Environment Agency
Pension Fund

Active Pension Fund

Annual Report and Financial Statements for the year ended 31 March 2019

Environment Agency Active Pension Fund

Annual Report and Financial Statements 2018/19

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Contents

Chair's statement

As Chair 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') for the year ended 31 March 2019.

2018/19 has been both a challenging and highly successful year for the **Environment Agency Pension Fund (EAPF)**. We are part of the Local Government Pension Scheme (LGPS) and have around **£4 billion of assets** and **over 39,200 members** across both our Active and Closed Pension Funds, providing pension benefits for employees and former employees of the Environment Agency, Natural Resources Wales and Shared Services Connected Limited.

We continue to operate in a period of rapid change. Whether social, political, technological or climatic, which impact everyone, to those more specific to us as a Fund, including organisational restructuring and the requirement to pool our assets, change has been all around us. All bring opportunities and risks, and demonstrate the need for a robust approach to responsible investment and strong governance.

Our Investment Strategy, designed to both robustly manage risks and take positive opportunities, has **delivered 9.7% average annual investment returns over the last 5 years**. Our successful financial performance is supported by our deep commitment to investing responsibly and we believe it is paramount in our ability to deliver sustainable, long term returns. We had **a funding ratio of 103% at March 2019**, which remains amongst the best in the LGPS. Our **employer contribution rates are also amongst the lowest**, with our employers remaining committed to ensuring the Fund maintains its excellent position going forward. This means we can minimise the financial requirements of our employers so as not to divert valuable resources from front line work, whilst providing secure funding for our members. We expect the results from our March 2019 valuation to be available during the autumn and anticipate remaining in a very good position.

Improving the Fund's already strong financial performance remains paramount for us as a Pensions Committee. I am therefore delighted to report that our investments have once again delivered excellent performance. During 2018/19, we achieved an **investment return of 8.0%**, outperforming our strategic benchmark by 1.1%**. Our positive returns of £303 million increased the net Active Fund assets to £3.7 billion** following strong global equity market returns on the back of broader global economic expansion. This performance is excellent particularly in light of increased market volatility over the last quarter to March 2019.

Responsible Investment remains at the core of our fund and it is more pressing than ever as we face a climate emergency. Evidence over the last year from the Intergovernmental Panel on Climate Change (IPCC) shows that we have 12 years to limit global temperature rise to 1.5 °C above pre industrial levels. Through our **Policy to Address the Impacts of Climate Change,** we demonstrate to our members we have a credible plan to deliver strong long term financial returns as the impacts of climate change materialise. We believe financial risk and opportunities will come from both these impacts, regulation and policy, alongside increased competition from alternatives and technological innovation.

In 2015 we set ourselves the target to maintain at least 25% of our investments in clean technology and other sustainable opportunities across all asset classes. As at 31 December 2018, 39% of our investments were in clean technology and other sustainable opportunities, representing a value of £1.35bn. We also continue to make excellent progress against our climate change related goals, with 11% of the Fund now invested in low carbon, energy efficient and other climate mitigation opportunities. In 2018, we received the highest rating of **A+ from the United Nations supported Principles for Responsible Investment (PRI)** for our strategy and the governance of our approach to responsible investment.

By **integrating climate change into our risk management process**, using carbon footprinting, assessing fossil fuel exposure and challenging managers on physical risks, we seek to reduce unrewarded climate and carbon risk. Collaboration is core to how we deliver our approach, well evidenced through the Climate Action 100+ successful engagement with Shell PLC.

This year, we agreed as a Committee to directly engage on our members' behalf with those companies where our assets are invested, to better understand their approach to managing the physical risks of climate change. We're **attending selected company Annual General Meetings (AGMs)** to ask questions of Boards regarding their climate change performance and future actions.

We have continued to be active in our support for the work of the Task Force on Climate-related Financial Disclosure (TCFD) and we report in line with the TCFD recommendations. Following our launch as co-founders of the **Transition Pathway Initiative (TPI)** in 2016, we are delighted to see how important a framework it has become for asset owners to assess how companies are transitioning to a low-carbon economy. We only see this increasing in the future.

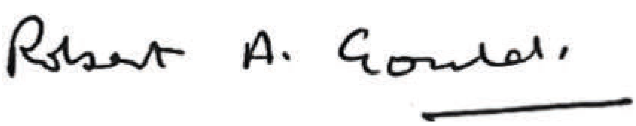
Being **open and transparent** about the Fund, its benefits and how we invest is a core principle. Our Board and member representatives actively engage with our members and other stakeholders to ensure the Fund is aware and can respond effectively to all member and stakeholder concerns. We also actively use our website, newsletters and member webinars to engage directly. We embed providing an excellent service to our members and employers in our day to day work in line with our accreditation to **Customer Service Excellence (CSE)** and this work supports us achieving a **96% employee participation rate**, with our employees rating their pension very highly in staff surveys. We are pleased with the member feedback following our website and member portal refresh.

Our biggest area of focus as a Committee over the year has been to implement the Government's requirement to pool the management and investment of our Fund assets with other LGPS Funds. Following our establishment of the **Brunel Pension Partnership (Brunel) Limited** in July 2017 with 9 other partner funds, we have started to transition assets into the Brunel portfolios, including our low carbon passive equities and our low volatility mandates. We are seeing a reduction in investment management fees within these portfolios. We have agreed a transition plan across our partner Funds and Brunel, which will see other assets transition over the next 2 years. Importantly, the assets remain our, EAPF, assets and we retain responsibility for setting our detailed EAPF Strategic Asset Allocation.

In all the complex decisions we take as a Pensions Committee, we recognise our legal duty to act in the best interests of our members. Our top priority is **to ensure that the pensions of our past, present and future members are secure and well managed**.

Brunel transition, oversight and partnership working will continue to be a big focus for the Committee during 2019/20. Whilst not without its challenges, we see the creation of Brunel as an **opportunity to innovate, demonstrate and promote responsible investment leadership**, not just across the LGPS but on a wider scale. We will continue to work closely with our partners in Brunel and the wider investment community to support the development of responsible investment.

Finally, I would like to take this opportunity to thank both my predecessor, Joanne Segars, for chairing the Pensions Committee so successfully and the Committee itself for its hard work and diligence. On behalf of the Committee, I also thank everyone involved, including our pension fund management team, employers and external contractors for helping the Committee manage the Active Pension Fund. We will continue to keep you updated on our work through www.eapf.org.uk.



Robert Gould
Chair, Environment Agency Pensions Committee
17 July 2019

About the Environment Agency Pension Fund (EAPF)

EAPF background

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

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

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

LGPS regulations

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

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

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

The LGPS benefits are primarily governed by Local Government Pension Scheme Regulations 2013 (SI 2013/2356) and Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (SI 2014/525). The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force on 1 November 2016. These are all subject to amendment over time.

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

LGPS responsibilities

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

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

The Fund Actuary sets each employer's contribution rate as part of the actuarial valuation of the Fund's assets and liabilities every three years. The next triennial valuation is due as at 31 March 2019.

Changes to the Local Government Regulations during 2018/19

There were two amending regulations laid during 2018/19 by Ministry for Housing, Communities and Local Government (MHCLG) that made changes to the Local Government Pension Regulations 2013:

- The Local Government Pension Scheme (Amendment) Regulations 2018 (SI 2018 /493)
- The Local Government Pension Scheme (Miscellaneous Amendment) Regulations 2018 (SI2018/1366)

The key changes from these regulations included:

- The option for deferred members who left prior to 1 April 2014 to take payment of their deferred benefits from age 55 without the consent of their former employer.

- Extending the statutory underpin to members of other public service pension schemes who transferred into the LGPS.

- Aligning the terms and conditions of AVC contracts that were taken out before or after 1 April 2014 including changes to contribution limits, ability to defer payment and other minor clarifications.

- Giving the Secretary of State the general power to issue statutory guidance on the administration and management of the LGPS. This change enables MHCLG to provide statutory guidance in areas other than where the regulations specifically provide for it. Before preparing new guidance or revising existing guidance, MHCLG must consult with persons they consider to be appropriate.

- Equalising the pension payable to survivors of same sex marriages and civil partnerships with the pension payable to the widow of an opposite sex marriage.

- Admission agreements including ability to backdate an agreement prior to its completion.

- The requirement to pay an exit credit to Scheme employers leaving the scheme. An exit credit is the amount the administering authority is required to pay an exiting employer to meet the excess of assets in the fund relating to that employer over the liabilities.

Pensions Act 2014 and the State Pension

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

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

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

Other significant legislative changes affecting LGPS during 2018/19

The "McCloud case" and suspension of the LGPS Cost Management process

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

Following this judgment, on 30 January 2019 the Government published a written statement that paused the Her Majesty's Treasury (HMT) cost management process for public service pension schemes, pending the outcome of the Governments application to appeal the McCloud case to the Supreme Court. On 8 February 2019, LGPS England & Wales Scheme Advisory Board confirmed it had no option but to pause its own cost management process pending the outcome of McCloud.

The cost management process is designed to ensure that the cost for providing public sector workers with a pension remain within prescribed limits for both the members of those schemes and tax payers. The initial results of the LGPS cost management process pointed towards a small package of benefit improvements for members which should have come into effect from 1 April 2019. These changes remain on hold until the final outcome of the McCloud case.

As part of the Fund actuary's annual valuation of the pension fund liabilities on an International Accounting Standard 19 (IAS19) basis, we have included a potential funding impact in our IAS19 disclosure this year for implications of the McCloud case. More detail on this can be found under Note 19: Actuarial present value of promised retirement benefits on page 99. Given, the uncertainly around the actual implications, we have also included salary sensitivity analysis. We have not included any allowance for the cost management process at this point.

On 27 June 2019, the Supreme Court refused the Government permission to appeal the McCloud case in respect of age discrimination and pension protection. At present, we do not have clarity on how any potential issues in the LGPS may be resolved and we will await further details to confirm the next steps in the process. We will continue to keep members informed through newsletters and www.eapf.org.uk.

Pensions increase

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

Our pensions in payment and deferred pensions received an increase from 8 April 2019 of 2.4% (9 April 2018: 3.0%).

The following table shows the rate of increases that have applied to pensions in payment and deferred pensions since 2010:

April	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
% increase	0.0	3.1	5.2	2.2	2.7	1.2	0.0	1.0	3.0	2.4

Pension Fund membership

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

The 12 months ended 31 March 2019 has seen a 2.9% increase in the Fund's active members (2018: decrease of 5.2%). Deferred membership has risen by less than 0.1% (2018: increase of 15.3%) and there has been a 3.9% increase in pensioners (2018: increase of 4.0%).

The large increase in deferred members in 2017/18 was due to the transfer of over 950 members to Defra as part of the Corporate Services transformation. During 2019/20, we will be transferring 438 deferred members from EAPF into the Civil Service Pension Scheme as part of the Corporate Services pension bulk transfer option. These members have chosen to transfer their EAPF deferred pensions into the Civil Service Pension Scheme.

Movement in number of members and pensioners

	Active members	Deferred members	Current pensioners	Total
As at 1 April 2018	**10,624**	**8,460**	**6,678**	**25,762**
Adjustment for late notifications	(22)	(60)	34	(48)
Revised opening balance	**10,602**	**8,400**	**6,712**	**25,714**
Add:				
New active members	970			970
New deferred members		317		317
New pensioners - retirement			313	313
New pensioners - dependent			76	76
	970	**317**	**389**	**1,676**
Less:				
Deferred benefits	(317)			(317)
New retirement pensions	(161)	(151)		(312)
Deaths in service	(5)			(5)
Refunds of contributions	(66)			(66)
Options pending	(74)			(74)
Transfers out - individual	(17)	(99)		(116)
Deaths in deferment		(4)		(4)
Commutation of pension			(6)	(6)
Death in retirement			(142)	(142)
Suspended/Ineligible pensions			(13)	(13)
	(640)	**(254)**	**(161)**	**(1,055)**
As at 31 March 2019	**10,932**	**8,463**	**6,940**	**26,335**

Age profiles of members and pensioners

Age profile of active members as at 31 March	2019		2018	
	No.	%	No.	%
15-19	8	0.1	7	0.1
20-24	316	2.9	307	2.9
25-29	849	7.8	803	7.5
30-34	1,232	11.3	1,284	12.1
35-39	1,682	15.4	1,737	16.3
40-44	1,752	16.0	1,664	15.7
45-49	1,631	14.9	1,615	15.2
50-54	1,664	15.2	1,565	14.7
55-59	1,167	10.7	1,062	10.0
60-64	535	4.8	496	4.7
65-69	88	0.8	75	0.7
70-74	8	0.1	9	0.1
Total	**10,932**	**100.0**	**10,624**	**100.0**

Age profile of deferred members as at 31 March	2019		2018	
	No.	%	No.	%
20-24	22	0.2	23	0.3
25-29	204	2.4	248	2.9
30-34	721	8.5	830	9.8
35-39	1,420	16.7	1,480	17.5
40-44	1,594	18.8	1,529	18.1
45-49	1,544	18.2	1,565	18.4
50-54	1,595	18.8	1,562	18.4
55-59	1,082	12.8	962	11.3
60-64	244	2.9	232	2.7
65-69	33	0.4	26	0.3
70-74	3	0.1	1	0.1
75-79	1	0.1	1	0.1
Total	**8,463**	**100.0**	**8,460**	**100.0**

Age profile of current pensioners at 31 March	2019		2018	
	No.	%	No.	%
Child dependants	70	1.0	67	1.0
Pensioners and spouses				
Under 50	46	0.7	47	0.7
50-54	62	0.9	69	1.0
55-59	260	3.7	250	3.7
60-64	1,239	17.9	1,279	19.2
65-69	1,803	25.9	1,737	26.0
70-74	1,643	23.7	1,588	23.8
75-79	999	14.4	916	13.7
80-84	572	8.2	513	7.7
85-89	205	3.0	181	2.7
90-94	41	0.6	31	0.5
Total	**6,940**	**100.0**	**6,678**	**100.0**
Total membership	**26,335**		**25,762**	

Summary of active member retirements

	2019	2018
Ill Health Retirements (all ages) Tier 1	9	15
Ill Health Retirements (all ages) Tier 2	3	2
Ill Health Retirements (all ages) Tier 3	0	2
Early Retirements - efficiency/redundancy over age 55	9	41
Early Retirements - with employer consent	18	0
Flexible retirements - over age 55	34	35
Early Retirements - age 60 and under age 65	48	93
Normal Retirements - age 65	25	12
Late Retirements - over age 65	15	39
Total retirements	**161**	**239**

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

Pension Fund governance

Introduction

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

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

Objectives

Our main governance objectives are to:

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

Regulatory background

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

Our Governance Structure

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

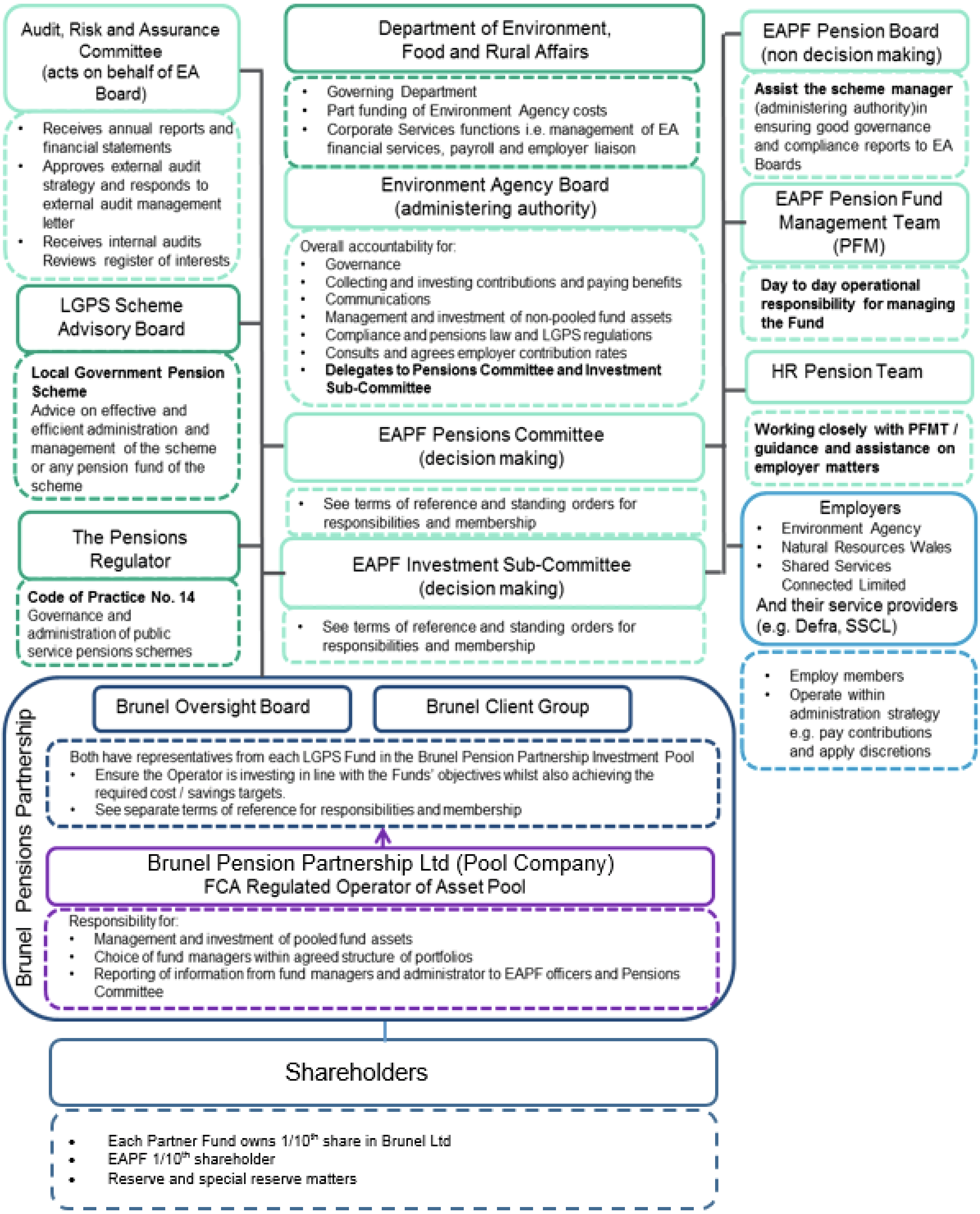
The former Water Authorities Superannuation Fund was divided in three ways: company schemes for employees transferring to the new water companies; the Active Fund for employees joining the then National Rivers Authority (the predecessor to the Environment Agency); and the Closed Fund for deferred and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

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

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

EAPF Pensions Committee and summary governance structure

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



Key Governance Documents

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

Title	Description
The Environment Agency's Framework Document	This is issued to the Environment Agency by Defra and sets out the Environment Agency's responsibilities with respect to pensions.
The Pensions Committee, Investment Sub-Committee and Pension Board Terms of Reference and Standing Orders	As defined by the Environment Agency Board, this details the delegated responsibilities of the PC, ISC and Pension Board as well as detailing the membership and meeting procedures such as frequency, quorum and reporting.
Committee and Board Operational Guidance	Approved by the Pensions Committee, this provides more information relating to how the PC and Pension Board will operate and items of business they may wish to consider.
Statement of delegation	The Environment Agency's Scheme of Delegation is approved by the Environment Agency Board. This prescribes the scope of the delegation of powers beyond those included in the PC, ISC and Pension Board Terms of Reference. In particular it details specific delegations to officers and the third party administrators relating to the management of the Scheme. The statement of delegation details the pension extract from the Environment Agency's Non-Financial and Financial Scheme of Delegation; day to day management by Pension Fund Management team; and employing authorities' responsibilities and discretions.
Governance Compliance Statement	Approved by the Pensions Committee, this is required by regulation 55 of the Local Government Pension Scheme Regulations 2013. It states how the EAPF complies with Secretary of State guidance. A copy of this can be found on page 30.
Training Policy	Approved by the Pensions Committee, this outlines the EAPF's approach to ensuring all key decision makers have the appropriate knowledge and skills.
Conflicts of Interest Policy	Approved by the Pensions Committee, this outlines how potential and actual conflicts of interest will be managed in relation to EAPF matters.

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

Monitoring governance of the EAPF

The Fund's governance objectives are monitored as follows:

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

EAPF Governance

Pensions Committee, Investment Sub Committee and Pension Board membership

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

- 4 Non-executive Board members of the Environment Agency, one of whom will be the Chair.
- 2 Executive members of the Environment Agency.
- 1 Non-Environment Agency Employer Representative member.
- 5 Active Scheme Member Representatives.
- 2 Pensioners or 1 Pensioner and 1 Deferred Member Representatives.

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

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

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

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

During the year, we had two changes in our Environment Agency Board appointed members. Karen Burrow's tenure on the Environment Agency Board ended on 31 July 2018 and she was replaced by Robert Gould on the Pensions Committee and Pension Board. Joanne Segars resigned from the Environment Agency Board in November 2018 and was replaced on the Pensions Committee and Pension Board by Caroline Mason. Robert Gould replaced Joanne Segars as Pension Committee and Pension Board Chair and as a member of the Investment Sub Committee.

We had one change to our Executive member nominees during the year. Ian Randall resigned on 31 October 2017 and was formally replaced by Phil Lodge from 16 May 2018. Phil Lodge was also appointed on to the Investment Sub Committee.

There was one change to our Active Member Representative nominees during the year. Marion Maloney resigned from the Pensions Committee on 4 November 2018. Following an open interview process, Veronica James was appointed Active Member Representative in May 2019 and Greg Black was appointed Shadow Active Member Representative.

Will Lidbetter replaced Marion Maloney as an Active Member Representative on the Investment Sub Committee.

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

As at 31 March 2019	Membership	Date of appointment	Length of service	End of current appointment	Residual period of current appointment
Board members					
Robert Gould	PC, ISC, PB	18/10/2018	0 yr 8 mth	31/01/2021	1 yr 8 mth
Emma Howard Boyd	PC, ISC, PB	18/10/2012	6 yr 8 mth	18/09/2022	3 yr 3 mth
Maria Adebowale-Schwarte	PC, PB	01/08/2016	2 yr 10 mth	30/06/2022	3 yr 0 mth
Caroline Mason	PC , PB	03/12/2018	0 yr 6 mth	31/03/2021	1 yr 10 mth
Karen Burrows	PC, PB	08/02/2016	3 yr 2 mth	31/07/2018	Tenure ended
Joanne Segars	PC, ISC, PB	01/08/2017	1 yr 8 mth	09/11/2018	Resigned
Administering Authority Executive manager nominees					
Peter Kellett	PC	01/02/2018	1 yr 2 mth	N/A	N/A
Phil Lodge	PC, ISC	16/05/2018	0 yr 11 mth	N/A	N/A
Non-Environment Agency Executive Employer representative					
Kevin Ingram	PC, ISC, PB	07/07/2009	9 yr 9 mth	06/07/2021	2 yr 3 mth
Contributing member nominees and representatives					
Colin Chiverton	PC, ISC, PB	01/04/2013	6 yr 2 mth	31/03/2022	2 yr 10 mth
Ian Brindley	PC, ISC, PB	01/11/2014	4 yr 5 mth	31/10/2020	1 yr 7 mth
Will Lidbetter	PC, PB	01/08/2016	2 yr 8 mth	31/07/2019	0 yr 4 mth
Danielle Ashton	PC	01/02/2018	1 yr 2 mth	31/01/2021	1 yr 10 mth
Marion Maloney	PC, ISC	15/12/2016	2yr 0 mth	04/11/2018	Resigned
Pensioner members					
Peter Smith	PC, PB	14/05/2015	3 yr 11 mth	13/05/2021	2 yr 1 mth
Hywel Tudor	PC, PB	14/05/2015	3 yr 11 mth	13/05/2021	2 yr 1 mth

Committee member biographies

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

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

Emma Howard Boyd is Chair of the Environment Agency. Emma has spent her 25 year career working in financial services, initially in corporate finance, and then in fund management, specialising in sustainable investment and corporate governance. As Director of Stewardship at Jupiter Asset Management until July 2014, Emma was integral to the development of their reputation in the corporate governance and sustainability fields. This work included research and analysis on companies' environmental, social and governance performance, engaging with companies at board level and public policy engagement. She currently serves on various boards and advisory committees including ShareAction (Chair of Trustees), Future Cities Catapult (Vice Chair), Menhaden Capital PLC the Aldersgate Group, the 30% Club Steering Committee, the Executive Board of The Prince's Accounting for Sustainability Project and the Carbon Trust Advisory Panel.

Maria Adebowale-Schwarte is a place making and urban renewal strategist, focusing on place led prosperity, green spaces, cross-sector collaboration and philanthropy. She is the Founding Director of Living Space Project, an urban place making think tank and consultancy that works with charitable foundations, government, the social, community, public and private sector. Maria is also a philanthropy and grant making advisor, and has advised funding programmes run by the Big Lottery, NESTA, Artists Project Earth and Natural England. Maria has received training on many aspects of pension's management and investment, and has assisted in the development of an equitable investment portfolio for the Local Trust. Maria joined the Pensions and Investment Committee in 2016 when she was appointed on to the Environment Agency Board and is also a member of the Board's Environment and Business Committee.

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

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

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

Colin Chiverton has been a member of the Committee since 2013. He is an Area Environment Manager in Thames Area and has been an active member of the LGPS for 28 years. Colin has attended many training events on the LGPS and completed the Pensions Regulator's Public Service training. He has developed his knowledge on pension fund investment and management. He is the Pensions Representative of Prospect Union's Environment Agency Branch.

Ian Brindley has been a member of the local government scheme since 1987, and a member of the Committee since 2014. He is also a scheme member representative on the Brunel Oversight Board. 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.

Danielle Ashton has been a member of the LGPS for 20 years. She is a contributing member representative of the committee since 2017 following open recruitment. She is employed by the Environment Agency as a Research Manager in Environment and Business working on land and soil issues. She has attended a series of induction training events over the last year run by the LGPS and will continue to develop her knowledge on pension management and investment.

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

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

Hywel Tudor was appointed as a deferred member representative of the EAPF and subsequently became a pensioner member. He joined the Pensions Committee and Pensions Board in 2015 following a competitive recruitment process. A qualified accountant (FCMA, CGMA) with experience in the public, private and charity sectors, much of which was at a senior level, Hywel's last role was Director of Finance & Resources for the Arts Council of Wales. He was a member of the Pension Trustee Board for the Arts Council Retirement Plan for many years, and has continued to regularly attend trustee training events since joining the EAPF. Hywel is currently a member of the Financial Planning Committee of the National Library of Wales.

