,567,117)**	**312,622**	**2,612,864**
Cash deposits and instruments	46,097			1,483	43,580
Other investment balances	4,664			5	7,967
Total	**2,310,755**			**314,110**	**2,664,411**

Financial year to the 31 March 2014	Market value at 01.04.13	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value at 31.03.14
	£000	£000	£000	£000	£000
Equities	974,607	286,192	(281,544)	65,740	1,044,995
Fixed interest	377,681	117,534	(67,662)	(9,213)	418,340
Pooled equities	362,669	42,112	(87,487)	33,745	351,039
Pooled fixed interest	224,206	48,929	(7,500)	(1,070)	264,565
Private equity	94,099	9,061	(19,939)	687	83,908
Pooled property	57,477	53,379	(28,109)	6,376	89,123
AVC investments	7,407	982	(1,020)	569	7,938
Derivatives	(13,476)	3,896,113	(3,924,637)	42,086	86
	2,084,670	**4,454,302**	**(4,417,898)**	**138,920**	**2,259,994**
Cash deposits and instruments	29,058			(1,350)	46,097
Other investment balances	7,871			4	4,664
Total	**2,121,599**			**137,574**	**2,310,755**

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.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £806,090 (2014: £800,468). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund.

The increased turnover of equities, pooled equities and pooled equities reflects in significant part the implementation of our sustainable investment strategy during the year, rather than the underlying turnover at our managers during the year. Strategic actions such as the transition of the sustainable equity manager, the pooling of UK equities, the switch in passive global equities to low carbon benchmark, and the switch in the global fixed income fund account for bulk of the increase. In large part, these transactions would been done at zero or negligible cost through transfer "in specie" or market crossing. Elsewhere costs are carefully managed and controlled e.g. through the use of transition managers.

b) Investment value details

Investment assets	2015 £000	2014 £000
Equities		
Overseas quoted	733,597	684,191
UK quoted	222,703	360,804
	956,300	**1,044,995**
Fixed interest		
UK index linked gilts public sector	257,932	204,825
UK corporate quoted	170,638	148,680
Overseas corporate quoted	73,102	63,470
Overseas public sector quoted	2,273	1,365
	503,945	**418,340**
Pooled equities		
Overseas unit trusts	482,855	320,307
UK unit trusts	174,545	30,732
	657,400	**351,039**
Pooled fixed interest		
Overseas corporate quoted unit trusts	171,119	174,580
UK corporate quoted unit trusts	98,515	89,985
	269,634	**264,565**
Private equity		
Overseas unquoted	68,362	75,616
UK unquoted	12,176	8,292
	80,538	**83,908**
Pooled property and infrastructure		
UK unit trusts	38,006	73,394
UK managed funds	10,367	9,522
UK unquoted collective limited partnership investments	3,322	4,072
Overseas unquoted collective limited partnership investments	4,354	-
UK infrastructure funds	69,585	2,039
Overseas infrastructure funds	13,010	96
	138,644	**89,123**
AVC investments	**8,351**	**7,938**
Derivative contracts		
Futures	15	118
Forward foreign exchange	(1,963)	(32)
	(1,948)	**86**
Cash deposits and instruments		
Cash with custodian and fund managers	42,971	45,390
Cash margin with brokers	609	707
	43,580	**46,097**
Other investment balances		
Amounts due from trade and currency brokers	2,077	7,704
Accrued income	6,610	7,154
Income tax recoverable	681	411
Amounts due to trade and currency brokers	(1,401)	(10,605)
	7,967	**4,664**
Net investment assets	**2,664,411**	**2,310,755**

c) Financial assets and liabilities

	2015 £000	2014 £000
Financial assets		
Equities (includes pooled and private equity)	1,694,238	1,479,942
Bonds (includes pooled and gilts)	773,579	682,905
Pooled property and infrastructure	138,644	89,123
Cash	43,580	46,097
AVC	8,351	7,938
Derivatives – Futures and forward foreign exchange	98	479
Other investment assets	9,368	15,269
Total financial assets	**2,667,858**	**2,321,753**
Financial liabilities		
Derivatives – Futures and forward foreign exchange	(2,046)	(393)
Amounts due to trade and currency brokers	(1,401)	(10,605)
Total financial liabilities	**(3,447)**	**(10,998)**
Net financial assets	**2,664,411**	**2,310,755**

d) Derivative contracts

	2015		2014	
Derivatives	**Asset £000**	**Liability £000**	**Asset £000**	**Liability £000**
Futures contracts	29	(14)	118	-
Forward foreign currency contracts	69	(2,032)	361	(393)
	98	**(2,046)**	**479**	**(393)**
Net derivatives		**(1,948)**	**86**	

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 below, 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.