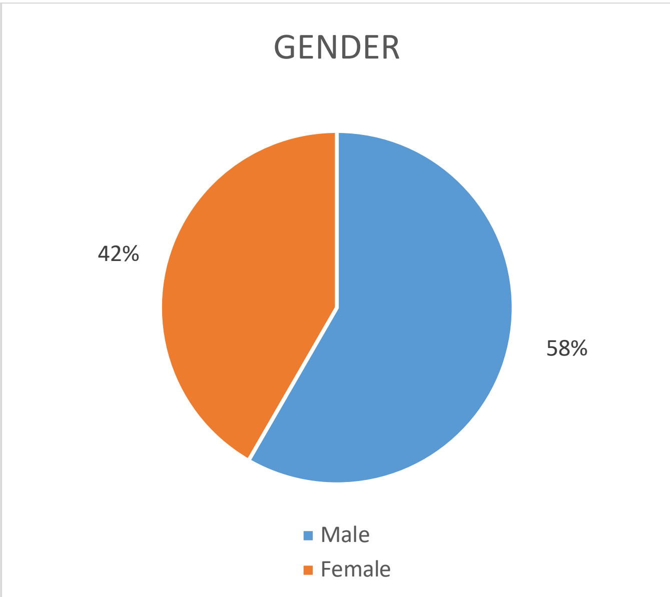
Attendance at Pensions Committee, Investment Sub-Committee and Pension Board meetings

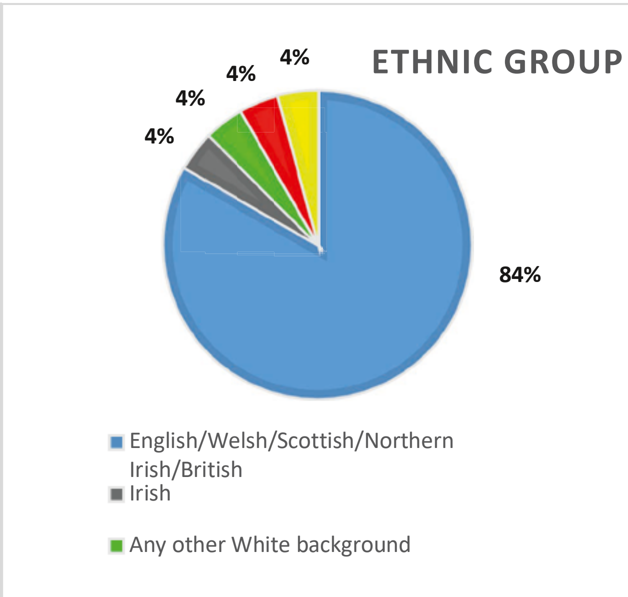
During the past year, the Pensions Committee met on 4 occasions. The Investment Sub-Committee met on 6 occasions and the Pensions Board met on 1 occasion.

Committee members	Pensions Committee meeting 4 in total	Investment Sub-Committee 6 in total	Pension Board meeting 1 in total	Total attendance
Board members				
Robert Gould (Chair)	2/2	3/3	1	6
Emma Howard Boyd	4	6	1	11
Karen Burrows	1/1	-	-	1
Maria Adebowale-Schwarte	3	-	0	3
Joanne Segars (Chair)	2/2	2/3	-	4
Caroline Mason	1/2	-	1	2
Executive members				
Peter Kellett	4	-	-	4
Kevin Ingram	3	3	1	7
Active members				
Colin Chiverton	3	5	1	9
Ian Brindley	4	5	1	10
Will Lidbetter	4	1/1	1	6
Marion Maloney	2/2	3/3	-	5
Danielle Ashton	4	-	-	4
Phil Lodge	4	5	-	9
Pensioner members				
Peter Smith	4	-	1	5
Hywel Tudor	4	-	1	5

Diversity

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





Pensions Committee business during 2018/19

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

Our key activities included:

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

Along with nine other Administering Authorities, we established the Brunel Pension Partnership in 2017 to implement the Government's requirement to pool the management and investment of our assets with other LGPS Funds. Our pooling company, the Brunel Pension Partnership Ltd (Brunel Ltd) became operational in April 2018. We own a $1/10^{th}$ shareholding in Brunel Ltd.

During 2018/19, we started to transition the management of our assets to Brunel Ltd. This has been a huge governance, investment and operational challenge for officers, Pensions Committee and the Fund in general. We have included a more detailed summary of our participation in the Brunel Pension Partnership in the section below: Asset pooling and the creation of the Brunel Pension Partnership. More information can also be found on the Brunel Ltd website.

The ongoing transition and management of our assets will continue to be a key focus for the Committee during 2019/20.

b) Continuing the development, engagement and promotion of our Responsible Investment approach which remains at the core of the EAPF.

Brunel is a key partner in helping us to manage our investments responsibly and develop debate on this issue more broadly. As part of this work, we continued to promote and expand the work of the Transition Pathway Initiative (TPI), which we co-founded in 2016 and which goes from strength to strength. More details on our responsible investment approach can be found on **www.eapf.org.uk** and in the Responsible Investment Section below.

c) Funding level - with our Active Fund funding level amongst the best in the LGPS, we continued to closely monitor our investment performance and plan for the triennial valuation at 31 March 2019. As part of this work, we monitored the potential impact from Brexit, forthcoming government reviews and legal cases.

d) We continued to improve our member annual benefit statement delivery and member communications in general through our ongoing commitment to Customer Service Excellence (CSE). We rolled out improvements to **www.eapf.org.uk.**

e) Defra Corporate Service review – Over 950 Environment Agency corporate services staff transferred to the Defra on 31 October 2017 as part of the Defra led corporate services review. We have been working a number of stakeholders to prepare for the members 'bulk transfer' of pension benefits from the Active Fund. This will be completed during 2019/20.

Asset pooling and the creation of the Brunel Pension Partnership

Background

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

The 2015 LGPS Investment Reform Criteria and Guidance set out how the Government expected LGPS funds to establish asset pooling arrangements and the objectives from pooling including: benefits of scale, strong governance and decision making, reduced costs and excellent value for money, and an improved capacity and capability to invest in infrastructure.

We established the Brunel Pension Partnership in conjunction with nine other LGPS Funds to meet this Government guidance and the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. We launched our pooling delivery operator, the Brunel Pension Partnership Ltd (Brunel Ltd) on 18 July 2017 as a new company wholly owned by the ten Administering Authorities, including the EAPF. We own a 1/10th shareholding in Brunel Ltd.

Brunel Ltd obtained authorisation from the Financial Conduct Authority (FCA) in March 2018 to act as an investment manager and an investment advisor. Brunel Ltd met the Government's requirement for the Pool to become operational from April 2018 and the transition of assets to start. Regular reports have been made to Government on progress towards the pooling of investment assets, and Brunel Ltd has received positive feedback on its progress.

Brunel Ltd is responsible for implementing our detailed Strategic Asset Allocation and those of its other nine partner Funds by providing and implementing a suitable range of outcome focused investment "portfolios". In particular, it researches and selects the professional external investment managers responsible for making the day to day investment decisions on the portfolios. In some cases, a portfolio will have a single external manager who provides the fund structure for a portfolio. In other cases, Brunel Ltd will allocate to a number of different externally managed funds. For active equities, Brunel Ltd has sponsored the creation of an authorised contractual scheme (ACS), in conjunction with an external fund operator (Fundrock), as this structure in these markets offers significant cost and tax benefits. Brunel Ltd is the investment manager of the ACS.

Importantly, the EAPF, through the Pensions Committee, retains the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by Brunel Ltd. We are also able to, and actively do, suggest new portfolios to Brunel Ltd and engage with Brunel Ltd on the structure and nature of existing portfolios.

Governance and oversight

The EAPF is both a shareholder and a client of Brunel Ltd and as a client, we have the right to expect certain standards and quality of service. A detailed service agreement has been agreed which sets out the duties and responsibilities of Brunel Ltd, and our rights as a client. It includes a duty of care of Brunel Ltd to act in its clients' interests.

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

- As shareholders in Brunel Ltd, we entered into a shareholder agreement with the company and the other shareholders. This gives us considerable control over Brunel Ltd – several matters, including significant changes to the operating model, are special reserved matters requiring the consent of all shareholders, with other reserved matters requiring agreement across a majority of shareholders. Each of the ten participating Pension Funds has a 1/10th shareholding in Brunel Ltd.

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

- The Oversight Board is supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Funds, but also drawing on finance and legal officers from time to time. It has a leading role in reviewing the implementation of pooling by Brunel, and provides a forum for discussing technical and practical matters, confirming priorities, and resolving differences. Client Group is also supported by a number of sub-groups, to delve deeper into detail. The EAPF chairs the responsible investment sub-group and sits on the services and accounting sub-groups. We also attend other sub-groups such as the financial or investment sub-groups when required. The Client Group is also responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.

- A separate level of governance is provided by the Board of Directors at Brunel Ltd, which are appointed by ourselves and the other shareholders. It comprises four highly experienced and independent non-executive directors, chaired by Denise Le Gal and four executive directors. Further information can be found here: www.brunelpensionpartnership.org/people

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

Brunel Ltd operational delivery

Brunel has made excellent progress in its first full year of operation, meeting a number of its core objectives for clients including:

- Transitioning circa £6 billion assets under management into five available Passive Equity portfolios with Legal & General Investment Management.
- Selecting Fundrock as the platform provider for their Authorised Contractual Scheme (ACS) platform and subsequently launching and transitioning 2 active equity portfolios (UK Equity and Low Volatility Global Equity).
- Appointment of State Street as Custodian and Administrator of the partnership. The EAPF transitioned from Northern Trust to State Street on 1 April 2018.
- Bringing forward the offering of Private Market's portfolios by appointing Colmore as a middle and back office provider.
- Establishing its Responsible Investment policy and being the first LGPS pool to join the UN-backed Principles for Responsible Investment. Brunel Ltd are recognised within the investment community for their positive and innovative approach to responsible investment. We are pleased that this allows the leading work the EAPF Pensions Committee has undertaken over the last 15 years to continue to move forward.

In accordance with a revised timetable agreed across the partner Funds as part of the 2019/20 Brunel Ltd business plan process, it is anticipated that investment assets will be transitioned across from our existing investment managers to the portfolios managed by Brunel Ltd between July 2018 and around October 2021. For those assets which have yet to transition, we will continue to maintain the relationship with our current investment managers and oversee their investment performance, working in partnership with Brunel Ltd where appropriate.

During 2018/19, the first EAPF assets transitioned into Brunel portfolios. In July 2018, we transitioned into the passive low carbon global equity portfolio through Legal and General Investment Management (LGIM). We subsequently transitioned into the active low volatility equity portfolio in March 2019. We expect the rest of our listed equity assets to transition during 2019 and 2020.

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

Delivery against original business case

One of the key objectives for Brunel Ltd is to deliver the fee savings included in the original business case agreed across the ten partner Funds.

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

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

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

Note 1: Set up costs

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

Asset pool set up and administration costs 2018/19	Cumulative £000
Set up costs:	
Share purchase	840
Legal	133
Consulting, Advisory and Procurement	82
Recruitment	18
Total actual set up costs	**1,072**
Projected costs per original business case	**1,209**

Note 2: Ongoing Brunel Ltd costs

Our cumulative core fee for Brunel Ltd for 2018/19 across our Active and Closed Funds was £736k plus performance reporting of £143k and custodian services £130k giving a total fee of £1,008k (see note 11 Management Expenses).

Our £545k budget for Brunel Ltd from the original business case excluded custody, performance monitoring and reporting which are now included as part of the Brunel Ltd fee. Also added to this figure are inflation and agreed special reserve matters agreed during the year for budget variance and private markets. This is explained in further detail below.

During 2018/19, the Pensions Committee agreed 2 special reserve matters relating to providing additional funding to Brunel Ltd. Firstly, in relation to private markets resource and the appointment of a back office administrator. The overall cost for this was around £340k across the 10 Funds for 2018/19 and £958k as an ongoing annual cost. The future actual cost will be dependent on the actual number of investments that are managed by Brunel Ltd on behalf of Clients.

Under the Original Business Case, Brunel Ltd's Private Markets offering was planned to start from 2020. Earlier than anticipated recruitment dedicated to managing private market investments enabled a significant acceleration of plans and therefore potential savings for partner Funds. A middle and back office service provider (Colmore) for private markets (a specialist in administration, cost transparency and fee validation, treasury management and portfolio analytics) was identified by Brunel Ltd as a key requirement and a Business Case was presented to Brunel Oversight Board (BOB) in July 2018 and approved as a Special Reserve Matter in August 2018. Whilst we will see an increase to Brunel Ltd costs, these are expected to be offset by increased fee savings through earlier implementation across Funds.

Under the governance arrangements, Brunel Ltd's annual business plan is agreed each year, requiring 100% consent of all shareholders as a special reserve matter.

We (and our other partner Funds) recognise that we are in a transition phase with the creation and implementation of Brunel Ltd, with a prediction of expenditure exactly year on year challenging.

Therefore the second special reserve matter agreed by Shareholders, in December 2018, was the business plan for 2019/20. Through this process, Brunel Ltd requested additional resource and budget for 2018/19 over and above the original business case. In total, this was around £900k for 2018/19 including private markets (see above), additional interim resources required from November 2018 onwards to deliver the revised transition plan and further investment to develop the Portfolio Management System and Order Management System that meet the operation and regulatory requirements for the day to day management of investments.

We have also agreed further additional resource for 2019/20 to allow delivery of our new transition plan which includes some re-ordering to meet Funds' priorities. Brunel Ltd have undertaken extensive resource modelling of the investments team time required to complete implementation for the remaining portfolios and ensure the required due diligence, quality and assurance takes place. We, along with the Brunel Oversight Board and other Shareholders, will be carefully monitoring these changes and the impact on the savings targets.

Note 3: Client Savings

Our £843k estimated savings for 2018/19 included in the original business case includes potential internal savings to the Environment Agency Pension Fund Management team, environmental reporting and investment advice. The client savings included assumed savings in respect of custody, accounting, performance measurement and reporting (of £273k for 2018/19) which are no longer applicable as they are now included in our Brunel Ltd fee. Adjusting the original savings target alters the figures for 2018/19 to £570k (from £843k). We have also seen an additional £30k saving through stewardship reporting. Whilst our internal management costs have reduced following the departure of 5 internal staff to Brunel, we are reviewing our future internal requirements in the new pooling environment during 2019/20 to take account of the revised transition timetable and the need for continued professional advice to meet our fiduciary requirements.

Note 4: Transition costs

The transition costs for 2018/19 for our passive low carbon equity and low volatility were lower than estimated in the original business case. We anticipate an increase in transition costs during 2019/20 as the majority of our active equities will transition during this period. Transition costs are summarised in the tables below:

EAPF	2018/19 £000				2017/18 £000			
	Original business case		Actual costs		Original business case		Actual costs	
	In year	Cumulative	In year	Cumulative	In year	Cumulative	In year	Cumulative
Transition costs	1,078	1,078	12	12	-	-	-	-
Net costs	**1,078**	**1,078**	**12**	**12**	**-**	**-**	**-**	**-**

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

Note 5: Fee savings

During 2018/19, the first EAPF assets transitioned into Brunel portfolios. In July 2018, we transitioned into the passive low carbon global equity portfolio through Legal and General Investment Management (LGIM). We subsequently transitioned into the active low volatility equity portfolio in March 2019. As this allocation only happened during March 2019, there is only a small impact on the investment fee price savings for 2018/19. We expect the rest of our listed equity assets to transition during 2019 and 2020.

Our total savings during 2018/19 are less than anticipated against the original business case, due to strategic changes that have taken place since this business case was agreed, including moving out of UK equities during 2017 and agreed changes to the transition plan.

A summary of fee savings to date compared to the original business case is provided below.

Brunel portfolio	Value in OBC 31.03.16	Value as at 31.03.19	Price variance	Quantity variance	Total saving / (cost)
	£000	£000	£000	£000	£000
Low Carbon Passive Equities	195,278	215,528	25	(10)	15
Active Low Volatility Equities	247,220	322,147	2	(10)	(8)
Total			**27**	**(20)**	**7**

NB: OBC means Original Business Case

Ongoing monitoring of Brunel Ltd against business case

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

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

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

We are pleased that Brunel Ltd has signed up to the Cost Transparency Initiative, and the Pensions Committee are keen to ensure that this is implemented effectively, to improve disclosure and transparency. In addition, we are undertaking an internal review of the original business case and updated business case to ensure that we remain assured as to the level of savings to be provided through Brunel Ltd and pooling in general.

The ongoing transition of our assets, management of costs and working closely with our partner Funds and Brunel Ltd will continue to be a key focus for the Committee throughout 2019/20.

Committee training

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

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

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

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

We held 2 specific Pensions Committee trainings days, one in September 2018 and another in March 2019. These focused on responsible investment, actuarial valuation, cyber crime, cost transparency and liability driven investment. We also provided additional training through Committee meetings, as required, and supplemented this through external training events and conferences. We have summarised these in the following tables.

Investment strategy review and procurement management will be an important theme in 2019/20.

Professional advisers to the Committee

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

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

PC Training Log 2018/19	Investment Pooling (Pension Legislative & governance context)	Investment Pooling (Private Markets)	Asset Pooling and EAPF Governance	Asset Pooling (Low Volatility Equity)	Responsible Investment (Regulatory Environment & Climate Risk)	Actuarial Valuation
EA Board members						
Robert Gould – PC Chair (from 3 December 2018)		✓		✓		✓
Emma Howard Boyd - ISC Chair	✓	✓	✓	✓		✓
Maria Adebowale-Schwarte	✓	✓				✓
Caroline Mason (from 3 December 2018)						✓
Karen Burrows (to 31 July 2018)	✓					
Joanne Segars (to 9 November 2018)	✓		✓		✓	
Executive members						
Kevin Ingram Natural Resources Wales	✓	✓		✓		✓
Peter Kellett	✓	✓				✓
Phil Lodge	✓	✓		✓	✓	✓
Active member nominees						
Danielle Ashton	✓	✓			✓	✓
Colin Chiverton		✓	✓	✓	✓	✓
Ian Brindley	✓	✓	✓	✓	✓	✓
Marion Maloney (to 4 November 2018)	✓		✓	✓	✓	✓
Will Lidbetter	✓	✓			✓	✓
Pensioner members						
Peter Smith		✓			✓	✓
Hywel Tudor	✓	✓	✓		✓	✓

PC Training Log 2018/19	Financial Markets	Securities/Stock Lending	Cyber Security	Liability Driven Initiative	Cost Transparency	Communications Strategy	Wider Pension Conferences & Training
EA Board members							
Robert Gould – PC Chair (from 3 December 2018)	✓	✓	✓	✓	✓	✓	✓
Emma Howard Boyd - ISC Chair	✓	✓	✓	✓	✓	✓	✓
Maria Adebowale-Schwarte							
Caroline Mason (from 3 December 2018)			✓	✓	✓	✓	
Karen Burrows (to 31 July 2018)							
Joanne Segars - PC Chair (to 9 November 2018)							
Executive members							
Kevin Ingram Natural Resources Wales		✓					
Peter Kellett			✓	✓	✓	✓	✓
Phil Lodge	✓	✓	✓	✓	✓	✓	✓
Active member nominees							
Danielle Ashton			✓	✓	✓	✓	✓
Colin Chiverton	✓	✓	✓	✓	✓	✓	
Ian Brindley	✓	✓	✓	✓	✓	✓	✓
Marion Maloney (to 4 November 2018)							✓
Will Lidbetter	✓	✓					
Pensioner members							
Peter Smith			✓	✓	✓	✓	✓
Hywel Tudor	✓	✓	✓	✓	✓	✓	✓

Annual Statement by Chair of the EAPF Pension Board

Role of Pension Board

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

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

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

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

Membership

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

Employer Representatives

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

Member Representatives

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

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

Pension Board business 2018/19

The Pension Board met once during 2018/19 (on 27 March 2019) after the Pensions Committee meeting. In addition, some or all of the Pension Board members participated in meeting reviews at the end of all four Pensions Committee meetings and 6 Investment Sub-Committee meetings during 2018/19.

The effectiveness of the Committee and Investment Sub Committee was the main item of business at the 27 March 2019 meeting. Key conclusions during 2018/19 relating to the effectiveness of the Pensions Committee and Investment Sub-Committee meetings included:

- welcoming the evolution of the Committees' approach over the last 12 months in its scrutiny and challenge of the new asset pooling arrangements with Brunel Pensions Partnership Ltd, including use of a working group and telephone meetings for the Investment Sub-Committee where urgent matters required consideration.

- recognising the positive impact from the expertise of officers and the range of professional advisors appointed to help the Committees understand complex investment, legal and governance issues during a year of drastic change for the Fund, including major changes in the Pension Fund Management Team and the ongoing transition to asset pooling.

- recognising a high level of engagement and interaction by Committee members, including an appropriate amount of challenge where key decisions were being made.

- noting a review of several governance documents including the business plan and risk register had been undertaken, following a recommendation by the Pension Board. The Pension Board considered that that the updated versions of these documents were now more dynamic and able to adapt to changes.

- recognising the extremely useful training provided to Committee members, including separate training days and training on topical subjects delivered as part of meetings.

- welcoming the regular effectiveness review by Aon, the Fund's Governance and Risk Adviser, including the survey to all Committee and Board members which would be circulated for completion early in the 2019/20 fund year.

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

- development of the EAPF's responsible investment policy and approach, and in particular, how this should adapt to the asset pooling environment.

- reflection on what further action can be taken by the EAPF, as an exemplar and advocate on climate change issues, both within the LGPS and with the wider financial industry.

- consideration of the cumulative impact of changes in risk, and where this might result in different overall level of risk compared to focusing on just individual risks, and how this is identified and communicated to the Committee.

At the March 2019 meeting, the Board also spent time considering its own role including its own effectiveness in assisting the administering authority in its responsibilities managing the EAPF. The Board recognised it was different in nature to other LGPS local pension boards, due to the overlap in membership between the Board and the Committee. Other LGPS Pension Boards provide a facility for the "members' voice" which often did not exist on the Committee or equivalent; whereas the EAPF already had this due to the high level of scheme member representation on the Committee.

The Pension Board considered alternative options to the structure of the Pension Board, albeit recognising that they would likely require changes in legislation. The Pension Board concluded that, within the existing structure, they were currently and could continue to provide additional value by meeting at least once each year, with the ongoing approach of Board members being part of meeting reviews at the end of each Committee meeting. The Pension Board recognised that, where they felt time should be spent on a particular area of concern; there was sufficient flexibility to have additional Pension Board meetings to allow that to happen.

Governance Compliance Statement

Introduction

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

This statement is required to set out:

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

b) if the authority does so

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

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

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

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

This Statement is made and approved by the Environment Agency Pensions Committee on 25 March 2015 and reflects the governance up to 31 March 2015.

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

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

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

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

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

Statement

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

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

Statement of Compliance with Secretary of State Guidance

Compliance status – we are compliant with all 20 standards.

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

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

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

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

Signed on behalf of the Environment Agency

Robert A. Gould

Robert Gould
Chair
Environment Agency Pensions Committee
17 July 2019

J D. Bevan

Sir James Bevan
Accounting Officer
Environment Agency
16 July 2019

Responsible Investment

Introduction

Responsible investment remains at the very core of the Environment Agency Pension Fund (EAPF).

We have been considering climate related risk and opportunities as part of our equity strategy since 2005. It has been fully integrated into our broader strategic asset allocation from 2010.

We have been calculating the carbon footprint of our assets since 2008 and have reduced our carbon footprint in active equities by nearly 70% while continuing to generate strong financial returns.

In 2018, we received the highest rating of A+ from the UN supported Principles for Responsible Investment (PRI) for our strategy and the governance of our approach to responsible investment.

The last year has also seen us starting to transition our funds to Brunel Pension Partnership (Brunel) as part of the LGPS pooling arrangements. Brunel is a key partner for us in responsible investment. We are really pleased with the progress made by Brunel over the last year in integrating responsible investment into its portfolios and its ways of working, as well as with the expertise it continues to build on this area.

Social and sustainable investment

In 2015 we set ourselves the target to maintain at least 25% of our investments in clean technology and other sustainable opportunities across all asset classes.

As at 31 December 2018, 39% of our investments were in clean technology and other sustainable opportunities, representing a value of £1.35bn. This is a 1% increase from 2017/18 (£1.30bn).

The EAPF defines social investment as investment that addresses societal challenges but generates competitive financial returns. Societal challenges include all issues commonly regarded under social, environmental or governance (ESG) headings.

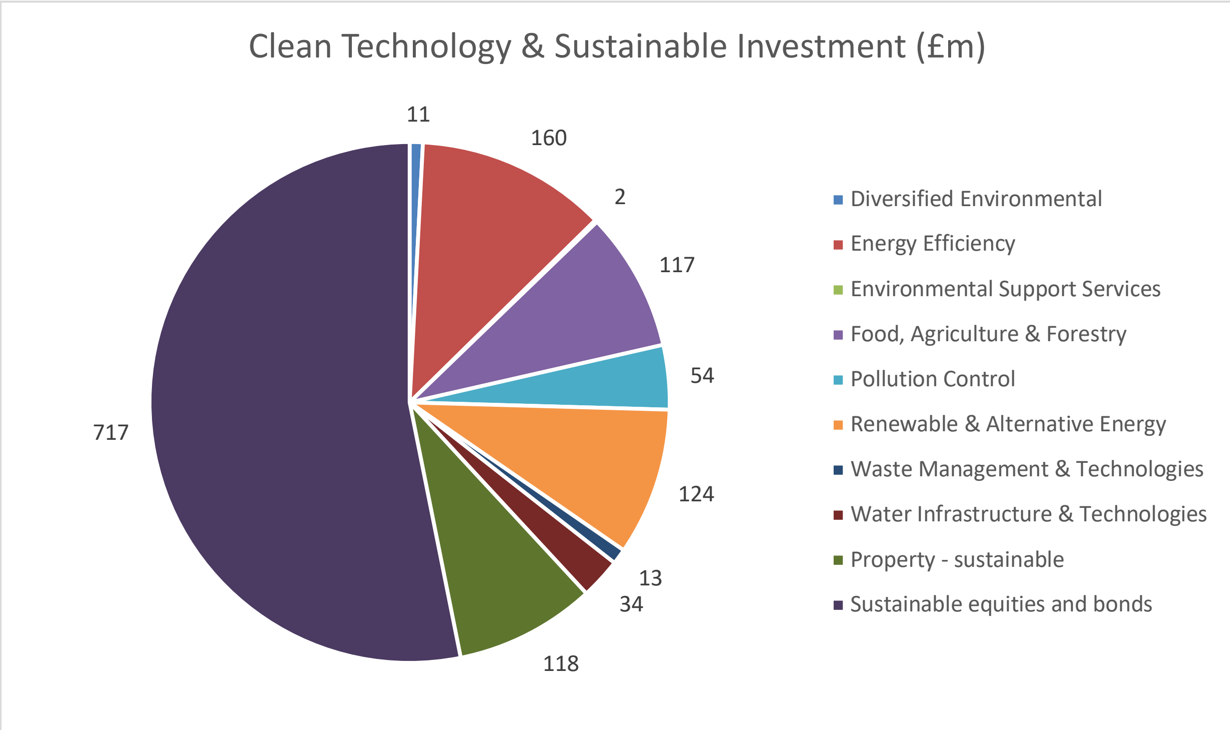
Our wider definition of sustainable investments includes:

- Social investments and those with significant revenues (in excess of 20%) involved in energy efficiency, alternative energy, water and waste treatment, public transport
- Property, infrastructure, agriculture or forestry investments with a low carbon or strong sustainability criteria, and
- Companies (invested in through equities and bonds) with progressive environmental, social or governance practices that may enhance investor value.

These investments include:

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

The following table gives a more detailed breakdown of the sectors in which EAPF's clean technology and other sustainable assets are invested. An explanation of the underlying data in the pie chart can be found as an appendix, at the end of this section[i].



There are a number of initiatives underway, including a Sustainable Finance Package in the EU to define what constitutes a sustainable investment. Once these definitions have been adopted, we will review our approach and how our progress is reported.

Climate Change

Climate change continued to be a key priority for the Fund during 2018/19.

As supporters of the Task Force on Climate–related Financial Disclosure (TCFD), we have set out our areas of activity over the year, structured around the TCFD's recommended thematic areas.

Climate Change Governance

Our EAPF 'Policy to Address the Impacts of Climate Change' sets out a plan to deliver strong long-term financial returns as the impacts of climate change materialise.

The Chief Pensions Officer is the principal lead in the assessment and management of climate related issues. He is supported by the Pensions Committee.

Responsible investment is integrated into the discussions on investments and our policies at the meetings of the Pensions Committee and Investment Sub Committee. In addition, 4 out of 8 meetings held in committee had specific agenda items related to climate change. This included what the Fund was doing to mark the 10 year anniversary of the Climate Change Act and our work with Climate Action 100+.