Type of futures contract	Expiration	2015 Nominal value £000	2014 Nominal value £000	2015 Fair Value £000	2014 Fair Value £000
FTSE 100 UK exchange traded June 2014 (L&G)	3 months	-	584	-	5
E-mini S&P 500 US exchange traded June 2015 (Generation)	3 months	5,414	4,892	(14)	2
Eurostoxx 50 index exchange traded June 2015 (Generation)	3 months	2,811	3,765	29	111
Total		**8,225**	**9,241**	**15**	**118**

Forward over the counter foreign currency contracts

At 31 March 2015 there was an unrealised loss of £1,963,000 on the currency forwards (2014: unrealised loss of £32,000). 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	2015 Asset £000	2015 Liability £000	2014 Asset £000	2014 Liability £000
Australian Dollar	Sterling	13 days	-	(13)		
Canadian Dollar	US Dollar	24 days	-	(196)	-	(25)
Euro	Sterling	10 days	-	(10)	-	(7)
Japanese Yen	Sterling	13 days	2	(2)	-	(1)
Japanese Yen	US Dollar	24 days	-	(76)	-	(76)
Norwegian Krone	Sterling	24 days			-	(1)
New Zealand Dollar	Sterling	13 days	7	-	1	-
Sterling	Danish Krone	13 days	11	(3)	13	-
Sterling	Euro	13 to 19 days	3	(12)	110	-
Sterling	Japanese Yen	13 days		(493)	69	-
Sterling	Norwegian Krone	13 days	6	-	2	-
Sterling	Canadian Dollar	24 days	-	(72)	1	(8)
Sterling	Australian Dollar	24 days	-	(26)	-	(167)
Sterling	New Zealand Dollar	13 days	-	(68)	-	(50)
Sterling	Singapore Dollar	24 days	-	(17)	-	(6)
Sterling	Swedish Krone	13 days	19	-	38	-
Sterling	Swiss Franc	13 days	3	(94)	41	-
Sterling	US Dollar	13 days	17	(943)	86	-
US Dollar	Sterling	1 to 8 days	-	-	-	(37)
US Dollar	Australian Dollar	1 to 7 days	1	-		
US Dollar	Thai Baht	24 days	-	(7)	-	(15)
			69	**(2,032))**	**361**	**(393)**

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	2015		2014	
	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	150.2	5.6		
L&G Uk Equity Index Fund	140.2	5.3		
L&G North America Equity Index Fund	-	-	135.0	5.8
PIMCO Unconstrained	-	-	160.1	6.9

16. Financial Instruments

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 2015	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	-	-
AVC investments	8,351	-	-
Derivatives	98	-	-
Cash deposits and instruments	-	46,592	-
Other investment assets	-	9,368	-
Debtors	-	6,287	-
	2,614,910	**62,247**	**-**
Financial liabilities			
Derivative contracts	(2,046)	-	-
Other investment liabilities	-	-	(1,401)
Creditors	-	-	(9,221)
	(2,046)	**-**	**(10,622)**
Net assets of the Fund	**2,612,864**	**62,247**	**(10,622)**

31 March 2014	Designated as fair value through profit and loss £000	Receivables £000	Financial liabilities at amortised cost £000
Financial assets			
Equities	1,044,995	-	-
Fixed interest	418,340	-	-
Pooled equities	351,039	-	-
Pooled fixed interest	264,565	-	-
Private equity	83,908	-	-
Pooled property and infrastructure	89,123	-	-
AVC investments	7,938	-	-
Derivatives	479	-	-
Cash deposits and instruments	-	49,327	-
Other investment assets	-	15,269	-
Debtors	-	10,845	-
	2,260,387	**75,441**	
Financial liabilities			
Derivative contracts	(393)	-	-
Other investment liabilities	-	-	(10,605)
Creditors	-	-	(10,854)
	(393)	**-**	**(21,459)**
Net assets of the Fund	**2,259,994**	**75,441**	**(21,459)**

Net gains and losses on financial instruments

	2015 £000	2014 £000
Financial assets		
Fair value through profit and loss	315,789	137,574
Financial liabilities		
Fair value through profit and loss	(1,679)	-
Total change in market value	**309,893**	**137,574**

Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values:

	2015		2014	
	Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
Financial assets				
Fair value through profit and loss	2,614,910	2,614,910	2,260,387	2,260,387
Receivables	62,247	62,247	75,441	75,441
Financial liabilities				
Fair value through profit and loss	(2,046)	(2,046)	(393)	(393)
Financial liabilities at amortised cost	(10,622)	(10,622)	(21,459)	(21,459)
Net assets of the Fund	**2,664,489**	**2,664,489**	**2,313,976**	**2,313,976**

The EAPF has not entered into any financial guarantees that are required to be accounted for as financial instruments

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 2015	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	2,510,281	23,993	80,636	2,614,910
Receivables	62,247	-	-	62,247
Total financial assets	**2,572,528**	**23,993**	**80,636**	**2,677,157**
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	**2,561,906**	**23,993**	**78,590**	**2,664,489**

Values at 31 March 2014	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	2,147,271	28,729	84,387	2,260,387
Receivables	75,441	-	-	75,441
Total financial assets	**2,222,712**	**28,729**	**84,387**	**2,335,828**
Financial liabilities				
Financial liabilities at fair value through profit and loss	-	-	(393)	(393)
Financial liabilities at amortised cost	(21,459)	-	-	(21,459)
Total financial liabilities	**(21,459)**	**-**	**(393)**	**(21,852)**
Net assets of the Fund	**2,201,253**	**28,729**	**83,994**	**2,313,976**

17. 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 pension 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 2014-15 reporting period.

	Potential change in value from market risk	
Asset Class	**31 March 2015 £000**	**31 March 2014 £000**
UK equities	**67,532**	64,826
Global equities (ex UK)	**244,507**	195,005
Private equity	**23,034**	23,625
Property	**20,381**	13,248
Global corporate bonds	**48,986**	36,221
UK index linked gilts	**22,182**	17,088
Other	**1,119**	-
Cash	**261**	333
(Less impact of diversification)	**(100,330)**	(75,366)
Total Fund volatility	**327,672**	274,980

Asset Class	**1 Year expected volatility %**	**% of Fund**
UK equities	17.0	14.9
Global equities (ex UK)	20.1	45.7
Private equity	28.6	3.0
Property	14.7	5.2
Global corporate bonds	9.5	19.3
UK index linked gilts	8.6	9.7
Other	7.0	0.6
Cash	0.6	1.6
Total Fund volatility	**12.3**	**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 2015	**31 March 2014**
Total net investment assets (£000)	**2,664,411**	2,310,755
Percentage change (%)	**12.3**	11.9
Value on increase (£000)	**2,992,134**	2,585,735
Value on decrease (£000)	**2,336,688**	2,035,775

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 2015	Interest rate sensitivity duration 2015	As at 31 March 2014	Interest rate sensitivity duration 2014
UK Index Linked Gilts	**257,932**	**28.5**	204,825	27.6
Pooled Sterling Bonds Indexed	**98,515**	**8.0**	89,985	7.8
Sterling Bonds Actively Managed	**417,132**	**8.0**	388,095	7.8
Total	**773,579**		**682,905**	

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 2015	Possible change in the net assets available to pay benefits	
	£000	+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**

	Carrying amount as at 31 March 2014	Possible change in the net assets available to pay benefits	
	£000	+1%	-1%
		£000	£000
UK Index linked Gilts	204,825	(56,532)	56,532
Pooled Sterling bonds indexed	89,985	(7,019)	7,019
Sterling bonds actively managed	388,095	(30,271)	30,271
Total	**682,905**	**(93,822)**	**93,822**

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 Pension Committee decided to end the Funds 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 2015 and as at the previous period end:

Currency exposure – asset type	Asset value as at 31 March 2015	Asset value as at 31 March 2014
	£000	£000
Overseas quoted securities	**733,597**	684,191
Overseas pooled equities	**482,855**	320,307
Overseas unquoted private equity	**68,362**	75,616
Total overseas assets	**1,284,814**	**1,080,114**

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 13% (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 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 value/change in assets available	**1,284,814**	**167,026**	**(167,026)**

Currency exposure – asset type	Asset value as at 31 March 2014	Possible change to net assets available to pay benefits	
	£000	+13% £000	-13% £000
Overseas quoted securities	684,191	88,945	(88,945)
Overseas pooled equities	320,307	41,640	(41,640)
Overseas unquoted private equity	75,616	9,830	(9,830)
Total change in assets available	**1,080,114**	**140,415**	**(140,415)**

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 2015 was £47 million (31 March 2014 was £49 million). This was held with the following institutions:

Summary	Rating by Moody's	Balances as at 31 March 2015 £000	Balances as at 31 March 2014 £000
Money market funds: Northern Trust	Aaa	**43,580**	46,097
Bank current accounts: National Westminster Bank plc	A2	**3,012**	3,230
Total		**46,592**	**49,327**

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 2015, the value of potentially illiquid assets was £219.2m, which represented 8.2% of the total Fund assets (2014: £173.0m, which represented 7.5% 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 2015 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.

18. 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 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 and March 2015.

Employer name	Minimum contributions for the year ending:					
	31 March 2015		31 March 2016		31 March 2017	
	% pay	£000	% pay	£000	% pay	£000
EA	13.0%	nil	14.0%	nil	14.0%	£14m
NRW	20.2%	nil	21.2%	nil	21.2%	£1.5m
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 6 May 2015.

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-fee lump sum up to HMRC limits.

19. 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 18). 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 £3,461m (2014: £2,816m). 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 2015 % p.a.	31 March 2014 % p.a.
Inflation/Pensions Increase Rate	2.10%	2.50%
Salary Increase Rate	3.50%	3.80%
Discount Rate	3.20%	4.30%

Demographic assumptions

The demographic assumptions (including longevity) used to determine the actuarial present value of promised retirement benefits as at 31 March 2015 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 2015 as an increase to the actuarial present value of £515m.