An all-day training session was also held for Pension Committee members in September where climate change themes featured prominently, including a refresh and progress update on our Policy to Address the Impacts of Climate Change.

As a partner Fund of Brunel, the governance of the pool is of increasing importance to ensure that we can meet our commitments on climate change. We take part in a number of meetings to support Brunel's work in this area, including the Board Oversight Board, Client Group and Chair the Responsible Investment sub group.

Climate Change Strategy

We believe financial risk and opportunities will come from the global policy response to address climate change and the physical impacts it may bring. We have included some examples of our investments from our portfolio as case studies in this report.

We set ourselves a global leading objective 'to ensure that our Fund's investment portfolio and processes are compatible with keeping the global average temperature increase to remain below 2°C relative to pre-industrial levels, in-line with international government agreements.' To implement this, we adopted climate change investment principles, which among other things, apply long term thinking, recognise climate change as a systemic risk and support the transition to a low carbon economy.

Climate Change Modelling

When we reviewed our strategic asset allocation in 2016/17, we modelled the impact of climate change on our portfolio. We did this through Mercer's Investing in a Time of Climate Change model.

This study provided four climate change scenarios and looked at impacts across different asset classes over 10 and 35 year time horizons. The key conclusions were the Fund was well positioned for a 2°C scenario at a total fund and asset class level. In particular, it highlighted the benefits of investing in sustainable equities and real assets to manage climate risks and opportunities as part of a transition to a low carbon economy. The EAPF report is available on the climate risk area of our website[1]. We are currently using Mercer's updated model again in 2019/20 as part of our review of our strategic asset allocation.

Disclosure

In our 'Policy to Address the Impacts of Climate Change', we identify that our biggest barrier to our ability to achieve our objective of making our portfolio compatible with a 2°C world, is the availability of accurate disclosure of material climate risk information to support informed investment decision making.

This is why we fully support initiatives to increase disclosure and transparency in all asset classes.

For the second consecutive year, one of our fund managers, Robeco Private Equity, has analysed how climate related risks are being identified and monitored by managers within an EAPF private equity portfolio[2].

The positive news is that the awareness of climate related risks and opportunities among the private equity fund managers have increased over the last year, although there is still room for improvement.

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[1] See https://www.eapf.org.uk/investments/climate-change/tackling-climate-risk

[2] This refers to the private equity portfolio that is being managed by RIAM B.V./Robeco Private Equity. 16 private equity fund managers were included in the 2019 ESG survey. Their funds represented about 75% of the EAPF's portfolio at the end of 2018. The managers whose funds were in run-down mode were excluded from the survey.

The results of the responses from private equity managers are summarised in the table below.

Table 1: Climate-related activities of private equity managers in an EAPF mandate, 2018-2019

	2019	2018
Investment policy covering climate risk	44%	28%
Have process for climate-related risks integrated into overall risk management	75%	33%
CEO, CIO and other chief-level staff, Investment Committee responsible for climate-related issues	69%	56%
Target low carbon or climate resilient investments	44%	56%
Reduced portfolio exposure to emissions-intensive or fossil fuel holdings	50%	39%
Use emissions data or analysis for investment decision making	38%	28%
Execute scenario analysis	38%	17%
Sought climate change integration by companies	50%	28%
Climate-related targets used as tools to manage climate risks and opportunities	13%	11%

Source: private equity fund managers, Robeco Private Equity

We can see that the percentage of managers in this private equity portfolio, who have an investment policy covering climate-related risks, increased to 44% in the course of last year. While all respondents address ESG into their investment decision making process, 75% of them have integrated their processes for climate-related risks into their overall risk management. This is a substantial improvement compared to 33% a year ago. Three managers have no climate-related policies or processes in place yet.

With respect to the activities undertaken to respond to climate change risk and opportunities, the proportion of surveyed managers who target low-carbon or climate-resilient investments seems to have decreased[3] while the percentage of managers who reduced their portfolio exposure to emissions-intensive or fossil fuel holdings has increased.

38% of the respondents now use carbon emissions data or analysis in their investment decision making and execute scenario analysis to manage emissions risks and opportunities. These are both positive developments compared to last year. Around one-third of the respondents chose setting carbon reduction targets for their portfolio as one of their main responsible investment objectives in 2018. 13% intend to phase out investments in fossil fuel holdings in response to climate-related risks and opportunities.

The primary tool that private equity fund managers use to manage climate-related risks and opportunities seems to be carbon footprinting, used by 38% of the respondents. Half of the managers sought climate change integration by their portfolio companies in the last year, compared to 28% according to the 2018 survey. Only one manager currently undertakes specific active ownership activities to encourage TCFD adoption by its portfolio companies.

[3] This decrease is a result of the following two effects: two managers that were targeting low-carbon investments in 2018 were excluded from the survey this year and three managers have responded to the question about their low-carbon investments differently than a year ago.

Investment Case Study: Generation Investment Management

Through Generation Investment Management we invest in Climate Solutions Fund 2. A company which was identified through Generation's investment process is 'Optoro', which is a returns optimisation software company that provides asset recovery solutions for the returned and excess inventory of retailers and manufacturers.

Every year, US consumers return about 3.5 billion products, resulting in financial losses as well as environmental impacts, including 2.3 billion kg of waste and 15 million tonnes of carbon emissions. Return rates of high street shops are nearly 9%, and the overall trend continues to grow, with return rates for e-commerce even higher, between 20% and 30% of all sales. When suppliers receive open-box returns today, they typically destroy the inventory or liquidate it in bulk for a very small fee, thus destroying financial value and also driving unnecessary waste.

Optoro developed a returns optimisation platform that significantly improves the asset recovery process for returned and excess inventory of retailers, by determining the optimal resale channel of a product in real time, and dynamically optimising pricing.

Optoro's software helps vendors make better decisions about how to handle returned products and find the proper remarketing channel for all types and qualities of inventory by combining all-in cost analysis, recovery potential analysis, and a cultivated audience of buyers.

Optoro's system brings significant emissions and cost savings to inefficient incumbent returns processes: it reduces transport-related emissions by cutting steps in the return process, and cuts wastage and landfill inputs by doubling recovery. Optoro has developed an environmental impact model to quantify the carbon and waste savings retailers can achieve. To date, Optoro has recorded waste and carbon savings of up to 60% and 31% respectively.

Our investment has enabled Optoro to develop its software product offering as well as its sales and marketing organisation to scale deployment with some of the largest US retailers which it counts among its clients.

Optoro contributes primarily to the following Sustainable Development Goals (SDGs):

- Lower carbon emissions
- Reduced waste

Climate Change Risk Management

A key part of our risk management is to work with others to bring about changes either in policy, the wider financial industry or an individual company that we are invested in.

We undertake a wide range of external engagement involving a wide range of EAPF representatives, including the Chair of the Environment Agency, the Chair of the Pensions Committee, Pension Committee members and Pension Team officers.

Brunel are a key partner in helping us manage the risks from climate change, and being part of the pool has given us access to greater information and resources to monitor climate change risks. We have worked with the following partnerships over the last year on climate-related issues:

- **Accounting for Sustainability Project (A4S):** We participated in the Assets Owner Network where we spoke on the importance of the Task Force on Climate Related Financial Disclosures (TCFD).

- **Climate Action 100+ & Shell PLC**: We joined an engagement between Royal Dutch Shell PLC (Shell) and a leadership group of institutional investors on behalf of the global investor initiative Climate Action 100+. Our aim was for Shell to demonstrate further industry leadership and align with the goals of the Paris Climate Agreement. This was led by Robeco Asset Management and the Church of England Pensions Board and included members of the Dutch Eumedion Investor Group, the European Institutional Investors Group on Climate Change (IIGCC), APG, the Environment Agency Pension Fund (EAPF) and the Universities Superannuation Scheme (USS). The engagement was successful and Shell are now setting short-term Net Carbon Footprint (NCF) targets and integrating these targets into executive remuneration.

- **Global Investor Statement to Governments on Climate Change**. We signed a statement calling on Governments to achieve the Paris Agreement's goals; accelerate private sector investment into the low carbon transition; and commit to improve climate-related financial reporting.

- **IIGCC:** We signed the IIGCC initiative endorsing the European Commission's "Strategy for long-term EU greenhouse gas emissions reduction in accordance with the Paris Agreement".

- **Local Authority Pension Fund Forum (LAPFF).** We attended business meetings and contributed to discussion on LAPFF's future work programme. We also attended the annual conference, which among other things considered the work of the Committee on Climate Change Adaptation Sub Committee.

- **PRI**: We signed a PRI statement of investor commitment to support a Just Transition, to ensure that any action to tackle Climate Change should not disadvantage sections of society. We also presented on a webinar on using the PRI on-line tool (Data Portal).

- **ShareAction and Standard Chartered:** We signed a letter coordinated by ShareAction engaging with Standard Chartered on their coal policy. Standard Chartered was one of the banks most exposed to regions with intensive coal development plans. Following the investor letter Standard Chartered announced that it will stop financing coal-fired power plants anywhere in the world.

- **ShareAction and local government:** We signed a statement by the Local Government Pension Schemes (LGPS) coordinated by ShareAction, declaring our commitment to ensuring our investment strategies meets the goals of the Paris Climate agreement. Our Chief Pensions Officer was quoted in the statement welcoming the increased emphasis placed by government on ensuring that pension fund trustees take into account environmental, social and governance issues and in particular climate change.

- **Task Force on Climate-related Disclosures (TCFD):** The Fund is a signatory to The Investor Agenda which commits to encouraging public disclosures based on TCFD guidance for asset owners and managers by 2020.

- **TCFD Preparers Forum.** We have attended meetings to share progress on TCFD reporting, data collection, climate scenarios and reporting. At one meeting we were asked to speak on increasing resilience to physical climate risks, where we highlighted the near-term nature of the risks.

- **Transition Pathway Initiative** To help asset owners assess how companies are transitioning to a low-carbon economy, we co-founded the Transition Pathway Initiative (TPI) with the Church of England (see case study below). TPI remains a priority for the EAPF. In 2018/19 we sat on the Steering Group and made a financial contribution to support its development. Brunel act as Co-Chair of the TPI, on behalf of the EAPF.

Transition Pathway Initiative (TPI)

TPI is an asset owner-led initiative, supported by asset managers and owners worldwide. The combined investments of all the asset owners total £11 trillion. The initiative assesses how companies are preparing for the transition to a low-carbon economy.

The TPI involves the launch of a tool, developed with the Grantham Institute at the London School of Economics, which ranks companies by two measures:

1. How well their management is dealing with climate change risks
2. How effective they are at achieving carbon reduction

The PRI provides support and secretariat services to TPI. To date, 287 companies in 14 sectors have been assessed with data provided by FTSE Russell and analysed by the London School of Economics Grantham Research Institute. For more information, please see https://www.eapf.org.uk/investments/climate-change/transition-pathway-initiative.

Climate Change Monitoring and Metrics

The Fund uses a range of tools to help us establish the level of risk relating to climate change issues. For those funds which have transitioned over to Brunel, this is supported by an additional layer of ESG monitoring which is done by Brunel for each mandate.

In listed equities and bonds, fossil fuel exposure analysis and carbon footprinting provides us with useful information on the absolute exposure and the relative carbon intensity of holdings and summarises the indicators that underpin the reporting against the targets in our climate change goals.

These goals, which are set out in our policy to address climate change, are:

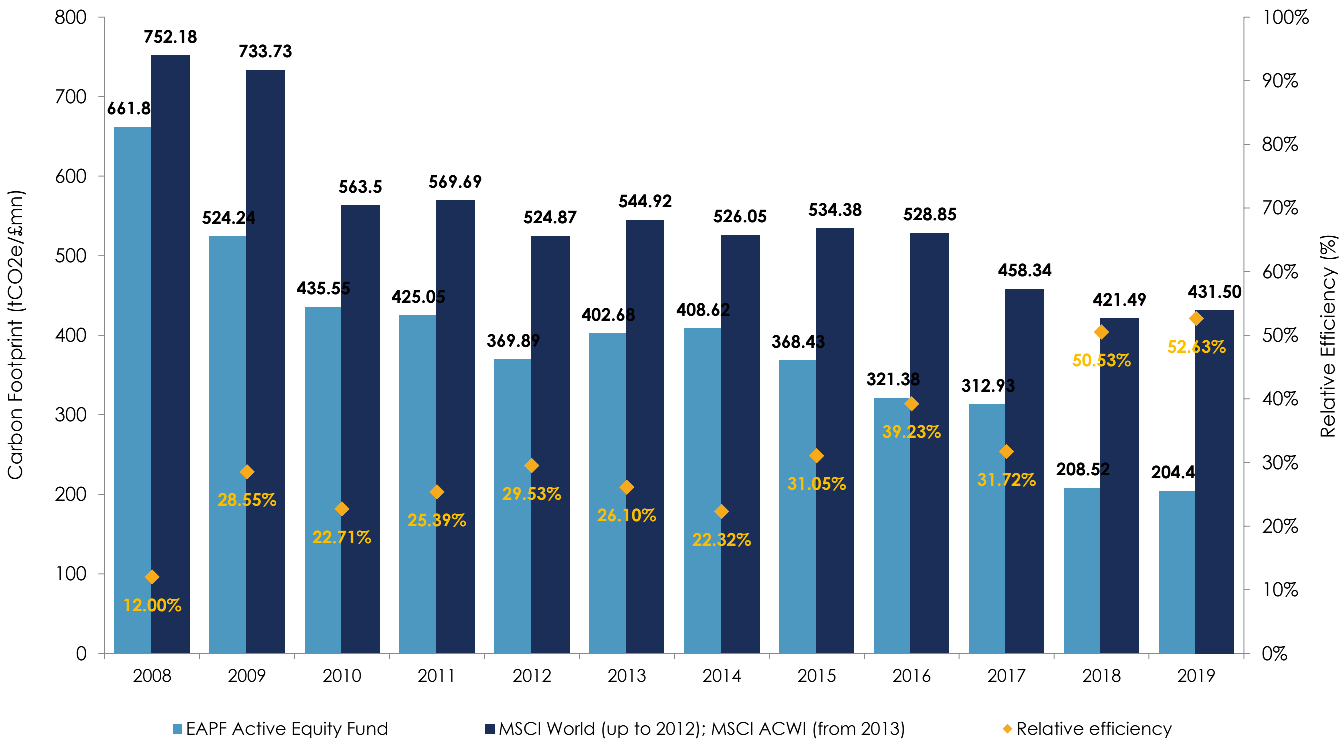
- By 2020, invest 15% of the Fund in low carbon, energy efficient and other climate mitigation opportunities. By 2018 we have 11% invested. This is an increase of 1% from last year.

- Decarbonise the equity portfolio, reducing our exposure to 'future emissions' [4] by 90% for coal and 50% for oil and gas by 2020 compared to the exposure in our underlying benchmark as at 31 March 2015. Coal is currently 56% less than our baseline. Oil and Gas is currently 95% less than our baseline.

Every year since 2008, we have undertaken a full carbon footprint analysis of all of our listed equities and those corporate bonds that can be matched to parent companies. This represents 60% of the value of the whole portfolio.

[8] 'Future emissions' is the amount of greenhouse gases that would be emitted should these reserves be extracted and ultimately burnt, expressed in tonnes of carbon dioxide equivalent.

Carbon Footprint Trend Analysis - Active Equities



The carbon footprint of our active equities has decreased by 69% since 2008

Carbon Metrics: All Equites Relative Performance (year on year)

Group	Metric	2015	2016	2017	2018	2019	2019 Benchmark	Relative Performance (2019 vs 2018)	Relative Performance (2019 vs Benchmark)
Carbon Emissions	Absolute Tonnes of Carbon (tonnes CO2e)	394,451	276,981	265,638	166,152	151,778	400,231	8.65%	62.08%
	Carbon Footprint (tonnes CO2e/GBPm revenue)					189	446	4.28%	57.61%
Disclosure Rate (Full and Partial)	Share of Scope 1 GHG emissions (%)	94%	92%	79%	70%	84%	94%	18.64%	-10.61%
Potentially Stranded Assets	Exposure (£)	32,153,258	15,558,369	21,328,765	9,685,159	8,399,622	43,908,944	13.27%	80.87%
	of which coal	7,634,724	3,824,902	4,656,107	1,856,688	2,168,248	9,461,318	-16.78%	77.08%
Fossil Fuel Reserves	Financed Future Emissions (tCO2)	8,112,662	4,166,915	4,150,377	699,891	3,458,808	7,124,540	-394.19%	51.45%
	of which coal (tCO2)	4,899,427	2,788,273	2,490,954	373,009	3,094,322	2,347,222	-729.56%	-31.83%
	Exposure (£)	20,535,623	9,151,558	13,617,344	5,971,084	5,151,700	28,716,656	13.72%	82.06%
	of which coal	3,204,459	1,050,024	1,119,168	665,569	1,079,969	2,851,977	-62.26%	62.13%
Fossil Fuel Power Generation	Exposure (£)	11,617,635	6,406,811	7,711,420	3,714,075	3,247,923	15,192,288	12.55%	78.62%
	of which coal	4,430,265	2,774,878	3,536,939	1,191,119	1,088,278	6,609,341	8.63%	83.53%
Renewable Power Generation	Exposure (£)	5,120,654	8,424,963	9,069,070	7,010,785	7,071,933	4,288,531	0.87%	64.90%
Impact	Total Owned Revenue	1,008,775,070	832,957,395	810,332,302	841,805,730	803,389,815	898,038,744	4.56%	10.54%
	of which Fossil Fuels	39,328,372	23,248,544	15,576,385	8,229,487	8,605,036	27,108,151	-4.56%	68.26%
	of which Coal Mining and Coal Power	10,470,401	6,256,967	3,753,544	1,310,716	2,354,658	5,978,773	-79.65%	60.62%
	of which Fossil Fuel Power	10,762,952	6,374,058	6,526,505	2,748,687	2,519,273	10,807,603	8.35%	
	of which Coal Power	4,008,542	2,612,502	2,669,844	860,019	827,693	4,097,504	3.76%	79.80%
	of which Renewable Power	3,275,827	2,987,746	3,088,617	2,604,908	2,504,820	3,002,219	-3.84%	-16.57%

The table above refers to the aggregate of all equities (active plus passive). It provides year-on-year results from 2015 against a range of carbon metrics relating to the combined listed equities in the fund.

The portfolio is 58% more carbon efficient than the benchmark.

The monetary exposure to potentially stranded assets is 81% lower than the benchmark.

The fossil fuel power generation, in particular coal is 84% lower than the benchmark.

Progress Against Baseline

	Financed Future Emissions (FFE) Metric	Baseline (2015 Benchmark)	2015	2016	2017	2018	2019	Relative Performance (2019 vs 2018)	Relative Performance (2018 vs Baseline)
Aggregate All Equities	Absolute FFE, Total (tCO2)	14,849,897	8,112,662	4,166,915	4,150,377	699,891	3,458,808	-394.19%	76.71%
	Of which coal (tCO2)	7,090,810	4,899,427	2,788,273	2,490,954	373,009	3,094,322	-729.56%	56.36%
	Of which O&G (tCO2)	7,759,087	3,213,235	1,378,642	1,659,423	326,881	364,485	-11.50%	95.30%
	FFE Intensity, Total (tCO2/£m)	9,634	5,263	3,199	2,536	475	2,626	-452.99%	72.74%
	Of which coal (tCO2/£m)	4,600	3,179	2,141	1,522	253	2,349	-828.25%	48.93%
	Of which O&G (tCO2/£m)	5,034	2,085	1,059	1,014	222	277	-24.77%	94.50%
Aggregate Active Equities	Absolute FFE, Total (tCO2)	9,158,851	3,041,497	2,704,332	2,457,585	49,568	3,120,394	-6195.20%	65.93%
	Of which coal (tCO2)	4,288,835	2,159,857	2,023,392	1,897,364	0	3,000,647		30.04%
	Of which O&G (tCO2)	4,870,016	881,640	680,940	560,221	49,568	119,746	-141.58%	97.54%
	FFE Intensity, Total (tCO2/£m)	9,184	3,050	2,762	1,987	46	2,832	-5994.06%	69.16%
	Of which coal (tCO2/£m)	4,300	2,166	2,067	1,534	0	2,723		36.67%
	Of which O&G (tCO2/£m)	4,883	884	696	453	46	109	-133.86%	97.77%

Against the 2015 Baseline, both the Aggregate and the Aggregate Active equity portfolios continue to achieve progress and are at least 66% more efficient with regards to the ownership of future emissions from reserves.

Aggregate Active Equities and All Equities have increased their exposure to potentially stranded assets, especially with respect to coal reserves. This change was largely driven by one new investment over the course of the year. We no longer hold this in our portfolio, so expect future exposure to potentially stranded assets to be lower.

For private market (unlisted) investments, we place an emphasis on guidelines and the pre-investment due diligence process. We positively invest in funds which either focus on low carbon solutions, for example, energy efficiency or those funds which have policies and processes that are more robust than the industry norm to manage climate related issues such as water stress.

One example is in real estate where we require our funds to participate in the Global Real Estate Sustainability Benchmark (GRESB). In 2018, 10 out of 11 of our real estate funds received Green Star status (scoring highly in sustainability for Implementation & Measurement and the Management & Policy).

Other areas of Responsible Investment activity in 2018/19

In addition to Climate change, we engaged on lots of other issues relating to other environmental issues and/or social and governance issues during 2018/19. Selected highlights are set out below.

Water

In 2018 we assisted the CDP (formerly the 'Carbon Disclosure Project'), a body to promote the company disclosure of climate, water and forest data, in their campaign to get companies to disclose their water plans and use. We wrote to 157 companies encouraging disclosure and this helped encourage a further 20 companies to disclose data on water use.

To help improve the profile of water disclosure further, we instigated a case study involving one of these 20 companies. It highlights a Japanese firm KOSÉ, which we hold shares in, and to whom we sent a letter. Our fund manager, Comgest, engaged in parallel with us. Comgest followed up our letter by meeting KOSÉ to encourage them to sign up to CDP. This case study can be found on our website here: https://www.eapf.org.uk/investments/stewardship/case-studies

We also signed a letter from Interfaith Center on Corporate Responsibility (ICCR) which went to companies in the energy sector to report on water disclosure through the CDP framework.

Single use plastics

Throughout 2018 we continued to engage with our investment managers (including private markets) through emails, face-to-face meetings and telephone calls on our desire to see single use plastics on the agenda for engagement and encouraged them to join the UN's #CleanSeas or another comparable initiative.

We had a fantastic response from our investment managers, many of whom were already active and leading in this area. Our intervention led directly to 8 managers joining #CleanSeas and many managers noting that they had changed their own internal plastic use.

Members of the EAPF also attended a number of events on plastics. This included the All-Party Parliamentary Group for the Polar Regions, a PRI event on single use plastic and another event organised by Ellen MacArthur Foundation.

Palm oil production

We signed a letter to a body that oversees palm oil production Roundtable on Sustainable Palm Oil (RSPO). It expressed the need for a more transparent and responsive complaints mechanism to properly uphold the RSPO's standards, particularly with respect to labour rights.
Subsequently RSPO ratified and adopted a certification standard aimed to universally strengthen social development, environmental protection, and economic prosperity across the sustainable palm oil value chain. The standard integrates a majority of the elements from the investor letter.

Later in the year we also supported a call for the RSPO to adopt a no deforestation, no peat, and no exploitation standard and in parallel we also signed the broader Sustainable Palm Oil Expectation Statement to highlight what investors expect of companies operating across the palm oil value chain.

Seafood Business for Ocean Stewardship

We signed up to Seafood Business for Ocean Stewardship (SeaBOS) initiative. This is an initiative resulting from a series of 'Keystone Dialogues' between scientists and seafood companies initiated by the Stockholm Resilience Centre. The Keystone Dialogue aims to explore whether or not a small number of 'Keystone Actors' (the main companies in the sector) have the potential to transform the global seafood system.

Green Finance

Emma Howard Boyd, Chair of the Environment Agency and Chair of the EAPF Investment Sub Committee, gave evidence to the Environmental Audit Committee on the subject of green finance[5].

UK RI Roundtable

For the third year, EAPF continued as Secretariat for the UK Responsible Investment Roundtable. There are approximately 4 meetings a year of UK private sector and public sector pension schemes to support and promote responsible investment initiatives.

Corporate Governance

Through our engagement provider (Hermes EOS) we contributed to both global and local initiatives, including the UK Financial Reporting Council (FRC) consultation paper 'Review of the UK Corporate Governance Code'; Japanese Corporate Governance Code; and Energy and Industrial Strategy (BEIS) Committee consultation on executive pay in the private sector.

Investment Case Study: Impax Asset Management

Impax Asset Management is one of the investment managers used by EAPF. Impax are 'Specialists in the transition to a more sustainable global economy' and Impax make investments on our behalf in Resource Efficiency and Environmental Markets. These markets address a number of long term macro-economic themes: growing populations, rising living standards, increasing urbanisation, rising consumption and depletion of limited natural resources.

A long term holding in the Impax portfolio is a Waste Technology Equipment company based in Norway. The company manufactures sensor-based solutions in the collection and sorting of waste to maximize resource efficiency. It is the dominant supplier of machinery for recycling, and the sorting of, recyclable materials. It also has a leading market share in reverse vending machines, which facilitate the collection of bottles and cans. Globally, around 20 countries have implemented some sort of deposit return scheme.

The company has continually benefitted from good results and positive news flow in relation to the war on waste. At the beginning of 2018, China implemented stricter regulations regarding what waste it will accept, including a ban on plastic waste. This has meant even more urgency in terms of changes to how economies deal with plastic waste and has resulted in new opportunities for investors, with governments and companies globally introducing policies, as consumer support and wider recognition of the issue builds. As an example, the EU announced a ban on certain single use plastic items in 2018 as well as high level target of recycling 65% of municipal waste by 2030.

Looking forward

During 2019/20, the EAPF will review its responsible investment policy. We will build on the successful approach to date, review targets and approaches (in light of the review our forthcoming strategic asset allocation) and prioritise areas for engagement. In doing this we will maximise the opportunities presented by the new pooling arrangements and work with Brunel on responsible investment in our portfolio and the markets more broadly.

Climate change will remain at the forefront of our responsible investment approach, especially given the stark warning from the 2018 Intergovernmental Panel on Climate Change (IPCC) report. This stated with high confidence that global warming is likely to reach 1.5°C between 2030 and 2052 and that there are only 12 years to act for global warming to be kept to a maximum of 1.5C.

[5] Footage and a full transcript is available here: http://www.parliament.uk/business/committees/committees-a-z/commons-select/environmental-audit-committee/

We will continue to look for the best climate mitigation opportunities (limiting warming) but will also consider the risk and opportunities of adaptation and in particular the physical impacts of climate change.

We will continue to work closely with our partners in Brunel and the wider investment community to support the development of responsible investment.

APPENDIX 1 EAPF's clean technology and other sustainable assets

<table>
<tr><th>Sector</th><th>Data classification</th><th>Explanation</th></tr>
<tr><td>Diversified Environmental</td><td rowspan="8">Clean technology matched from the FTSE Environmental Markets Classification System

See - https://research.ftserussell.com/products/downloads/env-mkts-class-sys.pdf?32</td><td rowspan="8">The Diversified Environmental sector includes all the various FTSE diversified subsectors, for example Diversified Energy Efficiency.</td></tr>
<tr><td>Energy Efficiency</td></tr>
<tr><td>Environmental Support Services</td></tr>
<tr><td>Food, Agriculture & Forestry</td></tr>
<tr><td>Pollution Control</td></tr>
<tr><td>Renewable & Alternative Energy</td></tr>
<tr><td>Waste Management & Technologies</td></tr>
<tr><td>Water Infrastructure & Technologies</td></tr>
<tr><td>Property - sustainable</td><td>GRESB – Green Star

See - https://gresb.com/</td><td>These are investments made through our Real Assets manager Townsend that have been awarded GRESB Green star.</td></tr>
<tr><td>Sustainable equities and bonds</td><td>Sustainable mandates and matching investments</td><td>We count all our holdings in mandates which we have chosen that invest in sustainable opportunities.