20. Current assets

	2015 £000	2014 £000
Debtors		
Contributions due – employers	4,282	8,491
Contributions due – employees	1,795	2,180
VAT to be reimbursed to the Fund	165	162
Cash in transit	27	-
Overpaid pensions on death to be refunded to the Fund	14	9
Sundry – amount due from Closed Fund/Bank interest	4	3
	6,287	**10,845**
Cash at bank	**3,012**	**3,230**
Total	**9,299**	**14,075**

Analysis of debtors

	2015 £000	2014 £000
Government Agencies – Environment Agency	5,299	10,341
Admitted Bodies – NRW and SSCL	780	331
Central government bodies – HMRC	165	162
Other entities and individuals	43	11
Total	**6,287**	**10,845**

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

- Employers' and employees' contributions of £3,302,000 (2014: £4,157,000) and £1,784,000 (2014: £2,180,000) respectively outstanding in the normal course of collection at the year end and subsequently paid over within the statutory time limit.
- £210,000 (2014: £4,252,000) for special contributions due in respect of augmentations to members' Benefits.
- £2,000 (2014: £1,000) is due from the Environment Agency Closed Fund in respect of member and administration expenses.

21. Current liabilities

	2015 £000	2014 £000
Creditors		
Administration and investment expenses	(6,993)	(5,634)
Benefits payable	(1,513)	(4,585)
PAYE	(711)	(635)
Tax payable on refunds	(4)	-
Total	**(9,221)**	**(10,854)**

Analysis of creditors

	2015 £000	2014 £000
Other entities and individuals – Benefits and admin fees	(8,463)	(10,178)
Central Government bodies – HMRC	(715)	(635)
Independent Parliamentary Bodies – NAO fees	(43)	(41)
Government Agencies – Environment Agency	-	-
Total	**(9,221)**	**(10,854)**

22. Additional Voluntary Contributions

The aggregate amounts of AVC investments as at 31 March are as follows:

	2015 £000	2014 £000
Prudential		
Unit-linked funds	455	239
With-profit funds	436	243
Deposit accounts	415	506
	1,306	**988**
Standard Life		
Unit-linked funds	3,554	3,454
	3,554	**3,454**

Clerical Medical		
Unit-linked funds	1,783	1,689
With-profit funds	616	669
	2,399	**2,358**
The Equitable Life Assurance Society		
Unit-linked funds	661	696
With-profit funds	324	333
Deposit accounts	107	109
	1,092	**1,138**
Total AVC investments	**8,351**	**7,938**

The Environment Agency Pension Fund holds assets with Standard Life, Clerical Medical, The Equitable Life Assurance Society and Prudential. These are unit-linked, with-profits and deposit accounts and secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement receive an annual statement made up to 31 March 2015 confirming amounts held in their account and movements in the year.

23. Related party transactions

During the year ended 31 March 2015 there have been the following related party transactions:

- Pensions administration costs of £426k (2014: £439k) recharged to the Active Fund by the Environment Agency.
- Ten members of the Pensions Committee are contributing members of the Active Fund.
- One member of the Committee is in receipt of a retirement pension payable from the Active Fund.
- None of the Committee has deferred benefits in the Active Fund.
- Payment of unfunded liabilities of £426k (2014: £366k) recharged to the Environment Agency and funded by grant-in-aid from Defra in respect of compensatory added years.
- During the year, special contributions totalling £6,092 (2014: £nil) were not paid over to the Active Fund in line with statutory timescales. As at the year end, no special contributions were outstanding.

24. Contingent liabilities and assets

In accordance with authorised investment strategy and mandates, the outstanding investment commitments at 31 March 2015 are, Private equity £43.0m (2014: £20.9m) and Property and infrastructure £86.2m (2014: £150.3). There are no contingent assets as at 31 March 2015 (2014: £nil).

25. Impairment losses

For the year to 31 March 2015 the Fund has recognised an impairment loss of less than £0.1m (2014: less than £0.1m) for the non-recovery of pensioner death overpayments.

26. IAS 10: Authorisation for issue

The Environment Agency Active Pension Fund annual report and financial statements are laid before the Houses of Parliament by Defra. IAS10 requires the Environment Agency Active Pension Fund to disclose the date on which the annual report and financial statements are authorised for issue. The authorised date for issue is 1 July 2015.

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 becomes, 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 7.5% 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 EAPF 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 been increased by 1.2% which reflects the Consumer Price Index increase in inflation, from 1 April 2015.

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 has two participating employers – the Environment Agency (EA) and, from 1 April 2013, Natural Resources Wales (NRW).

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 that full time equivalent pay).
• 50/50 option – 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.
- Manage the valuation process in consultation with the Fund's actuary.
- Prepare and maintain an FSS and a SIP, both after due consultation with interested parties.
- 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 modeling 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 2014 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% pa (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% pa 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% per annum.

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).

The assumptions are described in the Actuary's report on the valuation.

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 modeling 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 modeling 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 up-front capital payment or over a suitable spreading period, which should be no longer than that applied to the Environment Agency, as agreed with the paying body.
- Any deficit that the new body inherits at commencement (e.g. as a result of a “share of fund” transfer from another employer within or outside the Fund) would be expected to be met via an up-front capital payment from the new employer or over some suitable spreading period, which should be no longer than that applied to the Environment Agency.
- The calculation of all up-front capital payments are based on market conditions at the date that the new employer joins the Fund (i.e. the vesting or transfer date).