We also add investments with other managers that match these same holdings.

These can be in equities or, where a parent company can be identified, in bonds.

All the holdings in this sector are in addition to those categorised above (i.e. not double counted).</td></tr>
</table>

Awards and Commendations

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

The EAPF are acknowledged as recognising climate change as a key risk, considering divestment from carbon intensive industries and investing in low carbon alternatives.

The Fund identifies clear investment beliefs regarding climate risk, seeing climate change as a systemic risk to the environmental, societal and financial stability of every economy and country on the planet, with the potential to affect their members, employers and all holdings in the portfolio.

The report also found that the Fund has set itself clear objectives to ensure their investment portfolio and processes are compatible with keeping global average temperature increases below 2°C relative to pre-industrial levels, in-line with international government agreements.

Pension Fund investment

Investment strategy development and implementation

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

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

For 2018/19, the Fund’s investments continued to be based on the investment strategy agreed in 2017 following the 2016 triennial valuation. This built on the strategy developed in 2015, which created a high level allocation to diversifying growth assets, recognising that there was a case for reducing equity risk, but that bonds, while low risk and helpful for matching liabilities, were not attractive from a return perspective. The investment strategy framework sets ranges for allocation to three areas: bonds, equities and diversifying growth assets. This allows flexibility while limiting risk.

An investment strategy review will be carried out following the Fund’s year end on 31 March 2019, which marks the date of the 2019 triennial valuation.

Below we provide a summary of some the changes within the Fund’s assets over 2018/19.

For 2018/19, the Fund made a commitment of €20m to Ambienta III as part of the private equity Targeted Opportunities Portfolio. This period also saw a £50m commitment to Bluebay III which was made to help the Fund build towards its target allocation to private lending. The commitment to the BlueBay III fund was in addition to the five existing private lending mandates. The managers of the two new mandates take the integration of ESG seriously and are signatories of the Principles for Responsible Investment.

Further progress was made on our real assets portfolio (property, infrastructure, forestry and agriculture). At year end, investments and undrawn commitments now stand at £555m, or 15% of the Fund, which is in line with the 15% medium term strategic target.

Much of the change to the investment manager arrangements that has taken place over the year has been driven by the transition of funds to two mandates managed by Brunel Pension Partnership Ltd (‘Brunel’). Over 2018/19, the Fund’s low carbon passive equities mandate with LGIM was transferred into the Brunel Passive Low Carbon Equities portfolio, with the underlying index unchanged. The Fund’s low volatility equity mandates with Robeco and Quoniam were also transitioned into the Low Volatility portfolio offered by Brunel.

Consistent with the desire to de-risk the Fund over time, ongoing cash flow requirements, which were not able to be met through existing cash balances, were sourced from the listed equity holdings.

To ensure the Fund is managed in line with the asset allocation, officers and advisors hold monthly investment meetings. Any deviations in asset allocation are discussed and actions agreed. Cash is maintained within 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 aims to bring 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 had been set for the Fund:

Asset Class	Benchmark Index	% Weight 2018/19	% Weight 2017/18
Global equities	FTSE All World*	42.0	42.0
Emerging market equities	FTSE Emerging Markets	5.0	5.0
Index-linked gilts	FTSE-Actuaries UK Index-Linked Gilts over 15	8.5	8.5
Corporate bonds	iBoxx Sterling all non-gilt	20.0	20.0
Private equity	MSCI World	4.0	4.0
Real Assets	Retail Price Index	12.0	12.0
Private debt	3 month £ Libor	3.0	3.0
Total return bonds	3 month £ Libor	5.0	5.0
Cash	3 month £ Libor	0.5	0.5

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

Investment performance

For the 2018/19 financial year the Fund achieved an absolute return of 8.0%, outperforming its benchmark (after fees) by 1.1%. Over three years the Fund has returned 10.5%, 0.6% p.a. above its benchmark, an excellent result for the Fund. It was a rather mixed year for investment markets with a rather strong first half followed by bouts of volatility in the second half. The second and third quarter of 2018 saw strong global equity market performance on the back of a continued broad economic expansion on a global basis. During the fourth quarter of 2018 the outlook for global growth started to soften, which combined with investor concerns over monetary tightening by the US Federal Reserve as well as uncertainty over trade, led to the largest sell-off in equity markets since 2008. Following the Federal Reserve softening their tone on monetary policy and the prospect of a trade settlement between the US and China in mid-2019 as well as slower but still solid economic data, a strong rebound in equity markets ensued in the first quarter of 2019.

As explained above and in previous annual reports, we have taken several actions to reduce equity risk. Primarily, the Fund has chosen managers with a deliberate tilt towards low volatility, high quality companies, with a view to reducing downside risk and volatility. Several of our managers take a benchmark agnostic, long term, absolute return approach. Thus, we expect the Fund's performance to lag in strongly rising markets and outperform in more volatile conditions. Over the year our best performing managers were Ownership Capital and Generation, which both take a very long-term, sustainable approach to investing.

Our emerging market managers, Comgest and Stewart Investors, generated mixed absolute returns over the year, with Comgest lagging its benchmark and Stewart Investors outperforming. Our low volatility managers, Quoniam and Robeco, lagged their benchmarks, a trend that was maintained over the year, although both managers performed well relative to their benchmarks in late 2018 when markets fell, illustrating the ability of their low volatility strategy to reduce downside risk. Over 2018, performance of Wellington (Total Return bonds) has picked up after a period of more mixed performance. Royal London (UK Corporate bonds) and L&G (global buy and maintain) generated performances broadly in line with their respective benchmarks. Our real assets mandate with Townsend did well relative to its inflation + 3.5% return target, as did our Private Debt portfolio. Robeco, one of our private equity managers underperformed the broader listed equity market, however the private equity funds making up the Targeted Opportunities Portfolio outperformed broader equity markets.

Most of our managers have outperformed their benchmarks since inception. The managers/portfolios that outperformed were Generation and Ownership Capital (both sustainable global equities), our emerging market managers Stewart Investors and Comgest, our low volatility managers Quoniam and Robeco, our UK corporate bond managers RLAM and L&G, our real assets manager Townsend, our absolute return bond manager Wellington and our Private Debt portfolio. In terms of private equity, both Robeco and the Targeted Opportunities Portfolio underperformed since inception, although it is too early to assess the latter's performance given the nature of private equity return calculations for immature portfolios. Impax and the Robeco SEVE portfolios, forming part of the Fund's global equity managers, have also underperformed since inception.

The allocation to passive low carbon equities and index linked gilts performed broadly in line with their respective benchmarks over the 12 months to 31 March 2019 and since inception.

The total return of the Fund over the year and over three years to 31 March 2019 is as follows:

Financial Performance	**2019 %**	**2018 %**
1 year		
Fund performance	+8.0	+4.4
Benchmark performance	+6.9	+2.5
Active fund relative performance	+1.1	+1.9
3 year		
Fund performance	+10.5	+8.5
Benchmark performance	+9.9	+7.4
Active fund relative performance	+0.6	+1.1

Investment management

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

Our investment managers are responsible for selecting individual investments, and operate at arm's length from the Fund, with full discretion over the management of their portfolios, subject to (for manager of segregated portfolios) complying with statutory limits and the Investment Strategy Statement and taking due regard of the Active Fund Responsible Investment policy and supplementary guidance, for example on environmental issues or voting. Each manager has been set a specific benchmark that reflects the asset class being managed, and in the case of segregated managers has a performance target they are aiming to achieve. Details of the managers, their benchmarks, targets and performance is available on pages 53 to 54.

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

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

Custody arrangements

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

State Street is a strong company that is rated by Standard and Poor's as 'A' for long term / senior debt and 'A-1' for short term / deposits. The Fund's assets are not held in the name of State Street and so are segregated from those of State Street Bank & Trust Company, safeguarding them in the event of company failure. Where appropriate, cash held by the Fund at State Street in Sterling, Euros and United States Dollars are invested in State Street Liquidity Funds, which would not be affected in the event of a failure by State Street. The State Street Liquidity Funds are rated 'A3' by Moody's and are invested in short term money instruments to preserve capital and liquidity. Only small amounts of cash are left on deposit at State Street.

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

Funding level

The funding level of the Active Fund is estimated to be 103% as at 31 March 2019, this is inline with the result of the latest triennial valuation as at 31 March 2016.

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

Valuation results	**2004**	**2007**	**2010**	**2013**	**2016**
Value of assets £m	983	1,521	1,589	2,118	2,730
Value of liabilities £m	1,050	1,455	1,684	2,351	2,641
Funding level %	94	105	94	90	103
Asset Allocation %					
Equities	71	67	58	63	60
Bonds	15	9	12	20	20
Gilts	7	14	15	9	8
Property	0	5	3	3	8
Private equity	0	2	5	4	4
Cash	7	3	7	1	<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.

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

Manager	Date appointed	Value at 31 Mar 2019 £m	Fund %	Asset class/ Mandate	Benchmark	2018/19 Performance				2017/18 Performance		
						Target %	Fund return %	Benchmark return %	Relative to benchmark %	Fund return %	Benchmark return %	Relative to benchmark %
Private equity & TOP												
Targeted Opportunities Fund	Apr-14	76.9	2	Private Equity (active pooled)	Absolute Return 8.0% pa	+8.0	+29.6	+12.6	+17.0	-1.5	+1.8	-3.3
Robeco	Oct-05	55.4	1.5	Private Equity (active segregated)	MSCI World (Gross)	+5.0	n/a	n/a	n/a	n/a	n/a	n/a
Emerging Mkt. equities												
Comgest	Nov-10	118.7	3.2	Emerging Markets equity (active segregated)	MSCI Emerging Market GDR	+3.0	-4.5	+0.1	-4.6	+8.4	+11.8	-3.4
Stewart	Oct-12	101.4	2.7	Emerging Markets Equity (active pooled)	MSCI Emerging Market GDR	>0.0	+3.9	+0.1	3.8	+4.8	+11.8	-7.0
Global equities												
Generation	Aug-08	444.8	12.0	Global Equity (active segregated)	MSCI AC World (80% GD, 20% ND)	+3.0	+18.3	+10.9	+7.4	+10.1	+2.8	+7.3
Brunel Passive Equities	Jul-18	215.5	5.8	Global Equity (passive pooled)	MSCI World Low Carbon Target	+0.0	+12.3	+12.4	-0.1	+1.3	+1.4	-0.1
Ownership Capital	Jun-14	185.6	5	Global Equity (active pooled)	MSCI Kokusai (World ex Japan) GD	+3.0	+21.2	+13.9	+7.3	+14.5	+1.3	+13.2
Brunel Low Volatility	Mar-19	322.5	8.7	Global Equity (low volatility - active pooled)	c50% MSCI AC World NDR (hedged to GBP) & c50% MSCI EM NDR (unhedged)	>0.0	+10.7	+11.1	-0.4	-1.1	+2.9	-4.0

Robeco	Oct-17	151.3	4.1	Global Equity (active pooled)	MSCI World GDR	>0.0	n/a	n/a	n/a	n/a	n/a	n/a
Impax	Aug-08	114.5	3.1	Global Equity (active segregated)	MSCI AC World GDR	+3.0	+8.6	+11.1	-2.5	+5.4	+2.9	+2.5
Diversifying Growth Assets												
Townsend	Mar-13	418.5	11.5	Real Assets (active segregated & pooled)	RPI (target RPI + 4% over rolling 5 years)	+4.0	+6.9	+2.4	+4.5	+6.7	+3.3	+3.4
Wellington	Mar-15	291.1	7.9	GTR Bonds (active pooled)	3 Month Sterling LIBOR	+1.0	+5.2	+0.8	+4.4	+1.7	+0.3	+1.4
Private Lending	Mar-15	144.9	3.9	Private Lending (active pooled)	3 Month Sterling LIBOR	+5.8	+2.8	+0.8	+2.0	+1.5	+0.3	+1.2
Bonds												
Corporate Bonds												
Royal London	Jul-07	343.7	9.3	Corporate Bonds (active segregated)	iBoxx £ Non Gilt all bonds	+1.3	+3.7	+3.7	+0.0	+2.9	+1.2	+1.7
Legal & General	Oct-15	330.8	8.9	Corporate Bonds (passive pooled)	iBoxx £ Non Gilt all bonds	+0.0	+3.5	+3.7	-0.2	+0.5	+1.2	-0.8
Index Linked Gilts												
Legal & General	Nov-09	357.1	9.7	UK Index Linked Gilts (passive seg)	FTSE Index Linked Gilt > 15 Year	+0.0	+5.5	+5.7	-0.2	+1.1	+1.2	-0.1
Cash & Other												
Other net assets		24.2	0.5									
Total Fund		**3,697.1**	**100.0**		**Strategic Benchmark**	**+0.9**	**+8.0**	**+6.9**	**+1.1**	**+4.4**	**+2.5**	**+1.9**

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 L&G Buy and Maintain Corporate Bonds.

Robeco's Private Equity return is included in Total Fund performance but excluded from this table as it is measured differently to the main asset classes and managers above who manage over 97% of the Fund's assets.

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

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

Portfolio analysis

Distribution of net investment assets by market value as at 31 March 2019, in millions:

	Private lending	Private equity	UK direct equities inc. pooled	Overseas equities including pooled equities						UK fixed interest	Overseas fixed interest	Pooled fixed interest	Pooled property & infrastructure	Cash	Other net investments including derivatives	£m Total
				North America	Europe (exc UK)	Emerging Markets & other areas	Asia Pacific (exc Japan)	Japan	Total							
Legal & General										356.9		330.8			0.2	**688.0**
Generation			13.4	*309.9*	*62.5*	*37.3*	*4.4*		414.1					16.5	0.7	**444.8**
Townsend		61.5											342.5	14.4	0.1	**418.5**
Royal London										125.9	204.4	8.0		0.6	4.8	**343.7**
Brunel Low Volatility			28.3	*200.9*	*42.4*	*0.7*	*24.1*	*18.3*	286.4					7.4	0.3	**322.5**
Wellington												291.1				**291.1**
Brunel Low Carbon			12.9	*141.8*	*33.2*	*0.2*	*9.3*	*17.6*	202.1					0.6		**215.5**
Ownership				*163.7*	*14.5*				178.2					7.5		**185.6**
Robeco SEVE			10.9	*86.1*	*26.2*	*0.5*	*5.6*	*21.6*	140.0						0.4	**151.3**
Illiquid Credit	144.9															**144.9**
Comgest				*15.7*	*3.1*	*46.3*	*49.5*		114.6					4.5	(0.3)	**118.7**
Impax			9.8	*49.6*	*30.3*	*5.3*	*13.0*	*4.0*	102.2					1.9	0.7	**114.5**
Stewart Investors			9.3	*2.6*	*3.5*	*64.1*	*4.7*	*5.1*	80.0					12.1		**101.4**
Targeted Opps		73.5												3.4		**76.9**
Robeco PE		35.5												19.1	0.8	**55.4**
Cash & Other														20.2	4.0	**24.2**
£m Total	**144.9**	**170.6**	**84.6**	***970.2***	***215.7***	***154.3***	***110.8***	***66.6***	**1,517.6**	**482.8**	**204.4**	**629.9**	**342.5**	**108.0**	**11.7**	**3.697.1**
% of Fund	3.9	4.6	2.3	*26.2*	*5.8*	*4.2*	*3.0*	*1.8*	41.0	13.1	5.5	17.0	9.3	2.9	0.3	**100.0**

Note: May not add up exactly due to rounding

Top 20 holdings of the Fund as at 31 March 2019

Holding	Asset Class	2019	
		£m	% of Fund
L&G TSDD Buy & Maintain Corporate Bonds Fund	Pooled fixed interest - Overseas corporate bonds	330.8	8.9
FP BRUNEL LOW VOLATILITY FUND	Pooled equities – Global	322.1	8.7
Wellington Global Total Return Bond IV GBP T Acc Fund	Pooled equities – Global	291.1	7.9
L&G GPBT MSCI World Low Carbon Target Index Fund	Pooled equities – Global	215.5	5.8
Ownership Capital Global Equity Fund Class A	Pooled equities – Global	185.6	5.0
Robeco Sustainable Enhanced Value Equities	Pooled equities – Global	150.9	4.1
Stewart Investors Global Emerging Markets Sustainability Fund	Pooled emerging markets equity	101.4	2.7
Permira Credit Solutions III Senior GBP L.P.	Private Lending – Partnerships	53.1	1.4
Taiwan Semiconductor Manufacturing Co Ltd	Direct equity	31.0	0.8
BlueBay Direct Lending UK Fund	Private Lending – Partnerships	27.7	0.7
UK Government 0.125% index-linked 22/11/55	Fixed interest - UK index linked gilts	27.3	0.7
UK Government 0.125% index-linked 22/03/68	Fixed interest - UK index linked gilts	27.0	0.7
UK Government 0.375% index-linked 22/03/62	Fixed interest - UK index linked gilts	27.0	0.7
DENTSPLY SIRONA INC	Direct Equity	25.1	0.7
UK Government 1.125% index-linked 22/11/37	Fixed interest - UK index linked gilts	24.6	0.7
UK Government 0.5% index-linked 22/03/50	Fixed interest - UK index linked gilts	24.5	0.7
Analog Devices Inc	Direct Equity	24.1	0.7
UK Government 0. 75% index-linked 22/11/47	Fixed interest - UK index linked gilts	23.9	0.6
Bridges Property Alternative Fund III LP	Private equity – Partnerships	23.8	0.6
BARINGS NORTH AMERICAN PRIVATE	Private equity – Partnerships	23.8	0.6
Total		**1,960.3**	**53.0**

Top 20 holdings of the Fund as at 31 March 2018

Holding	Asset Class	2018	
		£m	% of Fund
L&G TSDD Buy & Maintain Corporate Bonds Fund	Pooled fixed interest - Overseas corporate bonds	319.4	9.3
Wellington Global Total Return Bond IV GBP T Acc Fund	Pooled fixed interest - Overseas corporate bonds	276.1	8.1
L&G GPBT MSCI World Low Carbon Target Index Fund	Pooled equities - Global	255.3	7.5
Ownership Capital Global Equity Fund Class A	Pooled equities - Global	153.4	4.5
Robeco Sustainable Enhanced Value Equities	Pooled equities - Global	144.2	4.2
Stewart Investors Global Emerging Markets Sustainability Fund	Pooled emerging markets equity	97.6	2.9
Permira Credit Solutions III Senior GBP L.P.	Private Lending - Partnerships	38.3	1.1
Taiwan Semiconductor Manufacturing Co Ltd	Direct equity	31.4	0.9
BlueBay Direct Lending UK Fund	Private Lending - Partnerships	30.1	0.9
UK Government 1.25% index-linked 22/11/55	Fixed interest - UK index linked gilts	27.4	0.8
Bridges Property Alternative Fund III LP	Private equity - Partnerships	25.8	0.8
UK Government 0.125% index-linked 22/03/68	Fixed interest - UK index linked gilts	25.3	0.7
UK Government 0.375% index-linked 22/03/62	Fixed interest - UK index linked gilts	25.2	0.7
UK Government 0.5% index-linked 22/03/50	Fixed interest - UK index linked gilts	22.7	0.7
Union Investment Lux SA Quoniam Select Em Markets Min Risk	Equities - Emerging Markets	22.6	0.7
UK Government 0.75% index-linked 22/11/47	Fixed interest - UK index linked gilts	22.4	0.7
UK Government 1.125% index-linked 22/11/37	Fixed interest - UK index linked gilts	21.8	0.6
UK Government 0.625% index-linked 22/03/40	Fixed interest - UK index linked gilts	21.7	0.6
UK Government 0.125% index-linked 22/03/44	Fixed interest - UK index linked gilts	20.7	0.6
Henry Schein Inc	Direct equity	20.7	0.6
Total		**1,602.1**	**46.9**

Geographical distribution of quoted and pooled equity investments

Geographical distribution	2019		2018	
	£m	% of total	£m	% of total
North America	970.2	60.6	771.4	51.1
Europe (excluding UK)	215.7	13.4	218.1	14.4
Emerging Markets and other areas	154.3	9.6	292.9	19.4
Asia Pacific (excluding Japan)	110.8	6.9	78.4	5.2
United Kingdom	84.6	5.3	72.8	4.8
Japan	66.6	4.2	77.3	5.1
Total	**1,602.2**	**100.0**	**1,510.9**	**100.0**

Top 20 direct equity holdings

Company	Country	2019 £m	% of Total Assets	Company	Country	2018 £m	% of Total Assets`
Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	27.0	0.7	Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	31.4	0.9
Analog Devices Inc	United States	24.5	0.7	Henry Schein	United States	20.7	0.6
Dentsply Sirona Inc	United States	23.9	0.6	Unilever	Netherla nds	19.7	0.6
Alphabet Inc	United States	21.4	0.6	Jones Lang LaSalle Inc	United States	17.4	0.5
Schwab Charles Corp	United States	20.5	0.6	Acuity Brands Inc	United States	13.9	0.4
DEERE + CO	United States	17.7	0.5	Thermo Fisher Scientific Inc	United States	13.5	0.4
Thermo Fisher Scientific Inc	United States	16.0	0.4	CSL Limited	Australia	12.9	0.4
Cooper Cos	United States	15.6	0.4	Sensata Technologies Holding NV	United States	12.4	0.4
Jones Lang LaSalle Inc	United States	15.3	0.4	Cooper Cos	United States	12.3	0.4
Henry Schein	United States	15.3	0.4	Dentsply Sirona Inc	United States	12.2	0.4
LeGrand SA	France	12.9	0.3	Microsoft Corp	United States	12.2	0.4
Sensata Technologies Holding NV	United States	12.2	0.3	Schwab Charles Corp	United States	12.0	0.4
Automatic Data Processing	United States	11.1	0.3	Infosys Ltd	India	10.8	0.3
Texas Instruments Inc	United States	10.7	0.3	JD com	China	10.2	0.3
Microsoft Corp	United States	10.4	0.3	Cerner Corp	United States	10.1	0.3
Indusind Bank Ltd	India	10.3	0.3	Automatic Data Processing	United States	9.6	0.3
Mercadolibre Inc	United States	10.0	0.3	Aptiv PLC	United States	7.8	0.2
Acuity Brands Inc	United States	9.4	0.3	Credicorp Ltd	Peru	7.2	0.2
TE Connectivity Ltd	United States	8.5	0.2	Ingersoll-Rand PLC	United States	7.0	0.2
Ingersoll-Rand PLC	United States	8.3	0.2	Hargreaves Landsdown	United Kingdom	6.4	0.2
Total		**301.0**	**8.1**	**Total**		**259.7**	**7.8**

Pension Fund administration

Administration arrangements

The Environment Agency Pension Fund (EAPF) is responsible for administering the current and future pension benefits for around 26,000 members of the Active Pension Fund.

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

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

Performance measurement

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

We would like to express our thanks to Capita for resolving 34,018 (2018: 27,619) Active and Closed Fund member requests/queries and for paying pensions to over 6,900 Active Fund pensioners. Over the year, Capita achieved service levels for 95.6% of all casework processed.

The 5 largest case types processed by Capita for the Active Pension Fund during 2018/19 were:

Case type	2019	2018
Leavers with deferred pensions	494	1391
Retirement estimates	1143	1207
Joiners	918	974
Transfers out including quotations	453	472
Retirements	381	439

Active Fund administration costs for the year to the 31 March 2019 were £557k (2018: £576k) including member communications and postage costs. Last year the administration costs were higher as Capita performed GMP reconciliations, a Government requirement placed on all Funds. For 2018/19 the CIPFA average was £21 per member. Across both our Active and Closed Funds, our average cost for 2018/19 was £23 (2017/18: £24) per member.

The total number of staff allocated by Capita to the EAPF administration contract is 24, of which 16 deal solely with pension benefits administration. Based on a membership of 39,281 across both the Active and Closed Funds at 31 March 2019, this represents an average of 2,455 members per administrator.

We take a value for money approach looking for appropriate balance between cost, service and quality in pension administration delivery. For example, in all 9 industry standard performance indicators measured by CIPFA for 2017/18, we achieved an average of 96% compared to the average of 89% across the range of those indicators. The CIPFA 2018/19 figure will not be available until the autumn of 2019.

Internal controls

The EAPF system of internal controls is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Fund's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in the Environment Agency and in the operation of the Fund for the year ended 31 March 2019, in accordance with LGPS and Treasury guidance and best practice.

Two independent reviews by Environment Agency Internal Audit on the adequacy and effectiveness of internal controls and Pension Fund Risks were conducted in accordance with Government Internal Audit Standards during the year.

The Pension Fund compliance audit concluded that we showed strong compliance with the provisions of the Pensions Schedule of the Financial Memorandum and the requirements from the Pensions Regulator's public sector Code of Practice. The Risk audit also concluded positive feedback on our risk management process. In terms of future actions, we are currently considering the recommendation to 'deep dive' into a specific risk area at each committee meeting.

Our annual pension benefit statements were issued to 100% of our active members on 24 August 2018, within the statutory 31 August 2018 deadline. Following our Process to Report Breaches of the Law, we made no reports to the Pensions Regulator during 2018/19.

Capita produce an audited AAF 01/06 and ISAE 3402 Assurance Report on internal controls which is reviewed annually by Officers and our external auditors with no exceptions to report.

Data quality

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

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

Data quality testing is carried out for the Active Fund annually and a certificate issued reflecting compliance with TPR guidance. The latest available results from our August 2018 certificates showed our post June 2010 data as 99.5% (May 2017: 99%), with pre June 2010 data at 91% (may 2017: 95%). The missing data for both categories relates to members moving house and not informing our administrators. We continue to carry out exercises to trace these members and will update their records accordingly.

More member specific data called 'Scheme Specific Data' has also been reviewed with positive results, and is reviewed on a regular basis. We continue to work with The Pensions Regulator (TPR) and the Scheme Advisory Board (SAB) on the methodology of reporting.

Data security

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

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

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

We had no incidents involving loss of personal data in 2018/19 which were required to be reported to the Information Commissioner.

National Fraud Initiative/mortality checks

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

As a general principle, where we investigate cases and if fraud is suspected, we will pursue the case and will seek to agree a repayment plan or, if necessary, take legal action or involve the police. Our monthly mortality checks are in place to help reduce potential fraud on the Fund. There are no reported cases for 2018/19.

Communications

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

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

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

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

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

Introducing webinars allows us to:

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

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

As part of our long term strategy, 2018 saw us continue our move to digital communications by using our 5 segmented groups to ensure the way we engage remains relevant and personalised to our members.

Our segmented groups are:

- Spontaneous spender – adventure
- Pension Sceptic – protection
- Assured saver – relaxed
- Responsible worrier – detail and focus
- Mature planner – companionship

The use of segmented ‘E Shots’, ensures we test different imagery, and messaging with our different groups to establish preferences. We have completed two years of digital campaigns with specific messages being targeted to the 5 main groups. Each communication has a ‘call to action’ (CTA) which may be to complete a form, or to click and watch a video etc.

We are able to monitor how many messages are sent, how many are opened and how many complete the CTA, and this information is then made available in our Communication dashboard. We monitor the feedback from members carefully, and will continue to collate responses to enable us to focus our messaging.

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

Complaints

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

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

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

In 2018/19, Capita received 70 (14 for 2017/18) formal complaints from Active Fund members. There was one IDRP stage 1 case and one IDRP stage 2 cases raised on the Active Fund during the year and one case went to the Pensions Ombudsman. The Ombudsman case has now been resolved.

Foreword to the financial statements

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

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

Roles and responsibilities of the Pensions Committee

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

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

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

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

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

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

Summary of the financial statements

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

All investment assets are included in the financial statements on a fair value basis as at the reporting date. The net assets of the Environment Agency Active Pension Fund as at 31 March 2019 have increased by £279m to £3,697m (2018: increased by £144m to £3,418m). This is due to an increase in the market value of its investments under management.

The Fund holds a Long-term investment in the Brunel Pension Partnership Limited, its pooling provider. As at the 31 March 2019 this had a reported fair value of £395k (2018: £840k).

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

Total contribution income has decreased by £3.9m to £88.6m (2018: decreased by £2.4m to £92.5m). This can primarily be attributed to a decrease in value of the NRW employer advanced contributions required in the year. The 12 months ending 31 March 2019 have seen a 2.9% increase in active membership (2018: decrease of 5.2% due in the main to the Corporate Services transfer in November 2017). However, the normal contributions remain relatively static at just over £53m in the year.

Net income from all transfer values received in the year has risen on the prior year as a result of individuals transferring from previous arrangements into the scheme. This increased by £1.6m to £5.3m (2018: decreased by £0.1m to £3.7m). Retirement benefits and other payments made to or in respect of members during the year have increased by £3.0m to £87.7m (2018: increased by £0.3m to £84.7m). This is primarily attributable to a pension increase rate of 3.0% applied in April 2018 and an increase in our pensioner population.

Management expenses have risen by £1.5m to £27.8m (2018: £26.3m). This rise is due to the increase in assets under management, which many of our Investment management fees are charged against, plus service costs of our pooling provider, Brunel, which became operational on 1 April 2018. As more of our assets are transitioned into the Brunel portfolios, over the coming years, the savings from reduced Investment Management fees will become more apparent.

This year we re-allocated the costs of the EAPF management team (effectively internal administration) from "Administration costs" to "Oversight and governance costs". This can be seen in the Management expenses Note 11. This means that scheme administration, provided by Capita, is much easier to benchmark by being accounted for in isolation under the heading of Administration costs. It is also in line with CIPFA guidance and provides consistent reporting across other LGPS funds.

The Fund increased its net return on investments by £141.0m to £303.3m (2018: decreased by £392.3m to £162.3m).

Statement by the Consulting Actuary

Environment Agency Active Fund ('the Fund') Actuarial Statement for 2018/19

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated March 2017. In summary, the key funding principles are as follows:

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

The FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For both principal employers, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is around a 75% chance that the Fund will be fully funded after 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £2,730 million, were sufficient to meet 103% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2016 valuation was £89 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial Assumptions	31 March 2016	
	% p.a. Nominal	% p.a. Real
Discount Rate	3.8	2.0
Salary increase assumption	2.1	0.3
Benefit increase assumption (CPI)	1.8	-

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 2013 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	24.4 years
Future pensioners*	24.3 years	26.7 years

*Aged 45 as at 2016 valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities and there have been strong asset returns over the 3 years. Both events are of broadly similar magnitude with regards to the impact on the funding position as at 31 March 2019, which is estimated to be 103%.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Peter MacRae
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
15 May 2019

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

Opinions on the financial statements

I certify that I have audited the financial statements of the Environment Agency Active Pension Fund for the year ended 31 March 2019 under the Environment Act 1995. These financial statements comprise the Fund Account, the Net Assets Statement and the related notes, including significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In my opinion:

- the financial statements present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019, and of the amount and disposition at that date of the fund's assets and liabilities; and

- the financial statements have been properly prepared in accordance with Schedule 7 to the Environment Agency Framework Document issued by Defra, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

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 the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (UK). My responsibilities under those standards are further described in the Auditor's responsibility for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Environment Agency Active Pension Fund in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Environment Agency Active Pension Fund's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

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

As explained more fully in the section entitled roles and responsibilities of the Pensions Committee, the Accounting Officer and the Pensions Committee are responsible for preparing the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibility for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Environment Act 1995.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Environment Agency Active Pension Fund's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Other information

The Accounting Officer and Pensions Committee are responsible for the other information. The other information comprises information included in the annual report, other than the financial statements and my auditor's certificate thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinions on other matters

In my opinion:

- in the light of the knowledge and understanding of the Environment Agency Active Pension Fund and its environment obtained in the course of the audit, I have not identified any material misstatements in the Annual Report; and
- the information given in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

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

Date: 19 July 2019

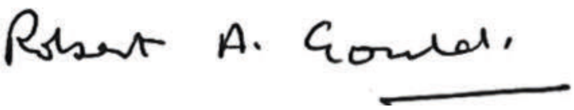
Financial statements for the year ending 31 March 2019

Fund account	Notes	2019 £000	2018 £000
Dealings with members, employers and			
others directly involved with the Fund			
Contributions receivable	7	88,565	92,495
Transfer values in from other pension funds	8	5,307	3,664
		93,872	**96,159**
Benefits and other payments			
Benefits payable	9	(87,652)	(84,719)
Payments to and on account of leavers	10	(2,769)	(3,277)
		(90,421)	**(87,996)**
Net additions from dealings with members		**3,451**	**8,163**
Management expenses	11	**(27,849)**	**(26,284)**
Return on investments			
Investment income	12	63,068	52,810
Taxes on income	13	(645)	(1,349)
Profit and loss on disposal of investments and changes in the value of investments	14a	240,895	110,844
Net returns on investments		**303,318**	**162,305**
Net increase in the Fund during the year		**278,920**	**144,184**
Opening net assets of the Fund at 1 April		3,418,357	3,274,173
Closing net assets of the Fund at 31 March		**3,697,277**	**3,418,357**

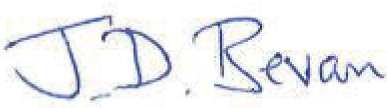
The notes on pages 73 to 102 form part of these financial statements.

Net assets statement	Notes	2019 £000	2018 £000
Long-term investments	14a	395	840
Investment assets	14c	3,705,009	3,416,528
Investment liabilities	14c	(7,956)	(3,107)
Net investment assets		**3,697,448**	**3,414,261**
Current assets	20	20,053	24,283
Current liabilities	21	(20,224)	(20,187)
Closing net assets of the Fund at 31 March		**3,697,277**	**3,418,357**

The financial statements summarise the transactions and net assets of the Fund. The financial statements do not take account of liabilities to pay pensions and other benefits that fall due after the end of the Scheme year. The actuarial position of the Fund, which does take account of such liabilities, is dealt with in the statement by the Consulting Actuary on pages 66 to 67 and these financial statements should be read in conjunction with it. The Actuary's statement dated 15 May 2019 is based on a valuation as at 31 March 2016. The notes on pages 73 to 102 form part of these financial statements.



Robert Gould
Chair
Environment Agency Pensions Committee
17 July 2019



Sir James Bevan
Accounting Officer
Environment Agency
16 July 2019

Notes to the financial statements

1. Description of the Fund

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

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

General

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

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

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

Membership

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

Funding

Benefits are funded by employer and employee contributions and investment earnings. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was as at 31 March 2016. Currently employer contributions rates are, 18.5% of pensionable pay for the Environment Agency, a fixed annual rate of £7m for Natural Resources Wales and 22.7% of pensionable pay for Shared Services Connected Limited. Employee contributions are made by active members in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019.

Benefits

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

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

2. Basis of preparation

The financial statements have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. They are prepared with a covenant from Defra who are the financial sponsors of the Environment Agency under the Environment Agency Act 1995 and the MHCLG as the statutory guarantors of the LGPS. The accounting policies have been drawn up in line with recommended accounting principles within the overall Code of Practice on Local Authority Accounting framework.

3. Summary of significant accounting policies

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

Contribution income

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

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

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

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

Transfers to and from other schemes

Individual transfers in and out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement, or in the absence of specific terms, on a cash basis.

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

Benefits payable

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

Management expenses

Administration, oversight and governance costs and investment management expenses are accounted for on an accruals basis. Management expenses are recognised net of any recoverable VAT. The fees of the Fund's external investment managers reflect their differing mandates. Fees are generally linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. In cases where administration expenditure relates to both the Active and Closed Pension Fund we are now attributing this 80%/20% respectively to better reflect the time spent administrating each Fund, as shown below. This apportionment is considered annually.

Apportionment of common expenditure	2018/19 AF/CF %	2017/18 AF/CF %
Custodial arrangements	80/20	80/20
Environment Agency Pension Fund Management	80/20	60/40

Investment income

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

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

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

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

Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises. VAT input tax is recoverable on all management expenses. The accounts are exclusive of VAT.

Financial assets

The long-term investment in the Brunel Pension Partnership asset pool has been revalued from cost of £840k to a fair value of £395k. Brunel Pension Partnership Limited only became licensed to trade on 1 April 2018 and are currently trading at a loss. Consequently, the Environment Agency Pension Fund's view is that the market value of this investment as at 31 March 2019 can be reasonably assessed from the Brunel Pension Partnerships Annual Report and Accounts and that their Statement of Changes of Equity as at 30 September 2018 is therefore deemed an appropriate estimate of fair value.

All other investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13. For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

Foreign currency transactions

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

Derivatives

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

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

Cash deposits and instruments

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

Financial Liabilities

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

Additional Voluntary Contributions

The EAPF provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from the pension fund. The Fund has open arrangements with Prudential and Standard Life as well as closed arrangements with Equitable Life and Clerical Medical. AVCs are paid to the AVC providers by employers and specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

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

Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

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

Adoption of new accounting standards

IFRS 9 'Financial Instruments'
IFRS 9 'Financial Instruments' is the new reporting standard for financial instruments and became effective on 1 January 2018. IFRS 9 has replaced previous financial instrument standards and interpretations covered by IAS 39 Financial Instruments: Recognition and Measurement, bringing together all aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Fund has applied IFRS 9 for the first time in 2018/19.

Classification and measurement
IFRS 9 requires all financial assets and liabilities to be measured at fair value, except for contributions receivable which do not contain a significant financing component. Contribution receivables are measured at amortised cost. Classification and measurement of financial instruments is driven by the Fund's business model for managing the financial instruments and the contractual cash flow characteristics of the financial instruments.

Impairment
IFRS 9 introduces a new impairment model for financial assets not held at Fair Value through Profit and Loss ("FVPL"). As a result, the Fund must now determine forward looking expected credit losses ("ECL") for all its financial assets held at amortised cost. Financial assets held at amortised costs within the Fund comprise: Cash and cash equivalents; Other investment balances; Contribution receivables; and Other receivables. Cash assets are not subject to determining ECL. In the case of contribution receivables and other receivables there are no expected credit losses identified.

IFRS 9 has been applied prospectively by the Fund and this did not result in a change to the measurement of financial instruments as outlined in note 15 but some classifications have been amended to reflect IFRS 9's requirements. The Fund's contribution receivables and other receivables continue to be measured at amortised cost.

There was no material impact on the adoption of IFRS 9.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 Revenue from contracts with customers became effective on 1 January 2018. The standard's core principle is that an entity will recognise revenue when it transfers goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

HM Treasury guidance expands the definition of a contract under IFRS 15 to include legislation and regulations which enables an entity to obtain revenue that is not classified as a tax by the Office of National Statistics. Under this expanded definition contributions are seen to not be akin to revenue and therefore IFRS 15 does not apply.

Standards likely to affect future financial statements

Standards likely to affect future financial statements include:

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

4. Critical judgments in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgments involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2019 was £170.6m (2018: £154.4m).

Pension Fund liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology follows CIPFA Code of Practice on Local Authority Accounting in the United Kingdom for 2018/19 and in accordance with IAS19.

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

Investment in Brunel Pension Partnership Limited - asset pool

This Long term investment in Brunel has been revalued on the basis that the fair value as at 31 March 2019 can be derived from the Brunel Pension Partnerships Annual Report and Accounts. Their Statement of Changes of Equity is therefore deemed an appropriate estimate of fair value. Management will review this valuation annually.

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 2019 for which there is a risk of material adjustment in the forthcoming financial year is as follows:

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

6. Events after the net asset statement date

The financial statements were approved by both the Pensions Committee on 17 June 2019 and Audit and Risk Assurance Committee on 19 June 2019. The financial statements are signed under delegated authority of the Board. They will also be noted at a meeting of the Board on 9 October 2019.

A bulk transfer of Corporate Services staff from the Fund to the Civil Service Pension Arrangements is due to be paid around July 2019. This is for 438 deferred members, with an estimated total value of £59.9 million is due to be paid.

On 27 June 2019, the Supreme Court refused the Government permission to appeal the McCloud case in respect of age discrimination and pension protection. More information is given on Page 5.

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

7. Contributions receivable

By contribution type	2019 £000	2018 £000
Employer		
Normal	53,427	53,331
Advanced	9,944	13,738
Special	386	328
	63,757	**67,397**

Members		
Normal	24,474	24,812
Purchase of added years	334	286
	24,808	**25,098**
Total	**88,565**	**92,495**

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

By employer	2019 £000	2018 £000
Employer contributions		
Environment Agency	56,598	55,124
Natural Resources Wales	7,089	12,188
SSCL	70	85
	63,757	**67,397**
Employee contributions		
Environment Agency	22,699	23,111
Natural Resources Wales	2,094	1,961
SSCL	15	26
	24,808	**25,098**
Total	**88,565**	**92,495**

8. Transfer values received

	2019 £000	2018 £000
Individual transfers from other schemes	4,279	2,916
AVC transfers	1,028	748
Total	**5,307**	**3,664**

Transfer values have been paid ('cash equivalents' within the meaning of Part 1 of Schedule 5 to the Pensions Scheme Act 1993), and service credits given for transfers received, calculated in accordance with the method and assumptions on the advice of the Actuary and based on guidelines issued by the Institute and Faculty of Actuaries. No discretionary benefits have been included in the calculation of transfer values. AVC transfers represent amounts disinvested from the AVC arrangements disclosed in Note 2 during the year and subsequently used to fund benefits.

9. Benefits payable

	2019 £000	2018 £000
Retirement and dependants pensions	74,073	69,910
Lump sum retirement grants	12,231	12,562
Lump sum death grants	1,125	2,062
Taxation where annual allowance exceeded	223	185
Total	**87,652**	**84,719**

10. Payments to and on account of leavers

	2019 £000	2018 £000
Individual transfers to other schemes	2,607	3,154
Refunds of contributions	127	88
AVC transfers	35	35
Total	**2,769**	**3,277**

A bulk transfer of Corporate Services staff from the Fund to the Civil Service Pension Arrangements is due to be paid after the year end. Further disclosures are shown in Note 6: Events after the net asset statement date.

11. Management expenses

	2019 £000	2018 £000
Administration costs		
Scheme administration	**557**	**576**
Oversight and governance costs		
Specialist advice	1,099	846
Environment Agency Pension Fund management	431	482
External audit	57	43
	1,587	**1,371**
Investment management expenses		
Performances related fees	11,317	11,742
Management fees	13,836	11,629
Transaction costs	448	859
Custody fees	104	107
	25,705	**24,337**
Total	**27,849**	**26,284**

External audit fees increased in 2018/19 due to additional work required around our transition to a new custodian, the corporate services transfer and the transition of some of our assets which are now managed by Brunel. The increase in Management fees is primarily due to the increase in assets under management and the service cost of pooling.

12. Investment income

	2019 £000	2018 £000
Dividends from equities	20,762	19,252
Income from fixed interest securities	15,911	14,986
Income from private equity	14,138	7,500
Income from pooled property and infrastructure	10,340	9,249
Income from pooled investment vehicles	756	877
Interest on cash deposits	714	946
Other investment income	447	-
Total	**63,068**	**52,810**

13. Taxes on income

	2019 £000	2018 £000
Withholding tax – equities	(645)	(1,190)
Withholding tax – pooled property	-	(159)
Total	**(645)**	**(1,349)**

14. Investments

a) Investment movements summary 2018/19

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

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

**The underlying composition of certain assets have been reviewed as at 31 March 2018 and 31 March 2017 and as a result certain assets have been reclassified, as disclosed on page 83.*

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

The change in the market value of investments comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

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

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

Indirect transaction costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund. The prior year Investment movement's summary is shown in the table below.

Investment movements summary 2017/18

Financial year to the 31 March 2018	Market value at 01.04.17 (restated**)	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value at 31.03.18 (restated**)
	£000	£000	£000	£000	£000
Equities**	1,032,155	830,785	(1,088,486)	58,845	833,299
Fixed interest securities	612,061	143,485	(101,145)	(1,986)	652,415
Pooled equities**	642,811	169,615	(163,501)	28,778	677,703
Pooled fixed interest	473,491	125,679	-	4,333	603,503
Pooled property and infrastructure**	232,486	86,708	(45,224)	10,895	284,865
Private equity**	132,508	41,712	(17,549)	(2,248)	154,423
Private debt	47,740	95,364	(37,639)	(4,253)	101,212
FX and derivatives	3,726	5,899,656	(5,923,470)	20,524	436
	3,176,978	**7,393,004**	**(7,377,014)**	**114,888**	**3,307,856**
Cash deposits and instruments	90,151			(4,045)	95,838
Other investment balances	5,837			1	9,727
Total	**3,272,966**			**110,844**	**3,413,421**

Long-term investments	-	840	-	-	840
Total	**3,272,966**			**110,844**	**3,414,261**

***As described under the 2018/19 investment movement summary above, the underlying composition of certain assets have been reviewed as at 31 March 2018 and 31 March 2017. Equity holdings previously shown at £1,114,993,000 (31 March 2017: £1,157,919,000) are now shown as £833,299,000 (31 March 2017: £1,032,155,000) as a result of reclassifying equity holdings valued at 31 March 2018 of £281,694,000 (31 March 2017: £125,764,000) as pooled equities. Pooled equities previously shown at 31 March 2018 as £396,009,000 (31 March 2017: £517,047,000) are now shown at £677,703,000 (31 March 2017: £642,811,000) as a result of the same change. Private equity holdings previously shown at £175,580,000 (31 March 2017: £132,508,000) are now shown as £154,423,000 (31 March 2017: £132,508,000) as a result of reclassifying private equity holdings valued at £21,157,000 (31 March 2017: £Nil) as pooled property and infrastructure. Pooled property and infrastructure previously shown at 31 March 2018 as £263,708,000 (31 March 2017: £232,486,000) are now shown at £284,865,000 (31 March 2017: £232,486,000) as a result of the same change.*

Financial year to the 31 March 2018	Market value at 01.04.17 £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts £000	Change in market value £000	Market value at 31.03.18 £000
Equities	(125,764)	(169,110)	11,689	1,491	(281,694)
Pooled equities	125,764	169,110	(11,689)	(1,491)	281,694
Pooled property and infrastructure	-	23,254	-	(2,097)	21,157
Private equity	-	(23,254)	-	2,097	(21,157)

b) Investment value details

Investment assets	2019 £000	2018 £000 (restated*)
Equities*		
Overseas quoted	593,457	790,087
UK quoted	24,487	43,212
	617,944	**833,299**
Fixed interest securities		
UK index linked gilts public sector	356,900	337,733
UK corporate quoted	254,462	237,922
Overseas corporate quoted	74,745	75,560
Overseas public sector quoted	1,169	1,200
	687,276	**652,415**
Pooled equities*		
Overseas unit trusts	963,173	648,042
UK unit trusts	55,316	29,661
	1,018,489	**677,703**
Pooled fixed interest		
UK corporate quoted unit trusts	330,831	319,402
Overseas corporate quoted unit trusts	299,088	284,101
	629,919	**603,503**
Private equity*		
UK unquoted	38,024	38,173
Overseas unquoted	132,536	116,250
	170,560	**154,423**
Pooled property and infrastructure*		
UK infrastructure funds	106,618	138,795
Overseas infrastructure funds	160,262	116,692
Overseas unquoted collective limited partnership investments	74,956	27,796
UK unquoted collective limited partnership investments	673	1,582
	342,509	**284,865**
Private debt	**138,119**	**101,212**
Derivative contracts		
Forward foreign exchange	(4,206)	868
Futures	-	(432)
	(4,206)	**436**
Cash deposits and instruments		
Cash with custodian and fund managers	88,757	96,167
Cash margin with brokers	-	(329)
	88,757	**95,838**
Other investment balances		
Accrued income	6,787	7,141
Amounts due from trade and currency brokers	4,109	4,043
Income tax recoverable	526	880
Amounts due to trade and currency brokers	(3,736)	(2,337)
	7,686	**9,727**
Net investment assets	**3,697,053**	**3,413,421**
Long-term investments	**395**	**840**
Total investment assets	**3,697,448**	**3,414,261**

**Refer to page 83 for details of reclassifications for 2018 balances*

c) Investment assets and liabilities

	2019 £000	2018 £000 (restated*)
Financial assets		
Equities (includes pooled and private equity)*	1,806,993	1,665,425
Bonds (includes pooled and gilts)	1,317,195	1,255,918
Pooled property and infrastructure*	342,509	284,865
Private debt	138,119	101,212
Cash	88,757	96,167
Other investment assets	11,422	12,064
Derivatives – Futures and forward foreign exchange	14	877
Total financial assets	**3,705,009**	**3,416,528**
Financial liabilities		
Derivatives – Futures and forward foreign exchange	(4,220)	(441)
Amounts due to trade and currency brokers (including cash margin with brokers)	(3,736)	(2,666)
Total financial liabilities	**(7,956)**	**(3,107)**
Long-term investments	**395**	**840**
Net investment assets	**3,697,448**	**3,414,261**

**Refer to page 83 for details of reclassifications for 2018 balances*

d) Derivative contracts

	2019		2018	
Derivatives	**Asset £000**	**Asset £000**	**Asset £000**	**Liability £000**
Futures contracts	-	-	-	(432)
Forward foreign currency contracts	14	(4,220)	877	(9)
	-	**-**	**877**	**(441)**
Net derivatives	**-**	**(4,206)**	**436**	**-**

Type of futures contract	Expiration	2019 Nominal value £000	2018 Nominal value £000	2019 Fair Value £000	2018 Fair Value £000
E-mini S&P 500 US exchange traded June 2018 (Generation)	3 months	-	18,374	-	(392)
Eurostoxx 50 index exchange traded June 2018 (Generation)	3 months	-	2,352	-	(40)
Total		**-**	**20,726**	**-**	**(432)**

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

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

Forward over the counter foreign currency contracts

At 31 March 2019 there was an unrealised loss of £4,206,000 on the currency forwards (2018: unrealised gain of £868,000). The current position relates to specific hedging undertaken by individual managers.

Currency bought	Local value £000	Currency sold	Local value £000	Settlement dates	2019 Asset £000	2019 Liability £000	2018 Asset £000	2018 Liability £000
Australian Dollar	5,560	US Dollar	3,975	One to six months	-	(17)	-	-
Canadian Dollar	8,760	US Dollar	6,592	One to six months	-	(22)	-	-
Danish Krone		Sterling		One to six months	-	-	-	(1)
Euro		Sterling		One to six months	-	-	-	(1)
Japanese Yen	1,152,000	US Dollar	10,598	One to six months	-	(120)	-	-
Sterling		Danish Krone		One to six months	-	-	34	-
Sterling	87,317	Euro	101,434	One to six months	12	(336)	108	-
Sterling	23,276	Japanese Yen	3,412,171	One to six months	-	(434)	71	-
Sterling	4,789	Norwegian Krone	54,402	One to six months	-	(55)	41	-
Sterling	11,689	Canadian Dollar	20,634	One to six months	-	(141)	4	-
Sterling	23,541	Australian Dollar	44,040	One to six months	-	(409)	66	-
Sterling		New Zealand Dollar		One to six months	-	-	38	-
Sterling		Swedish Krone		One to six months	-	-	83	-
Sterling	5,753	Swiss Franc	7,601	One to six months	-	(125)	108	-
Sterling	181,155	US Dollar	240,095	One to six months	-	(2,390)	317	-
US Dollar	11,078	Sterling	8,474	One to six months	2	-	-	-
US Dollar	13,109	Chinese Yuan	89,600	One to six months	-	(171)	-	-
US Dollar		Danish Krone		One to six months	-	-	7	(7)
				Total	**14**	**4,220**	**877**	**(9)**

e) Investments exceeding 5% of net investment assets

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

Holding	2019		2018	
	Market value £m	% of net assets	Market value £m	% of net assets
TSDD Bespoke	330.8	8.9	319.4	9.3
Brunel Low Volatility Mutual Fund	322.1	8.7	-	-
Wellington Global Return Fund Pooled Bonds	291.1	7.9	276.1	8.1
MSCI World Low Carbon Leaders Index	215.5	5.8	255.3	7.5
Ownership Capital Global Equity Fund	185.6	5.0	153.4	4.5

15. Financial Instruments

a) Classification of financial instruments

The accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading.

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

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

31 March 2018 (restated*, restated**)	Financial assets and liabilities held at fair value through profit and loss	Financial assets held at amortised cost	Financial liabilities held at amortised cost
	£000	£000	£000
Financial assets			
Equities*	833,299	-	-
Fixed interest securities	652,415	-	-
Pooled equities*	677,703	-	-
Pooled fixed interest	603,503	-	-
Pooled property and infrastructure*	284,865	-	-
Private equity*	154,423	--	-
Private debt	101,212	-	-
Derivatives	877	-	-
Long Term Investments	840		
Cash deposits and instruments**	95,838	15,738	-
Other investment assets	-	12,393	-
Debtors (excluding VAT)	-	5,509	-
	3,404,975	**33,640**	**-**
Financial liabilities			
Derivative contracts	(441)	-	-
Other investment liabilities	-	-	(2,666)
Creditors (excluding PAYE)	-	-	(19,360)
	(441)		**(22,026)**
Total	**3,404,534**	**33,640**	**(22,026)**

**Refer to page 83 for details of reclassifications for 2018 balances*

***Cash deposits and instruments held by investment managers of £95,838,000, previously disclosed as held at amortised cost, have been reclassified as financial instruments held at fair value through profit and loss in accordance with IFRS 9.*

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

b) Net gains and losses on financial instruments

	2019 £000	2018 £000
Financial assets		
Fair value through profit and loss	253,762	110,844
Financial liabilities		
Fair value through profit and loss	(12,867)	-
Total change in market value	**240,895**	**110,844**

16. Fair value – basis of valuation

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

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

Fair value hierarchy

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

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

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

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

Values at 31 March 2018 (restated*)	**Quoted market price**	**Using observable inputs**	**With significant unobservable inputs**	
	Level 1 £000	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets				
Financial assets at fair value through profit and loss*	930,614	2,021,259	453,102	3,404,975
Financial liabilities				
Financial liabilities at fair value through profit and loss	(441)	-	-	(441)
Net financial assets at fair value*	**930,173**	**2,021,259**	**453,102**	**3,404,534**
Financial assets held at amortised cost*				33,640
Financial liabilities held at amortised cost*				(22,026)
Non-financial instruments				2,209
Total net assets of the Fund				**3,418,357**

*The fair value of certain investment assets held at fair value have been reconsidered in 2019, and accordingly these assets have been reclassified in 2018 for comparability purposes. In aggregate, £299,303,000 of financial assets at fair value through profit and loss ("FVTPL") have been reallocated from level 1 to level 2, and £95,838,000 has been reclassified from financial assets held at amortised cost to FVTPL level 1, in accordance with IFRS 9. Additionally, balances not relating to financial instruments of £3,306,000 of financial assets at amortised cost, and £827,000 of financial liabilities held at amortised cost have been separately disclosed as such in the reconciliation to Fund net assets. These changes are summarised in the following table:

	Financial assets at fair value through profit and loss		Financial assets held at amortised cost	Financial liabilities held at amortised cost	Non-financial liabilities
	Level 1	Level 2			
	£000	£000	£000	£000	£000
2018 balances as previously stated	1,134,079	1,721,956	132,514	(22,853)	-
Reclassification	(203,465)	299,303	(98,874)	827	2,209
Reclassification 2018 balances	**930,614**	**2,021,259**	**33,640**	**(22,026)**	**2,209**

Sensitivity of assets valued at Level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

	Assessed valuation range % (+/-)	Value at 31 March 2019	Value on increase	Value on decrease
		£000	£000	£000
Pooled property and infrastructure	14.3	101,128	115,590	86,668
Private equity	28.3	170,560	218,828	122,292
Private debt	5.9	138,119	146,267	129,969
Long-term investments	8.5	395	429	361
Total		**410,202**	**481,114**	**339,290**

Reconciliation of fair value measurements within level 3

Period 2018/19	Market value 1 April 2018 £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value £000	Market value 31 March 2019 £000
Fixed interest	7,744	-	(7,744)	-	-	-	-
Equities	1,658	-	(1,658)	-	-	-	-
Pooled property and infrastructure	166,068	21,157	(115,311)	34,275	(7,748)	2,687	101,128
Private equity	175,580	-	(21,157)	22,300	(33,367)	27,204	170,560
Private debt	101,212	-	-	55,214	(18,603)	296	138,119
Long-term investments	840	-	-	-	-	(445)	395
Totals	**453,102**	**21,157**	**(145,870)**	**111,789**	**(59,718)**	**29,742**	**410,202**

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 Pensions Committee to consider risk as required.