The extent to which these principles will apply will depend on the individual circumstances of the new employer. For example, the Fund will take into account the type of new body (e.g. admission or scheduled body), whether or not it is closed or open to new entrants, its financial covenant and the existence of any Crown guarantee. The Fund will also refer to its policy on the participation of new admission bodies and bulk transfers when agreeing its entry requirements.

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 index-linked 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 Pension 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 index-linked 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.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Analyse progress at three yearly valuations. Inter-valuation roll-forward of liabilities between formal valuations on a quarterly basis. Contribution stability overlay for long-term, open employers will reduce risk of volatile employer contributions.	High
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	High

	relative to liabilities to be locked in.	
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 monitoring will provide an early warning of the adequacy of the assumption and reserve for future longevity improvements. 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	Medium

	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.	
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.	The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself. It considers all consultation papers issued by the CLG and comments where appropriate.	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).	The Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings. 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. 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.	Medium
New employers, Arm's Length Bodies (ALBs) review and bulk transfers in or out may crystallise funding deficits.	Administering Authority will manage this by adherence to Pensions Committee's policies on the participation of new admission bodies and bulk transfers. The use of bespoke, member specific, longevity assumptions automatically allows for demographic differences that exist between the membership of different employers of the Fund. This ensures that payments out of the Fund are assessed accurately in respect of baseline longevity.	Low

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

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 £2.66bn as at 31 March 2015. 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 implemented in conjunction with the Fund's Funding Strategy Statement, Pensions Committee Governance Policy Statement, Conflicts of Interest Policy, Responsible Investment Policy and statement of compliance to the UK Stewardship Code. 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

The EAPF Governance Policy Statement sets out how the Fund is governed and the role of the Pension Committee, Pension Board and the Investment Sub Committee and Environment Agency officers with respect to investment matters. The Environment Agency Board appoints the Pensions Committee 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 advisors. The Environment Agency Board approves the annual report and accounts 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 the EAPF and to 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 safe-keeping 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 in order to inform the development of an appropriate Funding Strategy Statement. The Funding Strategy takes account of, and informs the development of, 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 advisors.
- 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 purely a 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 recognize 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 managers are expected to comply with this policy 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 this on our website.

We also comply with the UK Stewardship Code and our compliance statement is available on our website. We also require all our managers to comply with the UK Stewardship Code or comparable international standards as appropriate to their geographical location.

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 to below 80% by 2016 and subsequent actuarial valuations. 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 taken together the entire Fund is expected to out-perform the strategic benchmark for the Fund with a target of averaging, over several years, 1% outperformance per annum (or £20-£30m in cash terms), which will over the long term lead to significantly reduced contributions.

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 corporate governance and environmentally responsible investment.

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, inter alia, have regard to return potential, financial risk, liquidity, management costs and any environmental impacts. 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.

Current assets include equities (both listed and unlisted), index-linked gilts, corporate and other bonds, private debt and real assets include property, infrastructure, forestry and agriculture assets.

Asset allocation
The strategic asset allocation of the Fund is the principal way we achieve a diversity of assets of different types. It is set after considering the results of 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. In setting the asset allocation 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.

We have therefore adopted a flexible approach to asset allocation, which consists of a broad framework and process for determining specific asset allocation on a more frequent basis. The broad framework sets out acceptable ranges for specific assets classes rather than fixed amounts. These are set out in the table below. The asset allocation is subject to a range of risk control measures. The framework is intended to be fairly fixed, and to ensure asset allocation remains within acceptable limits, but can also be responsive to changes in funding levels, market conditions and other factors.

Previous %	Asset Class	Framework Range %
	Equities	**45-60**
50-63 5-12	Public Global Equities of which emerging markets	40-55 5-12
4-6	Private equity / specialist opportunities	0-6
	Diversifying Growth assets	**15-25**
9-14 3-6 0-4 0-4	Real assets property infrastructure farmland and timberland	9-14 3-6 0-4 0-4
-	Illiquid Credit / Private Debt	0-8
-	Growth Fixed Income	0-6
	Fixed income assets	**25-35**
5-20 13-28	Index-Linked gilts Corporate bonds	5-20 13-25
<3	**Cash**	<3

The asset allocation results in a significant weight being given to equities, which we consider appropriate given the long term nature of our liabilities profile and our investment objectives, but this is spread across a range of managers with different approaches and styles (see below). As our funding level permits we are also gradually reducing the allocation to equities to reduce our overall investment risks, although we expect to retain a significant equity allocation.

Allocations to certain areas (real assets; illiquid credit/private debt; private equity/specialist opportunities) are illiquid and actual investment will depend on the rate of drawdown and return once investments are identified and therefore may vary significantly from target levels. In particular, while new investments will not be made, there will be no immediate requirement to reduce exposure through forced sales should the above ranges be exceeded as a result of market movements.