Market risk

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

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

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

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

Market risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisers, the Fund has determined that the following movements in market price risk are reasonably possible for the 2018/19.

	Potential change in value from market risk	
Asset Class	**31 March 2019 £000**	**31 March 2018 £000 (restated*)**
UK equities	13,247	12,243
Global equities (ex UK)	263,070	257,425
Private equity*	48,268	43,702
Property*	48,979	40,736
Private debt (senior loans)	8,149	5,162
Global corporate bonds	100,831	93,655
UK index linked gilts	32,835	31,071
Other	329	550
Cash	444	479
(Less impact of diversification)*	(201,868)	(177,740)
Total Fund volatility	**314,284**	**307,283**

Asset Class	1 Year expected volatility %	% of Fund
UK equities	16.6	2.2
Global equities (ex UK)	16.9	42.1
Private equity	28.3	4.6
Property	14.3	9.3
Private debt (senior loans)	5.9	3.7
Global corporate bonds	10.5	26.0
UK index linked gilts	9.2	9.7
Cash	0.5	2.4
Total Fund volatility	**8.5**	**100.0**

**The comparative potential changes have been restated for 2018 subsequent to the reclassifications noted on page 83.*

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 2019	31 March 2018
Total net investment assets (£000)	**3,697,448**	3,414,261
Percentage change (%)	**8.5**	9
Value on increase (£000)	**4,011,731**	3,721,544
Value on decrease (£000)	**3,383,165**	3,106,978

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.

	£000 as at 31 March 2019	Interest rate sensitivity duration 2019	£000 as at 31 March 2018	Interest rate sensitivity duration 2018
UK Index Linked Gilts	**356,900**	**29.9**	337,734	30.1
Pooled Sterling Bonds Indexed	**330,831**	**7.8**	319,401	8.4
Sterling Bonds Actively Managed	**338,387**	**8.0**	314,682	8.1
Total	**1,026,118**		**971,817**	

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 2019	Possible change in the net assets available to pay benefits	
	£000	+1%	-1%
		£000	£000
UK Index linked Gilts	**356,900**	**106,713**	**(106,713)**
Pooled Sterling bonds indexed	**330,831**	**25,805**	**(25,805)**
Sterling bonds actively managed	**338,387**	**27,071**	**(27,071)**
Total	**1,026,118**	**159,589**	**(159,589)**

	Carrying amount as at 31 March 2018	Possible change in the net assets available to pay benefits	
	£000	+1%	-1%
		£000	£000
UK Index linked Gilts	337,733	101,658	(101,658)
Pooled Sterling bonds indexed	319,402	26,830	(26,830)
Sterling bonds actively managed	314,682	26,137	(26,137)
Total	**971,817**	**154,625**	**(154,625)**

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. 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 2019 and as at the previous period end:

Currency exposure – asset type	Asset value as at 31 March 2019	Asset value as at 31 March 2018 (restated*)
	£000	£000
Overseas quoted equities*	**593,457**	790,087
Overseas pooled equities*	**963,173**	648,042
Overseas unquoted private equity*	**132,536**	116,250
Overseas private debt	**54,028**	32,742
Total overseas assets	**1,743,194**	1,587,121

**The comparative potential changes have been restated for 2018 subsequent to the reclassifications noted on page 83.*

Currency risk – sensitivity analysis

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

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10% 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 2019	Possible change to net assets available to pay benefits	
	£000	+10% £000	-10% £000
Overseas quoted equities	**593,457**	**59,346**	**(59,346)**
Overseas pooled equities	**963,173**	**96,317**	**(96,317)**
Overseas unquoted private equity	**132,536**	**13,254**	**(13,254)**
Overseas private debt	**54,028**	**5,403**	**(5,403)**
Total value/change in assets available	**1,743,194**	**174,320**	**(174,320)**

Currency exposure – asset type	Asset value as at 31 March 2018 (restated*)	Possible change to net assets available to pay benefits	
	£000	+10% £000	-10% £000
Overseas quoted equities*	790,087	79,009	(79,009)
Overseas pooled equities*	648,042	64,804	(64,804)
Overseas unquoted private equity*	116,250	11,625	(11,625)
Overseas private debt	32,742	3,274	(3,274)
Total change in assets available	**1,587,121**	**158,712**	**(158,712)**

**The comparative potential changes have been restated for 2018 subsequent to the reclassifications noted on page 83.*

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 State Street 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 2019 was £98 million (31 March 2018 was £111 million). This was held with the following institutions:

Summary	Rating by Moody's	Balances as at 31 March 2019 £000	Balances as at 31 March 2018 £000
Money market funds:			
State Street	A3	**88,757**	-
Northern Trust	Aaa-mf	**-**	95,838
Bank current accounts:			
National Westminster Bank plc	A1	**9,206**	15,738
Total		**97,963**	**111,576**

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 2019, the value of potentially illiquid assets was £410m, which represented 11.1% of the total Fund assets (2018: £453m, which represented 13.3% 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 2019 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 Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. The next valuation will take place as at 31 March 2019.

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 2016 actuarial valuation, the Fund was assessed as 103% funded (90% at the March 2013 valuation). This corresponded to a deficit of £89m (2013 valuation: deficit of £233m) at that time.

The following table shows the minimum contributions payable after allowing for discretionary lump sum payments paid to the Fund in March and November 2018 and February and March 2019, and reflecting the transfer of Corporate Services staff to Defra on 1 November 2017.

Employer name	Minimum contributions for the year ending:	
	31 March 2020	
	% pay	£000
EA	14.0	7,945
NRW	0.0	nil
SSCL	22.7	nil

Full details of the contribution rates payable can be found in the 2016 actuarial valuation report (dated 31 March 2017), the Rates and Adjustment Certificate)dated 14 May 2019 and the FSS.

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

Financial assumptions

Financial assumptions	% per annum	Description
Investment Return (Discount Rate)	3.8	Yield on long term fixed interest Government bonds plus Asset Outperformance Assumption of 1.6%
Retail Price Inflation (RPI)	2.9	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*	2.1	RPI less 0.7% (with the adjustment applied geometrically)
Pension Increases	1.8	CPI (assumed to be 1.0% less than RPI with the adjustment applied geometrically)

*An allowance is also made for promotional pay increases.

Longevity assumptions

Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2013 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	24.4 years
Future pensioners (assumed to be aged 45 at the latest formal valuation	24.3 years	26.7 years

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the fund

Commutation assumption

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

19. Actuarial present value of promised retirement benefits

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.

Present value of promised retirement benefits

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 £4,422m (2018: £3,837m). 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.

Year ended	31 March 2019	31 March 2018
Active members (£m)	2,613*	2,115
Deferred members (£m)	631	557
Pensioner members (£m)	1,178	1,165
Total (£m)	**4,422**	**3,837**

** Including £32m for the estimated impact of the recent McCloud judgement*

The promised retirement benefits at 31 March 2019 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, the actuary is satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2019 and 31 March 2018. The estimate of the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £373m. There is no impact from any change to the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

Year ended	31 March 2019 % p.a.	31 March 2018 % p.a.
Pensions Increase Rate	2.2	2.1
Salary Increase Rate	2.5	2.4
Discount Rate	2.4	2.7

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 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 summarised below:

	Males	Females
Current pensioners	22.6 years	24.4 years
Future pensioners*	24.3 years	26.7 years

** Assumed to be aged 45 at latest formal valuation*

Commutation assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 50% of the maximum tax-free cash for post-April 2008 service.

Sensitivity analysis

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

Sensitivity to assumptions 31 March 2019	Approximate % increase to liabilities	Approximate monetary amount (£M)
0.5% increase in the Pension Increase rate	9	412
0.5% increase in the Salary Increase rate	2	99
0.5% increase in the Real Discount rate	12	520

The principal demographic assumption is the longevity assumption. For sensitivity purposes, the actuary estimates that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Sensitivity of McCloud impact estimate to assumed salary increases

In addition to the main sensitivity analysis on the overall liabilities, we have included an additional analysis on the sensitivity of the estimated impact of the McCloud judgement to the assumed level of future salary increases. The McCloud impact also depends on other assumptions, for example retirement ages and rate of withdrawals, but previous analysis indicated that the sensitivity to salary increases was most significant.

To estimate the impact of the McCloud ruling we used a model based on randomly-generated pay increases, with mean increases varying by age to replicate the promotional salary scale. There was therefore no single salary increase assumption, but overall the mean level of increases was similar to the assumption used for accounting purposes of CPI + 0.3% p.a. (with promotional increases on top). Under this central assumption the impact on the present value of promised retirement benefits at 31 March 2019 was estimated to be £32m, as mentioned above.

To test the sensitivity to salary increases we have recalculated the impact with mean salary increases 0.5% p.a. higher and lower than the central assumption. The resulting impact on the present value of promised retirement benefits at 31 March 2019 is shown in the table below:

McCloud impact sensitivity analysis to 31 March 2019	Estimated impact of McCloud judgement on present value of promised retirement benefits (relative to central assumption)
Mean salary increases 0.5% p.a. lower	(£21m)
Mean salary increases 0.5% p.a. higher	£27m

20. Current assets

	2019 £000	2018 £000
Debtors		
Contributions due – employers	3,926	3,660
Contributions due – employees	1,930	1,814
VAT to be reimbursed to the Fund	4,919	3,036
Overpaid benefits to be refunded to the Fund	-	35
Sundry – amount due from Closed Fund/Bank interest	72	-
	10,847	**8,545**
Cash at bank	**9,206**	**15,738**
Total	**20,053**	**24,283**

Analysis of debtors

- Employers' and employees' contributions of £3,926,000 and £1,930,000 (2018: £3,660,000 and £1,814,000) respectively outstanding in the normal course of collection at the year end and subsequently paid over within the statutory time limit.
- £72,000 is due from the Environment Agency Closed Fund (2018: £66,000 due to the Environment Agency Closed Fund) in respect of administration expenses and VAT reclaimed.

21. Current liabilities

	2019 £000	2018 £000
Creditors		
Administration and investment expenses	(18,341)	(17,853)
Benefits payable	(1,014)	(1,441)
PAYE	(857)	(812)
Other – amount due to Closed Fund	-	(66)
Tax payable on refunds	(12)	(15)
Total	**(20,224)**	**(20,187)**

22. Additional Voluntary Contributions

The table below shows information about these separately invested AVCs.

	2019 £000	2018 £000
Standard Life	3,946	3,423
Prudential	3,701	2,806
Clerical Medical	1,997	2,117
The Equitable Life Assurance Society	845	883
Total AVC investments	**10,489**	**9,229**

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

23. Related party transactions

During the year ended 31 March 2019 there have been the following related party transactions:

- Pensions administration costs of £431k (2018: £482k) were recharged to the Active Fund by the Environment Agency;
- Eight members of the Pensions Committee are contributing members of the Active Fund who pay contributions on an arm's length basis;
- One member of the Pensions Committee is in receipt of a pension from the Active Fund which is received on an arm's length basis;
- Payment of unfunded liabilities of £372k (2018: £363k) recharged to the Environment Agency and funded by grant-in-aid from Defra in respect of compensatory added years;
- £72,000 is due from the Environment Agency Closed Fund (2018: £66,000 due to the Environment Agency Closed Fund) in respect of administration expenses and VAT reclaimed. The Closed Fund is a sister scheme to the Active Fund and further details about this fund are shown in Annex 6 on page 162;
- Brunel Pensions Partnership Ltd (BPP Ltd) was formed on the 18 July 2017 and will oversee the investment of pension fund assets for Avon, Buckinghamshire. Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire Funds;
- Each of these 10 local authorities, including the Environment Agency own 10% of BPP Ltd represented by the Long-term investment of £395k (2018: £840k). This was impaired by £445k using the latest available valuation from the Brunel Pension Partnership Annual Report and Accounts as at 30 September 2018;
- The Environment Agency paid Brunel Pension Partnership £735k in the year, for its Investment Management services (2018: nil); and
- The Environment Agency currently has two portfolio's with Brunel, a Low Carbon passive equities mandate valued at £215.5m and a Low Volatility equity mandate valued at £322.5m (2018: £nil).

24. Capital commitments, contingent assets and contingent liabilities

In accordance with authorised investment strategy and mandates, the outstanding Capital commitments at 31 March 2019 are: Real Estate £137.7m (2018: £169.3m), Illiquid Credit £111.3m (2018: £121.9m) and Private Equity £67.2m (2018: £65.1m).

There are no contingent assets or contingent liabilities as at 31 March 2019.

25. Impairment losses

For the year to 31 March 2019 the Fund has recognised an impairment loss of less than £0.1m (2018: less than £0.1m) for the non-recovery of pensioner death overpayments.

26. IAS10: Authorisation for issue

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

The annexes

The annexes included within this report are unaudited.

Annex 1 – Scheme rules and benefits

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

Scheme membership and income

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

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

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

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

- Pay additional voluntary contributions (AVCs) with one of the Environment Agency In-House providers (Standard Life or Prudential) to buy a larger retirement pension, to improve other specific benefits or to provide additional cash, or EAPF membership for pension purposes (if the employee has continuously paid additional voluntary contributions since 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 member requests the transfer payment within 12 months of joining the Environment Agency Pension Fund (or such a longer date that the Fund employer or Environment Agency Pension Fund allows).

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

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

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

Outline of pension benefits provided by the LGPS

	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 (Main Section) 1/98th (50:50 Section)
Revaluation rate	Final salary		Consumer Price Index
Pensionable pay	Pay excluding non-contractual overtime and non-pensionable additional hours		Pay including non-contractual overtime and non-pensionable additional hours
Lump sum	3/80ths (+ commutation 12:1)	No automatic lump sum (commutation 12:1)	
Ill health retirements	One tier	Three tiers	
Death benefits	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% (Main Section) 2.75% to 6.25% (50:50 Section) Bands index linked
Early retirement	From age 50 (either redundancy or employee request)	From age 55 (either redundancy or employee request)	
Voluntary retirement			from age 55 but with reductions
85 year rule	Early payment protection when combined age and service equals 85	Removed but existing staff have retained protections	
Normal retirement age	Age 65	Age 65	State Pension Age (minimum 65)

Contributions Table

The following table displays the 2018/19 employee contribution bands.

Pay range (based on actual Pensionable pay paid)	Contribution rate Main Section	Contribution rate 50:50 Section
Up to £14,100	5.50%	2.75%
£14,101 to £22,000	5.80%	2.90%
£22,001 to £35,700	6.50%	3.25%
£35,701 to £45,200	6.80%	3.40%
£45,201 to £63,100	8.50%	4.25%
£63,100 to £89,400	9.90%	4.95%
£89,401 to £105,200	10.50%	5.25%
£105,201 to £157,800	11.40%	5.70%
£157,801 or more	12.50%	6.25%

Changes to the Local Government Regulations during

There were two amending regulations laid in 2018/19 that made changes to the Local Government Pension Regulations 2013:

- The Local Government Pension Scheme (Amendment) Regulations 2018 (SI 2018 /493)
- The Local Government Pension Scheme (Miscellaneous Amendment) Regulations 2018 (SI2018/1366)

The key changes these regulations made saw policy changes come into effect on:

- Admission agreements
- The requirement to pay an exit credit to Scheme employers leaving the scheme
- The payment of deferred benefits from age 55 for leavers before 1 April 2014
- Extending the statutory underpin to members of other public service pension schemes who transferred into the LGPS
- Aligning the terms and conditions of AVC contracts that were taken out before or after 1 April 2014
- Giving the Secretary of State the general power to issue statutory guidance
- Equalising the pension payable to survivors of same sex marriages and civil partnerships with the pension payable to the widow of an opposite sex marriage

Other significant legislative changes affecting LGPS during

On 20 December 2018 the Court of Appeal rejected an appeal by the Ministry of Justice that its handling of the ‘compensatory’ or ‘transitional’ protections afforded to judges and firefighters following the reform of their pension scheme to a career average revalued earnings scheme did not discriminate against younger members.

This ruling meant that HM Treasury decided to pause its cost management process for public service pension schemes whilst they appeal to the Supreme Court. The cost management process is designed to ensure that the cost for providing public sector workers with a pension remain within prescribed limits for both the members of those schemes and tax payers.

The initial results of the cost management process pointed towards a package of benefit improvements for public service pension scheme members which should have come into effect from 1 April 2019. These changes are now on hold until the final outcome of the discrimination claims raised by the judiciary and firefighters are known.

Annex 2 – Funding Strategy Statement

1. Introduction

What is this document?

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 23 March 2018.

What is the Environment Agency Active Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK.

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

As at 31 March 2016, the Active Fund contained 10,759 active members, 6,082 pensioners and 7,332 deferred pension members whose benefits have yet to come into payment.

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

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

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

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

Why does the Fund need a Funding Strategy Statement?

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

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

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

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

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

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

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

How does the Fund and this FSS affect me?

This depends on who you are:

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

What does the FSS aim to do?

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

- To ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment.
- To ensure that employer contribution rates are reasonably stable where appropriate.

- To minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return.
- To reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years.
- To use reasonable measures to reduce the risk to other employers and ultimately to the UK tax payer from an employer defaulting on its pension obligations.

How do I find my way around this document?

We show how the funding strategy is linked with the Fund's investment strategy.

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

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

b) who is responsible for what,

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

d) some more details about the actuarial calculations required,

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

Basic Funding issues

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

How does the actuary measure the required contribution rate?

In essence this is a three step process:

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

Determine the time horizon over which the employer should aim to achieve that funding target.

Determine a contribution strategy that has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon.

What is each employer's contribution rate?

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

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

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

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

How does the contribution rate vary for different employers?

All three steps above are considered when setting contributions.

Funding target

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

For employers open to new entrants a long-term view is taken to determine the funding target. In particular, the investment return assumption makes an allowance for anticipated returns from equities and other assets held by the Fund being in excess of UK Government bonds (gilts) over the long term. For the 2016 valuation, it was assumed that the Fund's assets will, over the long-term, deliver an average additional return of 1.6% a year in excess of the return available from investing in index-linked gilts. This is known as the 'ongoing' funding basis.

The EA (including SSCL by virtue of their risk-sharing agreement – see Section 3 note (c)) was funded on the ongoing funding basis at the 2016 valuation date.

If an employer that is **closed to new entrants** is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation. This basis is known as the 'gilts cessation' basis and does not make any allowance for the outperformance of the Fund's assets above the rate of return on long dated index-linked gilts. Furthermore, the gilts cessation basis allows for future improvements in life expectancy in excess of those assumed under the ongoing funding assumptions.

NRW was funded on the gilts cessation basis at the 2016 valuation date.

Time horizon

The time horizon required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal).

When considering the adequacy of funding for employers that are **open to new entrants** (other than those open employers that participate in the Fund for a fixed period), the primary focus of the Pension Committee should be on the long-term because:

- liabilities are paid over a long period, rather than crystallising on a single day;
- market prices of assets with growth potential can be volatile;
- pension liabilities are significant compared to the employer's payroll; and
- cuts in employer contributions are easy to implement, but very slow to reverse.

The EA's contribution strategy was determined using a 20 year time horizon (from 1 April 2017) at the 2016 valuation.

For employers that are **closed to new entrants**, the Pensions Committee has regard to each employer's likely remaining period of participation in the Fund.

As a closed employer, the funding objective for NRW is to be 100% funded on the gilts cessation basis by the time the last active member leaves, triggering a cessation event (see section 3 note (c) for more details). For contribution setting purposes, a 20 year time horizon (from 1 April 2017) has been modelled. In practice, NRW's cessation date is expected to be beyond this time horizon.

Probability of achieving the funding target

The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The EA and NRW are secure employers with a Government guarantee. The Pensions Committee have settled on contribution strategies for both employers that aim to meet their respective funding targets with at least a 73% probability of success.

Any costs of non-ill health early retirements must be paid by the employer, see 3.5.

Costs of ill health early retirements are covered in 3.5 also.

How is a surplus or deficit calculated?

An employer's 'funding level' is defined as the ratio of:

- The market value of the employer's share of assets (see Appendix D), for further details of how this is calculated), to
- The value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the 'liabilities'). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

How does the Fund balance the conflicting objectives of benefit security and contribution rate affordability?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services.

Whilst this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to former employees and their families after their death.
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees.
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund.
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates.
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees.

In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation, a longer time horizon, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

Calculating contributions for individual Employers

General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability hurdles can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section. The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- Their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions.
- Lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term.
- It may take longer to reach their funding target, all other things being equal.

Overleaf is a summary of how the main funding policies differ for the 3 employers currently participating in the EAPF, followed by more detailed notes.

The different approaches used for different employers

Employer	Environment Agency (EA)	Natural Resources Wales (NRW)	Shared Services Connected Limited (SSCL)
Funding Target Basis used	Ongoing funding basis (see Appendix E)	Gilts cessation basis	Ongoing funding basis (see Appendix E)
Primary rate approach	(see Appendix D – D.2)		
Method for assessing total contributions payable	Contribution Stability Overlay - see Note (a)	NRW funding arrangement – see note (b)	Risk sharing arrangement – see note (c)
Maximum time horizon – Note (d)	20 years	20 years (for assessment of Primary rate)	20 years (for assessment of Primary rate)
Treatment of surplus	Covered by Contribution Stabilisation Mechanism	Covered by NRW funding arrangement	Covered by risk sharing arrangement
Probability of achieving target – Note (e)	76%	73%	N/A – see note (c)
Phasing of contribution changes	Covered by Contribution Stabilisation Mechanism	None	N/A
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, at regular intervals between valuations		
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (g).	As per note (g)	Covered by fixed rate arrangement

Note (a) Contribution Stabilisation Mechanism

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

Stabilisation in the Environment Agency Active Pension Fund is reserved for long, term secure open employers. At present, the EA is the only employer with a stabilised contribution rate.

On the basis of extensive asset liability modelling carried out for the 2016 valuation exercise, the stabilised details are as follows:

Employer	Environment Agency
Short term contribution increases	+0% p.a. until 31 March 2020
Max contribution increase per year thereafter	+0.5% of pay
Max contribution decrease per year thereafter	-0.5% of pay

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes.

Note (b) NRW funding arrangement

NRW joined the Environment Agency Active Pension Fund on 1 April 2013. As an employer closed to new entrants, NRW's period of participation is finite and will cease when the last current active member leaves employment. At the 2013 valuation of the Fund, NRW were certified a contribution rate which aimed to target full funding on the ongoing basis over a period of 12 years (the estimated future working lifetime of the active membership at the time). In practice, an actual cessation event may not be for another 30-40 years.

Following the 2013 valuation, NRW indicated to the Fund that a fixed monetary contribution would be desirable as this would provide budgeting certainty. At the instruction of the Administering Authority, the Fund Actuary has carried out extensive asset liability modelling to determine a fixed level of contribution that would provide the Fund with the desired probability of funding success. As the employer will eventually be asked to meet a cessation payment assessed on the 'gilts cessation' basis, this been used as the funding target for the purpose of this modelling.

On the basis of this modelling, the following fixed annual contributions have been agreed:

Employer	Natural Resources Wales
Fixed annual contributions – 1 April 2017 to 31 March 2020	£7m
Fixed annual contributions – from 1 April 2020	Intended to remain at £7m but subject to regular review

The long term contributions of £7m p.a. are intended to be fixed from 1 April 2020 until the last active member leaves employment and a cessation event is triggered. Based on the modelling carried out by the actuary, the Administering Authority is comfortable that the payment of a fixed amount of £7m p.a. leads to a sufficiently high likelihood of NRW being fully funded on the gilts cessation basis in the long term. However, the Administering Authority will carry regular monitoring of progress against the funding objective to ensure NRW remains 'on track'. The Administering Authority reserves the right to change the level of fixed contribution in the event of a significant change in funding position or to the economic outlook, or a change in employer circumstances (e.g. a significant change in membership).

Note (c) Risk sharing arrangement

An Awarding Authority may enter into a 'risk sharing' arrangement with a participating employer (typically a contractor). A 'risk sharing' arrangement is defined whereby the contribution and/or cessation requirements of an employer have been altered through the implementation of a separate side agreement between the Awarding Authority and the employer. The terms of any 'risk sharing' arrangement will be documented appropriately (i.e. in a signed legal agreement) and shared with the Administering Authority.

The terms of separate 'risk sharing' arrangement may differ (for example, the rate payable by the participating employer could be fixed or capped in some way). In addition, the approach taken to certify contributions required from employers in respect of separate 'risk sharing' arrangements may also differ. The Administering Authority will ensure that the Rates and Adjustments (R&A) certificate reflects any specific 'risk sharing' arrangement in place between an Awarding Authority and a participating employer.

The Administering Authority reserves the right to veto any risk sharing proposal in the event that the terms of the proposal leads to undue risk on the Fund and its participating employers.

There is currently one risk sharing agreement between EAPF employers, which exists between SSCL and the EA. As per the terms of this agreement, SSCL will be certified to pay a total contribution rate of 22.7% of payroll throughout their period of participation in the Fund. On ceasing to participate in the Fund, no cessation debt will be payable and all assets and liabilities of this employer will revert to the EA.

Note (d) Maximum time horizon

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (e) Probability of achieving funding target

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term

The EA and NRW are secure employers with a Government guarantee. The Pensions Committee have settled on contribution strategies for both employers that aim to meet their respective funding targets with at least a 73% probability of success.

Note (f) Regular Reviews

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) Cessation of participating employers

An employer's participation in the Fund is generally assumed to be open-ended and to continue until all the benefits have been paid in full. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. Participation in the Fund can however be terminated at any point, subject to the terms of any admission agreement.

The Fund, however, considers any of the following as triggers for the termination of an admission agreement:

- Last active member ceasing participation in the Fund;

- The insolvency, winding up or liquidation of the employer;
- Any breach by the employer of any of its obligations under the agreement that they have failed to remedy to the satisfaction of the Fund;
- A persistent failure by the employer to pay any sums due to the Fund within the period required by the Fund, which leads to the accrual of arrears to a level deemed by the Fund to be significant; or
- The failure by the employer to renew or adjust the level of the bond or indemnity or to confirm an appropriate alternative guarantor as required by the Fund.

In addition either party can voluntarily terminate the agreement by giving the appropriate period of notice to the other party.

If an employer ceased to participate in the Fund, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.

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.

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 2020 (contributions fixed at 2016/17 levels until then) Asset liability modelling was carried out to ensure that the likelihood of the employer achieving full funding with the contribution stability mechanism in place was sufficiently high.
2	NRW funding strategy c. Fixed annual contributions d. Fixed annual contributions check	Long term contributions for NRW have been set at £7m per annum. Asset liability modelling was carried out to ensure that the likelihood of the employer achieving full funding on the 'gilts cessation' basis in the long term (20 years) was sufficiently high. Fixed annual contributions will be reviewed regularly (e.g. triennially) and tweaked as necessary
2	Pay growth check	An annual check on the impact of pay awards on the value of accrued liabilities, compared to assumptions made at this actuarial valuation, will continue to be undertaken. Each employer will be able to pay additional top-up contributions at the Fund's discretion.
3	Time horizon	Determined separately for each participating employer by reference to the employer's circumstances and basis of participation in the Fund.

Funding for early retirement

Non Ill health retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill health. Each employer is required to pay a lump sum contribution whenever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members' benefits are payable from the earliest age that the employee could retire, on or after age 60, without incurring a reduction to their benefit and without requiring their employer's consent to retire.

Employees who joined the LGPS before 1 October 2006 (and are subject to Rule of 85 protections on their pre April 2008 benefits) but reach age 60 after 31 March 2020, plus all employees who joined after 1 October 2006 (and are assumed to retire before 1 April 2022), are assumed to take all of their benefits at age 65. Otherwise all benefits accrued will be payable at the member's State Pension Age (SPA). SPA is as per current legislation where the SPA is due to rise to 67 between 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 Administering Authority has consulted with the actuary, be charged additional contributions on the same basis as apply for other cases.

New employers participating in the Fund

The Fund currently has three participating employers. It is possible that more employers will join the Fund in future. There are a number of ways in which new bodies can participate in the LGPS, such as a scheduled body or an admission body.

In general, the following principles will apply when a new employer enters the Fund:

- Starting assets and liabilities will be notionally ring-fenced within the Fund and the funding level of the new employer tracked over time based on its own experience, cash flows in and out and membership movements.

- The new employer will have its own individual contribution rate separate from any other employer in the Fund and based on its own membership profile, with a time horizon no greater than the average future working lifetime of its active employees.

- Any deficit left behind if past service benefits are transferred from a ceding employer in the Fund to the new employer as result of a fully funded transfer should be met via either an up-front capital payment or over a suitable spreading period, which should be no longer than that applied to the Environment Agency, as agreed with the paying body.

- Any deficit that the new body inherits at commencement (e.g. as a result of a "share of fund" transfer from another employer within or outside the Fund) would be expected to be met via an up-front capital payment from the new employer or over some suitable spreading period, which should be no longer than that applied to the Environment Agency.

- The calculation of all up-front capital payments are based on market conditions at the date that the new employer joins the Fund (i.e. the vesting or transfer date).

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

Policies on bulk transfers

The Fund's policy on bulk transfers is based on the following key principles:

- When a group of active scheme members joins the EAPF, the Administering Authority's objective is to ensure, as far as practical that the EAPF does not accept an ongoing funding deficit in respect of the transferring employees.

- When a group of active scheme members leaves the EAPF, in order to protect the funding position in respect of the remaining members, the transfer values in respect of the transferring members should be no more than the assets held in respect of the transferring liabilities, and at most be 100% of the transferring liabilities on the ongoing funding basis as set out in the EAPF's Funding Strategy Statement.

- Service credits granted to active scheme members should fully reflect the value of the benefits being transferred, irrespective of the transfer value paid or received.

- There is also an overriding objective to ensure that the LGPS Regulations and 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 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.

Funding strategy and links to investment strategy

What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The Environment Agency's Pensions Committee has decided to adopt a more flexible approach to the Active Fund future investment strategy and asset allocation so that we can respond responsibly and robustly to both the changing global economic environment and impacts of climate change. This will ensure that the Fund's approach to environmental issues remains in the best interest of fund members with many environmental issues able to affect the financial and physical wellbeing of individuals.

The same investment strategy is currently followed for all employers.

What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

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 will damp down, but not remove, the effect on employers' contributions.

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

How does this differ for a large stable employer? (E.g. the EA)

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

Affordability – how much can employers afford;

Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and

Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach. The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes, struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Committee meetings, and also to employers through regular communication.

Statutory reporting and comparison to other LGPS Funds

Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ('Section 13'), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) The rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds).

(b) Employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%.

(c) There is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. The rate of employer contributions is sufficient to make provision for the cost of current benefit accrual.

ii. With an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. The implied deficit recovery period.
2. The investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. The extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit.
2. How the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy.
3. The extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate.
4. The extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

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

To support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**.

To take a **prudent longer-term view** of funding those liabilities."

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and Pensions Committee level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers on 9 March 2017 for comment;

b) Comments were requested within 14 days;

c) Following the end of the consultation period the FSS was updated where required and then published on 23 March 2017.

How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at **www.eapf.org.uk**
- A copy sent by email to each participating employer in the Fund
- A full copy included in the annual report and financial statements of the Fund
- Copies made available on request.

How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles/Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found at **www.eapf.org.uk**

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

The Administering Authority should:-

Operate the Fund as per the LGPS Regulations.

Effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer.

Collect employer and employee contributions, and investment income and other amounts due to the Fund.

Ensure that cash is available to meet benefit payments as and when they fall due.

Pay from the Fund the relevant benefits and entitlements that are due.

Invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations.

Communicate appropriately with employers so that they fully understand their obligations to the Fund.

Take appropriate measures to safeguard the Fund against the consequences of employer default.

Manage the valuation process in consultation with the Fund's actuary.

Provide data and information as required by the Government Actuary's Department to carry out their statutory obligations.

Prepare and maintain a FSS and a SIP/ISS, after consultation.

Notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary).

Monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

The Individual Employer should:-

Deduct contributions from employees' pay correctly.

Pay all contributions, including their own as determined by the actuary, promptly by the due date.

Have a policy and exercise discretions within the regulatory framework.

Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain.

Notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

The Fund Actuary should:-

Prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately.

- Provide data and information as required by the Government Actuary's Department to carry out their statutory obligations.
- Provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these).
- Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.
- Assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary.
- Advise on the termination of employers' participation in the Fund.
- Fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

Other parties:-

Investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS.

Investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS.

Auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required.

Governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund.

Legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

The Ministry of Housing, Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- Financial
- Demographic
- Regulatory
- Governance

Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Asset liability modelling at for EA and NRW allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.

Risk	Summary of Control Mechanisms
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy for the EA, whilst a stable monetary contribution (subject to triennial review) has been agree for NRW. SSCL participate in the Fund with a fixed contribution rate.
Effects of possible shortfall in cash required to meet benefit outgo due to reduced cash contributions and/or maturing demographic profile	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 cash flow projections is improved by use of bespoke baseline longevity assumptions.
Effect of possible asset underperformance as a result of climate change	The EAPF has a comprehensive approach to managing this risk outlined in its Policy to Address the Risks of Climate Change.

Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employee's declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.

Risk	Summary of Control Mechanisms
Deteriorating patterns of early retirements	Employers are charged the extra cost of non-ill health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: The EA may be brought out of the stabilisation mechanism to permit appropriate contribution increases. For other employers, review of contributions is permitted in general between valuations. NRW pay contributions as a monetary amount rather than a percentage of payroll to avoid a gradually reducing annual contribution.

Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis.	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Pensions Committee Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals. Reviewing contributions well ahead of cessation if thought appropriate.

Appendix D – The calculation of Employer contributions

This Appendix considers these calculations in much more detail.

All three steps above are considered when setting:

1. The **funding target** is based on a set of assumptions about the future, e.g. investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;

3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the 'Primary contribution rate'; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the 'Secondary contribution rate'.

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers. The Primary rate is calculated such that it is projected to:

- Meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets.
- Within the determined time horizon.
- With a sufficiently high probability, as set by the Fund's strategy for the category of employer.
- The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined.

The Secondary rate is calculated as an adjustment to the Primary rate, such that the total is projected to:

- Meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share,
- Within the determined time horizon,
- With a sufficiently high probability, as set by the Fund's strategy for the category of employer.

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. Past contributions relative to the cost of accruals of benefits
2. Different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary)
3. The effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities
4. Any different time horizons
5. The difference between actual and assumed rises in pensionable pay
6. The difference between actual and assumed increases to pensions in payment and deferred pensions
7. The difference between actual and assumed retirements on grounds of ill-health from active status
8. The difference between actual and assumed amounts of pension ceasing on death
9. The additional costs of any non-ill health retirements relative to any extra payments made
10. Differences in the required probability of achieving the funding target.

How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

The actual timing of employer contributions within any financial year, the effect of the premature payment of any deferred pensions on grounds of incapacity. These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (‘the liabilities’). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the ‘basis’. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

What basis is used by the Fund?

The Fund’s standard funding basis is described as the ‘ongoing’ basis, which applies to the EA (and SSCL) as an open employer in the Fund. This is described in more detail below. It anticipates the EA remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: this is known as the ‘gilt cessation’ basis. As a closed employer which will eventually cease participation in the Fund, NRW’s contribution strategy has been set with regard to this eventual funding target.

What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This ‘discount rate’ assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (‘gilts’). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is in line with the assumption used at the 2013 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to a restriction of 1% p.a. by the UK Government until 2020. Allowing for this restriction, and assuming that salaries are in line with the RPI after 2020, leads to an overall salary increase assumption at the 2016 valuation of RPI less 0.7% per annum. This is a change from the previous valuation, which assumed annual salary increases would be in line with RPI on average. The change has led to a reduction in the funding target (all other things being equal). The measure of RPI used in the actuary's calculations includes an inflation risk premium deduction of 0.3% (see 'Pension increases' below).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derived our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. An inflation risk premium was then applied to the market-implied RPI, by means of a 0.3% deduction to allow for market distortions. This is then reduced to arrive at the CPI assumption, to allow for the 'formula effect' of the difference between RPI and CPI. At this valuation, we have used a reduction of 1.0% per annum. This is a larger reduction than at 2013 (which was 0.8%), which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of 'VitaCurves', produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements to that made in 2013.

The combined effect of the above changes from the 2013 valuation approach, is to reduce life expectancy slightly (by around 0.1-0.2 years), which reduces the funding target all other things being equal. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary contribution rates. The Secondary contributions are calculated in different ways, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Approved by the Pensions Committee on 23 March 2017 and will be reviewed in 2019.

Annex 3 – Investment Strategy Statement

Introduction

The Environment Agency Active Pension Fund (the Fund or 'EAPF') is a funded, defined benefit pension scheme with around 26,000 members and assets of approximately £3.4bn as at 31 March 2018. Full details of the EAPF and our activities can be found at **www.eapf.org.uk.**

This Investment Strategy Statement (ISS) sets out the principles and strategy that govern our process for investing the assets of the Fund as required by Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. This Statement was approved by the Environment Agency Pensions Committee on 20 September 2018, after receiving input and advice from its investment staff, investment consultants, independent investment adviser and consulting actuary.

We will refer to this Statement when making investment decisions to ensure they are consistent with our investment principles and strategy. As set out in the regulations, the Pensions Committee will review the Statement from time to time, but at least every three years following the triennial valuation of the Fund.

The Statement should be read and will be implemented in conjunction with the Fund's Governance Policy, Funding Strategy Statement, Responsible Investment Policy and Global Stewardship Statement. These provide and state our more detailed requirements and supplementary guidance on these specific topics for our external fund managers. It is supported by the contents of our investment management agreements for each investment mandate. Details of the investment and performance objectives for each mandate are published in our Annual Report and Financial Statements.

Fund governance: Investment

Our Governance Policy sets out how the Fund is governed and the role of the Pensions Committee; Pension Board; Investment Sub-Committee; and Environment Agency officers on investment matters. The Environment Agency Board appoints the Pensions Committee and Pension Board, and delegate's responsibility for compliance with legislation and best practice, overall strategic asset allocation, investment policy, budgets and the appointment of fund managers and investment advisers. The Environment Agency Board approves the Annual Report and Financial Statements of the Fund, which includes the policies under which the Fund is governed.

The Investment Sub-Committee normally consists of seven representatives of the Pensions Committee and receives input and advice from professional investment officers, specialist investment consultants, an independent investment adviser, the Fund actuary, and other professional advisers as required.

The Investment Sub-Committee has received delegated responsibility to prepare and recommend the investment strategy to the Pensions Committee and, within the context of the agreed investment strategy, to decide on the structure of mandates and their specification, to appoint fund managers, to monitor the performance of fund managers, and to terminate or alter mandates. This is done with reference to the Brunel Pension Partnership.

We have delegated day to day management of the Fund's assets to a number of fund managers. They have full discretion to manage their portfolios, subject to their investment management agreements with us and in compliance with the Fund's own policies including this ISS. We do not seek to direct the managers on individual investment decisions.

We have appointed a performance measurer independent of the fund managers to calculate risk and return measures for each manager and the Fund overall. We have also appointed a global custodian who is responsible for the safekeeping of the directly held assets of the Fund and who works in close liaison with each fund manager. Note that on the 1 April 2018 we transitioned our custodian relationship from Northern Trust to State Street, as part of the establishment of the Brunel Pension Partnership pooling arrangements (see later).

The Fund's actuary is responsible for performing a formal valuation of the Fund every three years in order to assess the extent to which the assets cover accrued liabilities and to inform the development of an appropriate Funding Strategy Statement. The Funding Strategy takes account of, and informs the development of, our investment strategy and this ISS.

In all matters, our fiduciary obligations to Fund members are paramount, and neither the Fund's committees nor the Fund's officers would take any action which would be in conflict with these obligations. Similarly, fund managers are required to invest in the best interest of the Fund.

High Level Investment Principles

Working with our partners in the Brunel Pension Partnership, we have agreed a set of investment principles with the intention that they provide a framework for the investment strategy, operations, manager selection, monitoring and reporting. The principles are also designed to meet the Ministry for Housing, Communities and Local Government's Local Government Pension Scheme: Investment Reform Criteria and Guidance and the requirements and expectations of Financial Conduct Authority. They can be applied to all asset classes, although the detail of operation will vary by asset class.

The principles do not impose any restrictions on type, nature of companies or assets held within the portfolios. The principles do place an expectation that recognised best practice standards in governance, risk management, stewardship and value for money will be delivered.

Long term investors	We are long term investors: we implement our funds investment strategies that require productive assets that contribute to economic activity, such as equities, bonds and real assets. This may include the delegated responsibility to provide sustainable and sufficient return on their assets.
Responsible investors	We are responsible investors: we believe that in the long term we will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long term sustainable success of the global economy and society.
Best practice governance	We adopt best practice collective governance with appropriate oversight, prioritisation, delegation and decision making at the right level, and clear accountability.
Decisions informed through experts and knowledgeable officers and committee	We make our decisions based on extensive expertise including trained and insightful operations' governance members, experienced and professional officers and high quality, knowledgeable advisors.
Evidence and research at heart of investments	We take an evidence and research based approach to investment: continually learning and reappraising from academic research, investment professionals, and our peers, and seek continual development in our understanding of investment.

Leadership and Innovation	We are prepared to be innovative and demonstrate thought leadership in collective investment, within the requirement of prudence and our joint fiduciary duty.
Right risk for right return	We will make our collective investments work as hard as possible to meet our funds' objectives: we will provide the right structure of sub funds and managers within asset classes. While we take account of market and economic levels in our decision making, we will avoid making decisions on purely a short term basis.
Full risk evaluation	We will be comprehensive in our consideration of our funds' risks assessed on their liabilities and contributions; consider financial and non-financial risk as appropriate; offer a pooled structure to accommodate the need to diversify risk, but also recognise the limits of that diversification – as long term investors we accept that our investment success depends substantially on the sustainable growth of the economy.
Responsible stewardship	We will enable our funds' to exercise responsible stewardship of the assets they hold, and act as a collective responsible voice in the broader investment community.
Cost effective solutions	We will seek the most cost effective solutions to achieving our funds' objectives and implementing these principles collectively: we recognise the impact of costs on the Funds, but we are prepared to pay for active management and other services when we believe that the costs incurred are likely to be justified by the benefits. We will seek to gain leverage from our collective status within the Brunel Pension Partnership through reduction in fees and avoidance of cost through increased resilience and sharing our peoples' strengths, knowledge and expertise.
Transparent and accountable	We believe in the importance of being transparent and accountable, to ensure correct decisions are taken and to minimise risk. This applies both in our own operations, those we work with, and our investments.
Collaborate	We will collaborate with others whenever possible, to share ideas and best practice; to improve effectiveness and to minimise costs.

Responsible Investment

We are long term investors who aim to deliver a truly sustainable Pension Fund; ensuring that it is affordable; delivers financially to meet the objectives of our scheme employers; and is invested responsibly. We seek to be a leading responsible investor.

Being responsible investors to EAPF is to;

a) Consider a wide range of issues e.g. environmental or social impacts and what financial impact they could have both in the short and long term.
b) Look to work with and influence others.
c) Act as good owners of the companies, assets and funds in which we invest.
d) Operate in an open and transparent way.

Our fiduciary duty is to act in the best long term interests of our members. To do so properly requires us to recognise that environmental, social and governance issues can positively and negatively impact on the Fund's financial performance and that they should be taken into account in our funding and investment strategies, and throughout the funding and investment decision making process. Full details are contained in our **Responsible Investment Policy**, and other associated policies, notably our **Policy to Address the Impacts of Climate Change**.

Both the Brunel Pension Partnership's and the Fund's underlying investment managers are expected to comply with these policies when implementing the mandates on our behalf.

The Brunel Pension Partnership Investment Principles clearly articulate our commitment, and that of each Fund in the Partnership and its operator (Brunel Ltd), to be responsible investors and as such recognise that social, environment and corporate governance considerations are part of the process in the selection, non-selection, retention and realisation of assets. One of the potential principal benefits, outlined in the Brunel Pension Partnership business case, achieved through scale and resources arising from pooling, is the improved implementation of responsible investment and stewardship.

Every portfolio, in every asset class, under the Brunel Pension Partnership, explicitly includes responsible investment and an assessment of how social, environment and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing shareholder value in relation to each portfolio and its objectives. More information is on the **Brunel website**.

Both our Pensions Committee and Pension Board have member representatives who actively engage with beneficiaries and other stakeholders to ensure the Fund is aware and can respond effectively to all member concerns. We also actively use our website, newsletters and member webinars to engage directly. We also respond, track and report all member and stakeholder enquires as part of standard quarterly reporting. The Fund is accredited with Customer Service Excellence which requires high standards of stakeholder engagement.

We became the first Local Government Pension Scheme (LGPS) signatory of the UNPRI in July 2006 and Brunel Ltd was the first asset pool in April 2018. The UNPRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact. The principles reflect the view that ESG issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary duty. The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption.

Investment objectives

The EAPF Active Fund is an open, defined benefit pension fund with strong employer backing, positive cash flows and pension obligations stretching to the end of this century. In setting our investment strategy we seek to balance twin objectives: first, to achieve sufficient long term returns for the scheme to be affordable to employers now and in the future, and second, minimising risk of having to increase the contribution rate in the future.

To achieve this, the Fund needs to invest in assets which differ from our pension liabilities. We seek to develop an investment portfolio with exposure to these return seeking assets in the most risk efficient way. We look to build a portfolio which has high probability of exceeding the asset outperformance target assumed by our actuary, while minimising the risk of the funding level falling below 80% at future valuations, as this should be effective at substantially reducing the potential need to increase the contribution rate.

It is not possible to control the absolute return on investments but over the long term the Fund believes its investment strategy should result in a high probability of achieving the objectives of its Funding Strategy Statement.

In the short term, returns are measured against a Fund specific benchmark and the Actuary prepares quarterly intra-valuation updates on the Fund's funding level.

Further details on the expected returns from investments and how they interact with the Actuary's formal triennial valuation of the Fund's assets and liabilities are included in the Funding Strategy Statement.

Each active manager has an outperformance target against its benchmark, and taking these together with other actions we have set ourselves the target that, as a whole, the Fund should outperform its strategic benchmark by 1.9% per annum, averaged over several years (or c£60m in cash terms). Over the long term this will lead to significantly lower contributions than would otherwise occur.

The suitability of different types of investment

The Fund may invest in any investment it considers appropriate. In selecting categories of investments to invest in, the Fund has regard, inter alia, to return potential, financial risk, liquidity, management costs and any potential environmental, social and governance risks and opportunities. When considering costs and charges, both transparency and the need to control these are important. Recurring annual costs and charges are a drag on performance. In accordance with our principles above, we seek to invest in areas contributing to long term economic activity rather than assets where returns are based on speculation or short term trading.

Assets currently held include, but are not limited to, equities (both listed and private), index linked gilts, corporate and other bonds, private debt and real assets including property, infrastructure, forestry and agriculture assets.

Certain asset classes are not considered suitable for the EAPF, particularly if they are not compatible with our investment principles. Asset classes where returns are based on short term speculation or trading, or where it is not clear how they generate an underlying return are generally not considered suitable. Other assets classes are found not to be suitable after review on the grounds of high costs, inadequate returns for the risk involved, unclear or unquantifiable risks, insufficient diversification or effective duplication of existing allocations.

The range of assets we choose to invest in are always reviewed as part of our investment strategy review process. At our latest strategy review process a number of possible new areas were considered. It was decided to further explore an allocation to Liability matching assets and multi-asset credit at this time.

Social and sustainable Investments

Social investment can be defined to include a wide spectrum of investment opportunities. The EAPF definition of social investment is an investment that addresses societal challenges but generates competitive financial returns. Societal challenges include all issues commonly regarded under social, environmental or governance headings.

Our wider definition of sustainable investments includes:

a) Social investments and those with significant revenues (in excess of 20%) involved in energy efficiency, alternative energy, water and waste treatment, public transport,
b) property, infrastructure, agriculture or forestry investments with a low carbon or strong sustainability criteria, and
c) companies (often equities and bonds) with a progressive environmental, social or governance practices that may enhance investor value.

The Fund has set itself the target to have over 25% of the Fund invested, across all asset classes, in such opportunities. We report a breakdown of the types of investment in our annual report and financial statements.

Asset allocation

The strategic asset allocation of the Fund is the principal way we achieve a diversity of assets of different types. It is set after considering the results of our funding strategy modelling and our asset allocation and risk modelling. This considers various asset allocation mixes, return objectives and risk levels. Having too modest a return target will reduce short term risks but will increase the likelihood that longer term returns are insufficient, resulting in contribution increases and undermining the affordability of members' benefits. Too high a return target, while it may increase average long term returns and the potential for contribution reductions, will increase overall risk resulting in a wider range of outcomes, including a higher risk of deficits and the need to increase contributions. Clearly, for a particular level of return, we seek to minimise the level of risk taking through efficient diversification and appropriate allocation. It is this analysis that determines the overall appetite for risk in the Fund. Should the analysis fail to find a satisfactory balance of risk and return, with too high a risk of contribution instability or falling funding levels, then the funding strategy may need to be revisited.

In setting the strategic asset allocation we seek a long term rate of return sufficient to meet our investment objectives. Based on our funding strategy and long term investment analysis we estimate an appropriate overall expected return of +3.5% over the expected return on gilts will be sufficient, but also consider the possible range of return outcomes and in particular the likelihood of lower returns. We also consider the challenges presented by volatile market conditions, changes to the benefit structure of the LGPS, the demographics of the Fund, and possible transfers out; all of which potentially impact on the most suitable investments and the appropriate allocation to them.

At the highest level our asset allocation splits the investment portfolio into three broad areas: equities, bonds, and diversifying growth assets. Equities and bonds are traditional asset classes. Equities provide good long terms returns but have significant risks. Bonds are typically lower risk, and indeed are more closely correlated with our liabilities, but returns are low. Diversifying growth assets covers a range of assets that we consider to offer attractive returns on a risk adjusted basis. It is split into 3 areas: real assets: (property, infrastructure, and agriculture); illiquid credit/private debt (direct lending to companies and investments); and growth fixed income (bond investments offering higher returns but lower correlation to conventional fixed income).

We have adopted a strategic asset allocation (SAA) benchmark. The framework is intended to provide a degree of high level risk control, ensuring asset allocation remains broadly appropriate and diverse, while being flexible enough to enable the Fund to respond to changes in funding levels, market conditions and other factors.

The SAA benchmark is set, with the input of the Fund's advisers, after considering current funding level, the return requirements and acceptable risk of the Fund, as well as market conditions and valuations. The Investment Sub-Committee sets this benchmark and it is reviewed at least annually by the Pensions Committee. The target is typically expected to be achieved in around 3 years. We have not updated the target this year but the framework ranges have been updated. The actual asset allocation may also vary because of movements in markets and the availability of suitable investment opportunities.
The strategic asset allocation (SAA) benchmark is laid out below.

Asset Class	Framework Range %	Strategic Asset Allocation %
Equities	**40-50**	**45**
Public Global Equities Public Emerging Markets Equities	- -	35 5
Private equity / specialist opportunities	-	5
Diversifying Growth assets	**-**	**27**
Real assets including: Property Infrastructure Farmland and Timberland	- - - -	15 6 7 2
Illiquid Credit / Private Debt	-	7
Growth Fixed Income	-	5
Fixed income assets	**-**	**27.5**
Index Linked gilts Corporate bonds	- -	7.5 20
Cash	**-**	**0.5**
Total Defensive Assets	**23-33**	**28**

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

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

We regularly review the balance between exposure to growth assets (equities and diversifying growth assets) and lower risk assets (fixed income and cash), and if they vary by more than a certain amount from the benchmark asset allocation, we will rebalance the portfolio back towards the benchmark asset allocation as much as practical.

EAPF also employs a current Fund benchmark which is reviewed at least annually. The current Fund benchmark reflects the practical limitations and pace at which we can invest assets (i.e. due to the time it takes to invest in illiquid assets) and provides a fair comparator for investment performance purposes.

Asset Class	Current Benchmark %
Equities	**51.0**
Public Global Equities Public Emerging Markets Equities	42.0 5.0
Private equity / specialist opportunities	4.0
Diversifying Growth assets	**20.0**
Real assets including: Property Infrastructure Farmland and Timberland	12.0 5.0 5.0 2.0
Illiquid Credit / Private Debt	3.0
Growth Fixed Income	5.0
Fixed income assets	**28.5**
Index Linked gilts Corporate bonds	8.5 20.0
Cash	**0.5**
Total Defensive Assets	**29.0**

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.

Subject to compliance with both this Investment Strategy Statement and associated policies, and the terms of their Investment Management Agreements, which includes the requirement to maintain a diversified portfolio, all the managers have full discretion over the choice of individual investments.

The Fund uses a combination of passive (indexed), and active approaches to investment management, based on consideration of availability, cost, flexibility and return potential. Passive approaches aim to deliver the return of the underlying market index and consequently contain a very large number of holdings. We consider the case for integrating responsible investment within our passive investments, particularly where suitable indices exist. Within global equities, a significant allocation has also been made to both a quantitative fund seeking sustainable exposure to the value factor, and to mandates managed using quantitative low volatility approaches. These aim to provide improved risk/return characteristics over conventional passive approaches. We have also introduced a buy and maintain approach, in corporate bonds, which has a quasi-passive approach to investing but does not seek to follow a benchmark index. This is useful particularly where benchmarks are deficient from the Fund's perspective.

The remainder of the Fund is managed on an active basis, using investment managers to select the investments they consider to have the best return potential, with an average outperformance target of c.+2.5% p.a. This portion of the Fund is spread across global equities, corporate bonds, property/real assets, and private equity. The decision to appoint active managers is only made after careful consideration of the likely costs, the likelihood that the manager will be able to add value after fees, the impact on risk, and the ability of the manager to implement the responsible investment strategy. Once appointed, managers are carefully scrutinised for value for money, and any reasonable opportunities to reduce costs will be pursued.