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 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 fundamental value, and to mandates managed using quantitative low volatility approaches. These aim to provide improved risk/return characteristics over conventional passive approaches. We are also introducing a buy-and-maintain approach, initially in corporate bonds, which has a passive approach to investing but does not seek to follow a benchmark index, 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, property/real assets, and private equity. The decision to appoint active managers is only made after careful consideration of the likely costs, the likelihood that the manager will be able to add value after fees, the impact on risk, and the ability of the manager to implement the responsible investment strategy. Once appointed, managers are carefully scrutinised for value for money, and any reasonable opportunities to reduce costs will be pursued.

The LGPS (Management and Investment of Funds) Regulations 2009 impose limits on certain categories of investments which are complied with by the Fund. These limits are set in Column 1 of Schedule 1 of these Regulations. There is a provision in Section 15 for a fund to change these limits to the higher limits in Column 2 of Schedule 1, if certain conditions are met. We have considered the increased amount of risk associated with (moving from?) Column 1 and 2 and do not believe that it is material and so decided to adopt Column 2.

	Column 1 (from)	Column 2 (to)
All contributions to any single partnership	2%	5%
All contributions to partnerships	5%	30%
Any single insurance contract	25%	35%

In order to meet the LGPS requirements our holdings in passive pooled funds are divided between two insurance contracts, each operating to a limit to the upper limit (35%) defined in Column 2 Schedule 1 and for this to apply for the duration of the Fund holding this insurance product.

Risk

We take the management of risk in our investments very seriously. We maintain a detailed risk register of all the investment-related risks that could affect the fund, which monitors their severity and the implementation of mitigating actions.

To achieve the required returns the Fund needs to invest in assets involving a degree of risk and so although we seek to manage our investment risk we cannot eliminate it. The most fundamental risk is that the Fund's assets produce lower long-term returns than those assumed by the Fund's actuary, leading to a significant deterioration in the Fund's funding position.

This risk of deteriorating Fund asset values cannot be entirely avoided (for instance if all major investment markets were to decline in unison) but it can be mitigated by ensuring that the assets of the Fund are invested across a number of different asset classes and markets. Diversifying assets across different asset classes is widely recognised as being an effective way of mitigating the risk of reductions in the value of the Fund's assets.

Different types of investment have different risk characteristics and return potential. For example, historically the returns from equities have been higher than from bonds but they are more risky, particularly short term. In setting the investment strategy we consider the expected risks and returns from various asset classes and the correlation between these returns to develop a strategy with an adequate expected return with an acceptable level of risk. Detailed modelling analyses the expected results of different strategies (in terms of funding levels and contributions) over a range of possible long term market outcomes to determine the preferred strategy. This strategy is then reflected in the Fund’s strategic benchmark.

A separate investment risk is the risk of underperforming the Fund's strategic benchmark. This relative risk is less significant than the strategic risk above, but we still seek to manage it. It can arise either because asset allocation has deviated from the strategic benchmark allocation or because our fund managers are underperforming. We monitor the actual asset allocation continually and take action if required. Individual managers may, particularly over the short term (a year or less), underperform their benchmark but over the long term we expect them to add value. For the Fund as a whole, the range of managers reduces the risk of significant underperformance.

The Fund 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 UK Stewardship Code or similar applicable standards for overseas managers.

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**

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. Further details and evidence are contained with the documents referenced in our Annual Report and Financial Statements and on our internet site: **www.eapf.org.uk**

Myners principle	**Evidence of compliance and justification for non-compliance**
Principle 1: Effective decision-making	
Administering authorities should ensure that: • Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation. • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and	Our Fund fully follows this principle. • Our Financial Memorandum, the Pensions Committee Terms of Reference, Standing Orders and Pension Funds Scheme of Delegation, clearly set out the governance structure and levels of responsibility of the Committee, Sub-Groups, officers and external suppliers. Our statutory Governance Compliance Statement provides further detail. • The Pensions Committee retains overall responsibilities for Fund and investment strategy. • The Pension Committee appoints a number of professional external advisers for investment, legal

manage conflicts of interest.	advice, actuarial services and fund management. These are detailed in our Annual Report and Financial Statements. A report on their performance is presented to the Pensions Committee and the Board annually. • The Pensions Committee skills and knowledge is vital to the robust governance of the scheme. Training needs are reviewed regularly and are linked to our risk management framework. Training records are disclosed in the Annual Report and Accounts. • Conflicts of interest are identified and records maintained and form part of an annual audit. A record of meeting attendance and training is published in our Annual Report and Financial Statements. • Managers are appointed to invest funds following a comprehensive due diligence process and with input from independent investment advisers.
Principle 2: Clear objectives	
An overall investment objective(s) should be set for the Fund taking account of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.	Our Fund fully follows this principle. • In setting the investment objective(s), the Pensions Committee, as the Administering Authority, addresses 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 is informed by actuarial and investment advice and the use of asset-liability modelling techniques to model the range of potential future funding levels and the impact on future contribution rates with reference to the Funding Strategy Statement and Statement of Investment Principles, detailed above.
Principle 3: Risk and liabilities	
In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	Our Fund fully follows this principle. • In setting the investment strategy, the Pensions Committee, as the Administering Authority, is informed by actuarial and investment advice and asset-liability modelling with inter- valuation monitoring, providing an early warning to the Committee. A summary of the assumptions is detailed in the statement of the Consulting Actuary and risks in the Funding Strategy Statement.
Principle 4: Performance assessment	
Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	Our Fund fully follows this principle. • The Environment Agency has delegated responsibility and accountability for overseeing the Fund to the Pensions Committee. • The Pensions Committee meets 4 times a year and has set up an Investment Sub Group which also meets at least 4 times a year to monitor investment performance and developments. • These bodies and officers monitor investment performance relative to benchmarks and the

	change in the value of liabilities by means of quarterly inter-valuation monitoring reports. • The Pension Committee reviews its effectiveness at each meeting and periodically the outcomes are reported to the Board of the Environment Agency.
Principle 5: Responsible ownership	
Administering authorities should: • Adopt, or ensure their investment manager adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. • Include a statement of their policy on responsible ownership in the statement of investment principle.	Our Fund fully follows this principle. • We have published a statement of compliance with the UK Stewardship Code which, in respect of investments in the United Kingdom, requires managers to have due regard to the UK Corporate Governance Code and, in respect of overseas investments, have due regard to relevant recognised standards. Failure to do so could be a breach of the Investment Management Agreement. • In addition to including responsible ownership in our Statement of Investment Principles above, we have separate published policies covering Responsible Investment and our compliance statement to the UK Stewardship Code. We are a signatory of the UNPRI.
Principle 6: Transparency and reporting	
Administering authorities should: • Act in a transparent manner; communicate with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. • Provide regular communications to scheme members in the form they consider most appropriate.	Our Fund fully follows this principle. • Our Annual Report and Financial Statements detail all the material issues relating to the Fund, its investments and administration. It is publicly available and can be provided in hard copy on request. • A spotlight report for members, providing details about the Fund are available on our website. • Our Communications Policy Statement details the stakeholders we have identified. It also details the communication channels and delivery targets for member communications.

Approved by the Pensions Committee on 16 June 2015.

Annex 4 – 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 recognizing 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:**
Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities. UK principle 1 Japan principle 1 Malaysian 1 CRISA 5 EFAMA 1 Italy 1	Our Stewardship responsibilities extend over all the assets held by the Fund. 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**. All new Investment Management Agreements (IMAs) include requirements to observe the FRC's UK Corporate Governance Code and UK Stewardship Code. We do not undertake any stock lending.	Our website provides comprehensive information on our policy commitments and evidence of implementation of our stewardship responsibilities. We have a dedicated area of the website on our **Stewardship** activities which is updated regularly. Roles and responsibilities with respect to the discharge of Stewardship activities are set out in our **Responsible Investment Policy.**
Conflict of Interest	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed. UK principle 2 Japan principle 2 Malaysian 4 CRISA 4	We have a comprehensive Conflicts of Interest Policy. Our policy is part of our overarching **Governance Policy.** A public register of Pension Committee members' declaration of interests is also maintained and audited annually.	Declaration of conflict of interests is a standing agenda item at the start of all Pensions Committee and Investment Sub-Group meetings. The need to avoid conflicts of interest is also highlighted in our Investment management agreements (IMAs) and contracts with external parties.
Corporate engagement	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should monitor their investee companies. Orientation to sustainable growth. UK principle 3 Japan principle 3 Malaysian 2 CRISA 2	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. In addition to the requirement for all our managers to consider how environmental, social and	Monitoring of specific investee companies is detailed in our quarterly reports and discussed at each fund manager review meeting. Each quarter we publish a

EFAMA 2 CCGG 1 Italy 2	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.	report on our website on the engagement and voting activity undertaken by **Hermes EOS.** A dedicated Responsible Investment report is presented to our quarterly Investment Group and summarised in Pensions Committee reports.
Enhancing value & integration	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value. Common understanding to solve problems. Incorporating corporate governance and sustainability considerations UK principle 4 Japan principle 4 CRISA 1 EFAMA 3 CCGG 3 Italy 3	Our **Responsible Investment Policy** and details our engagement policies. 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.	A public report on engagement activity undertaken on our behalf by Hermes EOS (external engagement provider) is available on our website. We identify engagement plans with each active equity manager on an annual basis. We analyse our own portfolio looking at ESG risks to shareholder value and work with our fund managers to address those issues in their activities.
Working with others	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should be willing to act collectively with other investors where appropriate. UK principle 5 CRISA 3 EFAMA 4 Italy 3	As investors, we own a portion of the companies we invest in. We can use our rights as owners to encourage companies to act more responsibly and improve their practices. Acting collectively with other asset owners increases the effectiveness of the engagement. We actively work with other pension funds, asset managers and other organisations to promote responsible investment. These include, but are not limited to, the UNPRI, IIGCC, NAPF and UKSIF.	All our managers work collaboratively with other parties. Collaborative engagements, research and advocacy work is detailed in our quarterly and Annual Report and Financial Statements to our Investment Group, Pensions Committee and beneficiaries.
Monitoring and engaging with regulators and policy makers CCGG 4	Our direct engagement is focused on working with regulators, other institutional investors and services providers to the financial industry.	Engagement activity with regulators includes responding to public consultations both individually and collectively through industry groups as well as support of public advocacy events.
Voting	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should have	We detail on what basis our votes are	We vote directly on

a clear policy on voting and disclosure of voting activity. The policy should be designed to contribute to sustainable growth on investee companies. UK principle 6 Japan principle 5 Malaysian 6 EFAMA 5 CCGG 2 Italy 5	cast and the guidelines we direct our managers to use in our Responsible Investment Policy. We publish specific guidelines on our Voting on Environmental Issues and publish all the votes on environmental resolutions. 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.	**environmental resolutions.** Reports on these votes are available on our website. Information on the voting undertaken on our behalf by Hermes EOS (overlay on our passive index funds) is also available on our website.
Reporting	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should report periodically on their stewardship and voting activities. This report should include voting and be shared with clients and beneficiaries. UK principle 7 Japan principle 6 EFAMA 6 CCGG 5 Italy 6	We include a comprehensive annual review of our activities in our Annual Report and Financial Statements and member communications.	Our website provides comprehensive information on our policy commitments and evidence of implementation of our stewardship responsibilities Public Engagement Reports are updated quarterly on our website. We require all our managers to provide us with annual assurance on internal controls and compliance through international standard or a UK framework such as AAF01/06.
Skills and knowledge		
To contribute positively, Institutional investors should have in-depth knowledge of the investee companies and their business environment with the skills and resources needed. Japan principle 7	We believe in being an active owner. We do this directly, through our managers or through specialist service providers. We have dedicated internal resource for Responsible Investment strategy, policy and oversight. In-depth of knowledge of investee companies is delegated to the mangers that select and monitor the companies on a day-to-day basis.	The capability and performance of each manager, in assessing environmental, social and governance factors of investee companies and their business environment, is a key component of our selection and retention criteria. Monitoring of fund manager performance is reviewed and reported regularly to Investment Sub-committee and forms part of formal annual review of each manager.

Approved by the Pensions Committee on 16 June 2015 and will be reviewed in 2016.

Annex 5 – Responsible investment strategy

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.

Our 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.
- 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), 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 our compliance statement is available on our website. We also require all our managers to comply with the UK Stewardship Code or comparable international standards as appropriate to their geographical location.

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 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.

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.

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-group 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 **UK Sustainable Investment and Finance Association (UKSIF), Institutional Investors Group on Climate Change (IIGCC)** and **Carbon Disclosure Project (CDP).**

Approved by the Pensions Committee on 16 June 2015 and will be reviewed in 2016.

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 10,685 active members, 6,923 deferred members and 5,749 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, 2,124 deferred members and 14,166 pensioners. This is the tenth Communications Policy Statement for the EAPF and is effective from 16 June 2015.

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 polices on contributions, the use of discretions etc can be found on our Fund employer's respective intranets.

Any enquiries in relation to this Communication Policy Statement should be sent to:

Head of Pension Fund Management
Horizon House
Deanery Road
Bristol
BS1 5AH

Email: **www.eapf.org.uk**
Tel: 0117 934 4600

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.

(1) The authority—
(a) Must keep the statement under review.
(b) Make such revisions as are appropriate following a material change in its policy on any of the matters mentioned in paragraph (3).
(c) If revisions are made, publish the statement as revised.

(2) The matters are—
(3) The provision of information and publicity about the Scheme to members, representatives of members and employing authorities.
(4) The format, frequency and method of distributing such information or publicity.

(5) 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 15 members made up of 4 Board members, 3 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:

- Contributing 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.
- Professional advisors and Funds' investment managers.
- EA and NRW sponsors - Defra and Welsh Government (WG).
- Our auditors - National Audit Office (NAO).
- The LGPS Scheme regulator - Department for Communities and Local Government (DCLG).
- Pensions and investment Media.
- Other stakeholders/interested parties and external bodies.

How we communicate

General communication

2014-15 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 is 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 out to 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 for travel and time out of the office, and enables us to deliver more sessions based on demand, and offer more choice. The Pension Committee supports the use of webinars going forward.

Our Communications strategy

With the completion of the first phase of our new look **www.eapf.org.uk** , we are now in a position to encourage our members to service their pension needs online. We are working to continually enhance our online proposition, and progress will follow a "digital engagement" plan. This will provide targeted communications to segmented audiences.

This plan is also intended to increase the number of registered users on EAPF Online, to better enable members to understand their benefits, and to encourage more users to go paper free, and receive communications from the Fund digitally.

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 contributing, 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 July each year
Telephone calls	All	Not applicable	90% within 15 seconds
Issue of retirement benefits (at Normal retirement date)	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 and 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 and Pension Board.

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 2015 and reviewed annually.

Enquiries

Any enquiries regarding this Report should be addressed to:

Head of Pension Fund Management
Environment Agency
Horizon House
Deanery Road
BRISTOL
BS1 5AH

Tel: 0117 934 4600
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
2 Cutlers Gate
SHEFFIELD
S4 7TL

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

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