In keeping with our investment principles, we focus on developing successful long term partnerships with our managers. We have developed a detailed approach to investing long term, including establishing 'covenants' with our managers to outline what is expected of each other. In assessing managers we focus on long term performance potential including aspects such as idea generation and team stability, rather than short term performance. Where managers are underperforming we seek to work with them to address any issues and improve performance.

Risk

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

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

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

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

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

The Fund believes that climate change presents a systemic risk to the ecological, societal and financial stability of every economy and country on the planet, with the potential to impact our members, employers and all our holdings in the portfolio. As such, climate change is a long term material financial risk for the Fund, and therefore will impact our members, employers and all our holdings in the portfolio. Our Policy to Address the Impact of Climate change and the dedicated area of our website provide further details with regard to how we take the climate related financials risks into account.

The Fund is aware of the nature of its liabilities, and considers how closely its different assets match its liabilities. With increasing funding levels, we will be considering the case for liability driven investments, including explicit liability hedging, in conjunction with the next triennial Valuation.

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, and we have introduced currency hedging for lower risk assets such as private debt and overseas infrastructure. We continue to monitor the case for hedging currency and other risks more widely.

There are also a variety of other risks to be considered, for example operational risks of loss arising from default by brokers, banks or custodians. Here, the Fund is careful only to deal with reputable service providers to minimise counterparty risks.

Liquidity and the realisation of investments

The majority of the Fund's investments will be made in bonds and stocks that are listed on recognised Stock Exchanges and may be realised quickly if required. Our corporate bond holdings are generally reasonably liquid, but may be harder to realise in certain market conditions. However, given the strong positive cash inflows of the Fund, and the long term nature of the Fund, we are satisfied that a significantly greater proportion of the Fund is held in liquid assets than is likely to be needed to meet any expected or unexpected demands for cash.

The materially illiquid assets within the Fund are those held in private equities, real assets and private debt. These are normally held through pooled funds. As a long term investor, we regard it as entirely appropriate to hold such illiquid assets. In particular as we expect such funds to benefit from an enhanced return due to an 'illiquidity premium' which compensates for the long term nature of these investments. Furthermore, all funds we invest in will have a long term strategy for the realisation of their investments, through sales, repayments or income. We do not expect to exceed a 25% allocation to illiquid assets in aggregate at present.

Stewardship and the exercise of our rights as owners

The EAPF is a signatory of the UK Stewardship Code and our Stewardship Code Compliance Statement evidences our compliance with both the UK Code and other global best principles of good stewardship.

Engagement

Our Responsible Investment Policy set outs the areas of engagement that, as a Fund, we have selected to have particular focus. These include promoting ESG as part of delivering and fiduciary duty, long termism, sustainable capitalism and impact investing, water risk, climate risk and human capital management.

The Fund is a member of the 30% Club Investor group, which promotes gender diversity on the boards and executive committees of UK listed companies, and promotes wider diversity and inclusion in the companies in which we invest.

The Fund co-founded the Transition Pathway Initiative (TPI). An asset owner-led initiative, supported by asset managers and owners. The initiative assesses how companies are preparing for the transition to a low carbon economy.

EAPF is pledged to the UN initiative on Ocean plastics #CleanSeas. Our action on plastics is one way that we align with 'A Green Future'. Defra recently published 'A Green Future: Our 25 Year Plan to Improve the Environment'. In so far as practicable, EAPF plans to align its investment and engagement activities with the Green Future Plan.

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

All the assets of the pension fund are selected by external fund managers. This means that it is our external fund managers who make the detailed decisions about which companies we invest in. This is important in avoiding conflicts of interest for our employers, but also gives us the flexibility to select the best managers for each set of assets. The skills needed to decide environmental and other issues vary from one asset class to another. We place a high importance, and spend significant time and energy, in selecting good quality managers who deliver financially and can manage the wide variety of risks that come with making investments.

Voting

The Fund believes that voting is integral part of the responsible investment and stewardship process and as such is delegated to managers to vote on all the Fund's shares at their discretion. We seek to be a leader in this area. We demand high standards in stewardship from our managers and their approach and associated policies are evaluated as part of the manager selection process. Voting reports are included in quarterly reports and voting execution is evaluated as part of ongoing manager's monitoring. For environmental issues we have written specific guidance and reserve the right to direct the voting in accordance with these guidelines. We are working as part of the Brunel Pension Partnership to develop its approach to voting and engagement.

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. Where stock lending is taking place within pooled funds we seek to arrange where practical to have the ability to recall stocks so that we can vote. As described in the previous section, for environmental issues we have written specific guidance and reserve the right to direct the voting in accordance with these guidelines. We are working with the Brunel Pension Partnership as it develops its approach to stock lending.

Stewardship in pooling

We will continue to be an active owner in our own right. Further, as part of the Brunel Pension Partnership, we are actively exploring opportunities to enhance our stewardship activities. One of the potential principal benefits of Pooling, and achieved through the scale and resources arising from pooling, is the improved implementation of responsible investment and stewardship. The Brunel Pension Partnership has published its Responsible Investment Policy which outlines its approach and priorities. The policy reflects the priorities of its underlying clients, and we were active in contributing to the policy.

Already the Brunel Pension Partnership has been using its significant potential buying power to press for improved stewardship at external investment managers and has been actively involved in government consultations and other initiatives in the area. Once all equity assets have been transitioned, the Partnership and Brunel Ltd will seek to deliver best practice standards in responsible investment and stewardship in terms of company engagement as outlined in the Brunel Pension Partnership Investment Principles. More information is available on their website at **www.brunelpensionpartnership.org**

Collaboration

We actively engage in collaboration with other pension funds, investors, asset managers, advisers, industry bodies and associated organisations to share best practice, improve efficiencies, promote product development and save money. We actively participate in the Cross-Pool Group and its subgroups, of which we lead the sub-group on responsible investment, to be resource efficient and share best practice.

The Cross Pool (RI) Group's purpose is to provide practical support and tools to assist nominated leads to co-ordinate the implementation of the consideration of RI (including ESG integration and stewardship), risks and communications for the pool and the Funds within each pool, whilst recognising the diversity in the approaches by Funds and pools.

To deliver our Responsible Investment policies we work closely with organisations including the UN Principles for Responsible Investment, IIGCC (institutional Investors Group on Climate Change), UKSIF (UK Sustainable Investment and Finance Association), and the CDP (Carbon Disclosure Project). We also share our understanding and experience through speaking at investment industry events and publishing articles online.

EAPF is active in supporting a number of responsible investment initiatives. The Fund is a signatory to the UK Stewardship code and a member of the 30% Club Investor group. EAPF co-founded the Transition Pathway Initiative (TPI), supports Climate Action 100+ and is committed to supporting the recommendations of the Taskforce for Climate-related Financial Disclosure (TCFD). We have a focus on plastics with our approach in this area aligned with the Defra 'A Green Future' plan and EAPF is pledged to the UN initiative on Ocean plastics #CleanSeas.

Implementation: Approach to Asset Pooling

We have worked with nine other Administering Authorities to implement Government's requirement to pool the management and investment of our assets with other LGPS Funds, and have established the Brunel Pension Partnership and its operator, Brunel Pension Partnership Ltd. (Brunel Ltd). Brunel Ltd was launched on 18 July 2017 as a new company wholly owned by the ten Administering Authorities (including the EAPF) and obtained authorisation from the Financial Conduct Authority (FCA) in March 2018 to act as an investment manager and an investment advisor.

The arrangements for asset pooling for the Brunel Pension Partnership pool have been formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. Importantly, Brunel Ltd has met the Government's requirement for the Pool to become operational from April 2018 and the transition of assets to start. Regular reports have been made to Government on progress towards the pooling of investment assets, and Brunel Ltd has received positive feedback on its progress so far.

It is anticipated that investment assets will be transitioned across from our existing investment managers to the portfolios managed by Brunel Ltd between July 2018 and March 2020 in accordance with a timetable that will be agreed across the partnership, starting with passive equities.

Until such time as transitions take place, we will continue to maintain the relationship with our current investment managers and oversee their investment performance, working in partnership with Brunel Ltd where appropriate.

The EAPF, through the Pensions Committee, retains the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by Brunel Ltd We are also able to suggest new portfolios to Brunel Ltd and engage with Brunel Ltd on the structure and nature of existing portfolios.

Brunel Ltd will be responsible for implementing the detailed Strategic Asset Allocations of its ten Client Funds by providing and implementing a suitable range of outcome focused investment 'portfolios'. In particular, it will research and select the professional external investment managers responsible for making the day to day investment decisions at the portfolios. In some cases, a portfolio will have a single external manager who provides the fund structure for a portfolio. In other cases, Brunel Ltd will allocate to a number of different externally managed funds. For active equities Brunel Ltd is sponsoring the creation of an authorised contractual scheme (ACS), in conjunction with an external fund operator, as this structure in these markets offers significant cost and tax benefits. Brunel Ltd will be the investment manager of the ACS and as above will delegate to its chosen sub managers.

The EAPF is a client of Brunel Ltd and as a client will have the right to expect certain standards and quality of service. A detailed service agreement has been agreed which will set out the duties and responsibilities of Brunel ltd, and our rights as a client. It includes a duty of care of Brunel Ltd to act in its clients' interests.

The governance of the Brunel Pension Partnership is of utmost important to us to ensure our assets are invested well and our needs and those of our beneficiaries are met. Governance controls exist at several levels within the partnership.

- As shareholders in Brunel Ltd we entered into a shareholder agreement with the company and the other shareholders. This gives us considerable control over Brunel Ltd – several matters, including significant changes to the operating model, are reserved matters requiring the consent of all shareholders.

- An Oversight Board, made up of representatives from each of the Administering Authorities and two Fund member representatives, has been established. Acting for the Administering Authorities, it has a primary monitoring and oversight function. Meeting quarterly, it can request papers from Brunel Ltd or interrogate its management. However, it cannot take decisions requiring shareholder approval, which will be remitted back to each Administering Authority individually.

- The Oversight Board is supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities, but also drawing on finance and legal officers from time to time. It will have a leading role in reviewing the implementation of pooling by Brunel Ltd, and provide a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.

- A separate level of governance is provided by the Board of Directors at Brunel Ltd, which are appointed by ourselves and the other shareholders. It comprises four highly experienced and independent non-executive directors, chaired by Denise Le Gal and four executive directors.

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

Following the completion of the transition plan outlined above, it is envisaged that all of our assets will be invested through Brunel Ltd However, the Fund has certain commitments to long term illiquid investment funds which will take longer to transition across to the new portfolios to be set up by Brunel Ltd These assets are expected to be managed in partnership with Brunel Ltd until such time as they are liquidated, and capital is returned.

Statement of compliance with the Myners Principles

We fully comply with Lord Myners' six principles codifying a model of best practice in pension fund governance, investment decision making and disclosure. Evidence is contained within the documents referenced in our Annual Report and Financial Statements and on our website **www.eapf.org.uk**

Approved by the Pensions Committee on 20 September 2018 and will be reviewed in 2019/20.

Annex 4 – Global Stewardship Compliance Statement

Environment Agency Active Pension Fund (EAPF) is fully committed to responsible investment. We believe there is a considerable body of evidence that well governed companies produce better and more sustainable returns than poorly governed companies. We also think investors, including pension fund managers and shareholders, could influence the Board/Directors of underperforming companies to improve the management and financial performance of those companies.

Being a responsible owner

Our **Responsible Investment Policy** set outs the areas of engagement that, as a Fund, we have selected to have particular focus. These include promoting ESG as part of delivering and fiduciary duty, sustainable capitalism, water risk, climate risk and human capital management.

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

All the assets of the pension fund are selected by external fund managers. This means that it is our external fund managers who make the detailed decisions about which companies we invest in. This is important in avoiding conflicts of interest for our employers, but also gives us the flexibility to select the best managers for each set of assets. The skills needed to decide environmental and other issues vary from one asset class to another. We place a high importance, and spend significant time and energy, in selecting good quality managers who deliver financially and can manage the wide variety of risks that come with making investments.

Compliance with global best practice

We are global investors and apply our principles of good stewardship globally, whilst recognizing the need for local market considerations in its application. Reflecting on this, we have summarised our compliance with the various codes and principles relating to good stewardship. There are now so many codes that we no longer map each one but base our statement on the requirements principally outlined in the UK code but supplemented by additional requirements outlined in the codes of Japan and Canada (CCGG).

Policy Commitment	Our Fund fully follows this principle:	And in practice:
Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	Our Stewardship responsibilities extend over all the assets held by the Fund with our approach and principal relationships outlined above. The EAPF has a comprehensive suite of published policy documents which define how we discharge our Stewardship responsibilities, including but not limited to our **Investment Strategy Statement, Responsible Investment Policy** and our **Voting guidelines.** Roles and responsibilities with respect to the discharge of Stewardship activities are set out in our **Responsible Investment Policy.**	Our website provides comprehensive information on our policy commitments and evidence of implementation of our stewardship responsibilities. We have a dedicated resource to oversee **Stewardship**, voting activity is monitored throughout the proxy period and a dedicated area of our website on our **Stewardship** activities is updated regularly. All new Investment Management Agreements (IMAs) include requirements to observe the FRC's UK Corporate Governance Code and UK Stewardship Code. We do not undertake any stock lending on directly held stocks.
Conflict of Interest	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.	We have a comprehensive Conflicts of Interest Policy which is available on our website. A public register of Pensions Committee members' declaration of interests is also maintained and audited annually.	Declaration of conflict of interests is a standing agenda item at the start of all Pensions Committee and Investment Sub Committee meetings. The need to avoid conflicts of interest is also highlighted in our Investment management agreements (IMAs) and contracts with external parties. Our external fund managers make the detailed decisions about which companies we invest in (please see above).
Corporate engagement	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should monitor their investee companies. Orientation to sustainable growth.	As investors we own a portion of the companies we invest in. We can use our rights as owners to encourage companies to act more responsibly and improve their practices. We monitor all managers and focus on the following areas; • Philosophy (investment, corporate culture) • Polices (commitment, framework) • People (numbers, retention, cognitive diversity)	Monitoring of specific investee companies is detailed in our quarterly reports and discussed at each fund manager review meeting. Each quarter we publish a report on our website on the engagement and voting activity undertaken by **Hermes EOS.** We will participate in

	• Processes (investment, reporting, stewardship) • Participation (thought leadership) • Partnership (working together) Our primary engagement work is undertaken by our managers our specialist engagement provider. In addition to the requirement for all our managers to consider how environmental, social and governance factors might impact companies sustainability, we have a target to maintain our investment of 25% of the Fund's assets in clean and sustainable companies by 2020.	engagement activities directly as part of support of LAPFF. We publish the quarterly LAPFF engagement report. Responsible Investment activity is presented to our quarterly Investment Group and summarised in Pensions Committee reports.
Enhancing value & integration	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value. Common understanding to solve problems. Incorporating corporate governance and sustainability considerations.	Our **Responsible Investment Policy** details our engagement policies. We have specific objectives and targets in relation to engagement. These are specifically focused on **climate change, water risk, fiduciary duty** as well specific occupations e.g. investment consultants, actuaries, etc. We review each fund manager's policies on engagement and escalation prior to appointment and during regular review meetings with our fund managers we review their engagement activity and support the planned escalation of activity.	Our primary corporate engagement approach relating to climate change is based on the analysis from the Transition Pathway Initiative (TPI). Escalation is incorporated in the analysis. EAPF policy clearly states that insufficient progress can lead to disinvestment; we believe this to be the ultimate intervention. A public report on engagement activity undertaken on our behalf by Hermes EOS (external engagement provider) is available on our website. We identify engagement plans with each active equity manager on an annual basis. We analyse our own portfolio looking at ESG risks to shareholder value and work with our fund managers to address those issues in their activities.
Working with others	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should be willing to act collectively with other investors where appropriate.	As investors, we own a portion of the companies we invest in. We can use our rights as owners to encourage companies to act more responsibly and improve their practices. Acting collectively with other asset owners increases the effectiveness of the engagement.	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

	We actively work with other pension funds, asset managers and other organisations to promote responsible investment. These include, but are not limited to, the UNPRI, IIGCC, PLSA and UKSIF.	and beneficiaries.
Monitoring and engaging with regulators and policy makers. (Canadian - CCGG code)	Our direct engagement is focused on working with regulators, other institutional investors and services providers to the financial industry.	Engagement activity with regulators includes responding to public consultations both individually and collectively through industry groups as well as support of public advocacy events. Responses to consultations are published on our website.
Voting	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy should be designed to contribute to sustainable growth on investee companies.	The Fund believes that voting is integral part of the responsible investment and stewardship process and as such is delegated to managers to vote on all the Fund's shares at their discretion. All our equity manager have voting polices and most are publicly available. Similarly, our larger managers publish voting records on their website and others on request. For our index tracking funds, the voting us undertaken by Hermes EOS. We detail on what basis our votes are cast and the guidelines we direct our managers to use in our Responsible Investment Policy. We publish specific guidelines on our Voting on Environmental Issues.	We demand high standards in stewardship from our managers and their approach and associated policies are evaluated as part of the manager selection process. Voting reports are included in quarterly reports and voting execution is evaluated as part of on-going manager's monitoring. For environmental issues we have written specific guidance and reserve the right to direct the voting in accordance with these guidelines. We actively work with our overlay provider to provide input and advice on matters relating to environmental issues and other issues if our expertise can assist. A full voting report and statistics are available on our website. This updated no less than every 6 months.

Reporting	Our Fund fully follows this principle:	And in practice:
Institutional investors should report periodically on their stewardship and voting activities. This report should include voting and be shared with clients and beneficiaries.	We include a comprehensive annual review of our activities in our Annual Report and Financial Statements and member communications. We are committed to being open and transparent and use a variety of media to communicate with our stakeholders. The EAPF team are accredited to **Customer Service Excellence** in which our work on responsible investment and stewardship has been commended.	Our website provides comprehensive information on our policy commitments and evidence of implementation of our stewardship responsibilities. Public Engagement Reports are updated quarterly on our website **www.eapf.org.uk** We require all our managers to provide us with annual assurance on internal controls and compliance through international standard or a UK framework such as AAF 01/06.
Skills and knowledge		
To contribute positively, Institutional investors should have in-depth knowledge of the investee companies and their business environment with the skills and resources needed. (Japan SC principle 7)	We believe in being an active owner. We do this directly, through our managers or through specialist service providers. We have dedicated resource for Responsible Investment strategy, policy and oversight. In-depth knowledge of investee companies is delegated to the mangers that select and monitor the companies on a day-to-day basis.	The capability and performance of each manager, in assessing environmental, social and governance factors of investee companies and their business environment, is a key component of our selection and retention criteria. Monitoring of fund manager performance is reviewed and reported regularly to Investment Sub-committee and forms part of formal annual review of each manager.

Approved by the Pensions Committee on 28 September 2017 and will be reviewed in 2019/20.

Annex 5 – Responsible Investment policy

Introduction

We are long-term investors who aim to deliver a truly sustainable Pension Fund ensuring that it is affordable, delivers financially to meet the objectives of our scheme employers and is invested responsibly.

Our fiduciary duty is to act in the best long-term interests of our members. To do so properly requires us to recognise that environmental, social and governance issues can positively and negatively impact on the Fund's financial performance and that they should be taken into account in our funding and investment strategies, and throughout the funding and investment decision-making process.

Responsible Investment Principles

Our Investment Principles 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 Environmental, Social and Governance (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), best practice standards of national and global stewardship and facilitate the implementation of the Kay Principles.

We became the first Local Government Pension Scheme (LGPS) signatory of the UNPRI in July 2006. The UNPRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact. The principles reflect the view that ESG issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary duty. The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption. We complete the annual report on progress in implementing the principles and publish them on our website.

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

Responsible investment and pooling

The Pension Fund retains all responsibility for assuring our commitment to being a responsible investor continues to be fulfilled under the new pooling arrangements. Our Fund is part of the Brunel Pension Partnership. The **Brunel Pension Partnership Investment Principles** clearly articulate the commitment for each Fund in the Partnership and its operator (Brunel Company) to be responsible investors. One of the principal benefits, outlined in the BPP business case, achieved through scale and resources arising from pooling, is the improved implementation of responsible investment and stewardship.

Implementation

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

Priorities

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

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

- **Fiduciary duty** – promoting the implementation of the Law Commission recommendations.
- **Long termism** – furthering the implementation of the Kay review recommendations and a focus on fund manager reporting.
- **Sustainable capitalism and impact investing** – communicating positive case studies from our portfolio.
- **Climate change** – engaging with pension funds and other stakeholders to develop and share best practice.
- **Water risk** – promote the risk identification and integration
- **Human capital** – promoting the business case for diversity/ inclusion and consideration of the Living Wage.

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

Engaging our stakeholders

Both our Pensions Committee and Pension Board have member representatives who actively engage with beneficiaries and other stakeholders to ensure the fund is aware and can respond effectively to all member concerns. We also actively use our website, newsletters and member webinars to engage directly. We also respond, track and report all member and stakeholder enquires as part of standard quarterly reporting. The fund is accredited with Customer Service Excellence which requires high standards of stakeholder engagement.

Diversity

The Fund is a member of the 30% Club Investor group, which promotes gender diversity on the boards and executive committees of [UK] listed companies, and promotes wider diversity and inclusion in the companies in which we invest. To demonstrate best practice, we will disclose our own performance on diversity [6] in our Annual Report and Financial Statements.

[6] Diversity indicators relating to combine personnel within the Pension Committee, Pension Board and Officers.

Climate change

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

We set out our **Policy to address the impacts of climate change**, in which we detail our beliefs, our goals to invest, decarbonise and engage. An extract from the policy is shown on the right.

We have a dedicated area on our website regarding climate change as well as all aspects of work to deliver a responsibly managed pension fund.

We also co-lead an initiative, called the **Transition Pathway Initiative**, which enables asset owners and other investors to understand how the transition to a low carbon economy could affect their portfolio. More information is available on the website **www.TransitionPathwayInitiative.org**

Funding strategy and strategic asset allocation

We adopt a flexible approach in our investment strategy and asset allocation so that we can respond responsibly and robustly to both the changing global economic environment and impacts of climate change. Responsible investment considerations form part of the asset allocation decisions and as such form a core component of training and briefings to ensure our Pensions Committee and Investment sub-committee maintain their high level of knowledge. ESG is integrated into our decision making for all asset classes, additional guidance on ESG risks and opportunities is available on our website and reviewed regularly.

Social and sustainable Investments

Social investment can be defined to include a wide spectrum of investment opportunities[7]. The EAPF definition of social investment is an investment that addresses societal challenges but generates competitive financial returns. Societal challenges include all issues commonly regarded under social, environmental or governance headings.

Extract from our Policy to address the impacts of climate change

Our climate change investment beliefs

We believe that:

- Climate change presents a **systemic risk** to the ecological, societal and financial stability of every economy and country on the planet, with the potential to impact our members, employers and all our holdings in the portfolio.
- Climate change is a **long term material financial risk** for the Fund, and therefore will impact our members, employers and all our holdings in the portfolio.
- Considering the impacts of climate change is both our **legal duty**[1] and is entirely consistent with **securing the long term returns** of the Fund and is therefore acting in the best long term interests of our members.
- **Selective risk-based disinvestment** is appropriate but **engagement for change** is an essential component in order to move to a low carbon economy.

Our climate change goals to invest, decarbonise and engage

We aim by 2020 to:

- Invest 15 per cent of the EAPF in low carbon, energy efficient and other climate mitigation opportunities. This will contribute to our wider target to invest at least 25 per cent of the EAPF in clean and sustainable companies and funds, across all asset classes.
- Decarbonise the equity portfolio, reducing our exposure to "future emissions" by 90 per cent for coal and 50 per cent for oil and gas by 2020 compared to the exposure in our underlying benchmark as at 31 March 2015. 'Future emissions' is the amount of greenhouse gases that would be emitted should these reserves be extracted and ultimately burnt, expressed in tonnes of carbon dioxide equivalent.
- Supported progress towards an orderly transition to a low carbon economy through actively working with asset owners, fund managers, companies, academia, policy makers and others in investment industry.

The full policy is available here

https://www.eapf.org.uk/investments/climate-risk

[7] See Global Impact investor Network for more information **https://thegiin.org/**

Our wider definition of **sustainable investments** includes:

a) Social investments and those with significant revenues (in excess of 20%[8]) involved in energy efficiency, alternative energy, water and waste treatment, public transport together,
b) property, infrastructure, agriculture or forestry investments with a low carbon or strong sustainability criteria[9], and
c) companies (often equities and bonds) with a progressive[10] environmental, social or governance practices that may enhance investor value.

The fund has set itself the target to have over 25% of the fund invested, across all asset classes, in such opportunities. We report a breakdown of the types of investment in our annual report and financial statements.

Working with our fund managers

All the assets of the pension fund are selected by external fund managers. This means that it is our external fund managers who make the detailed decisions about which companies we invest in. This is important in avoiding conflicts of interest for our employers, but also gives us the flexibility to select the best managers for each set of assets. The skills needed to decide environmental and other issues vary from one asset class to another. We place a high importance, and indeed time and energy, in selecting good quality managers who deliver financially and can manage the wide variety of risks that come with making investments.

We believe in being an active owner and require our managers and other service providers operating on our behalf 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, but with robust oversight and transparency.

Voting

The fund believes that voting is integral part of the responsible investment and stewardship process and as such is delegated to managers to vote all the Fund's shares at their discretion. We demand high standards in stewardship from our managers and their approach and associated policies are evaluated as part of the manager selection process. Voting reports are included in quarterly reports and voting execution is evaluated as part of on-going manager's monitoring. For environmental issues we have written specific guidance and reserve the right to direct the voting in accordance to these guidelines.

Working with others

We work collaboratively with other funds in both the public and private sector on a wide range of responsible investment topics.

We actively engage in collaboration with other pension funds, investors, asset managers, advisers, industry bodies and associated organisations to share best practice, improve efficiencies, promote product development and save money. We actively participate in the Cross-Pool Group and its subgroups, of which we lead the sub-group on responsible investment, to be resource efficient and share best practice.

8 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.

9 Strongly sustainable/ progressive are terms we use to describe companies or funds exceeding market norms and taking action on one or more areas of ESG that distinguishes their offering compared to their peers.

10 As above

The Cross Pool (RI) Group purposes is to provide practical support and tools to assist nominated leads to co-ordinate the implementation of the consideration of RI (including ESG integration and stewardship), risks and communications for the pool and the funds within each pool, whilst recognising the diversity in the approaches by funds and pools.

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

Open and transparent

A comprehensive overview of our responsible investment approach is available on our website **www.eapf.org.uk**, with updates in our newsletters and other media. We are committed to being open and transparent providing regular communications on our progress on delivering our commitments to responsible investment and stewardship.

Approved by the Pensions Committee on 23 March 2017 and will be reviewed in 2019/20.

Annex 6 – Communications Policy Statement

Introduction

The Environment Agency Pension Funds (EAPF) are 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 10,932 contributing members, 8,463 deferred members and 6,940 pensioners.

The Closed Fund exists solely for the purpose of paying pensions and related benefits of a group of former employees in the water industry in England and Wales who did not transfer to one of the Privatised Water Companies' schemes in 1989. It has no contributing members, 1,183 deferred members and 11,763 pensioners. This Communications Policy Statement is effective from 17 June 2019.

We have an agreed strategy for implementing a move to more electronic communication which continues to evolve. These developments are reflected in this policy statement. In particular we have developed our website **www.eapf.org.uk** to provide a knowledge centre for members. Further information with details of any employer related aspects of pensions such as polices on contributions, the use of discretions etc can be found on our Fund employer's respective intranets.

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

Pension Fund Management
Horizon House
Deanery Road
Bristol, BS1 5AH
Email: info@eapf.org.uk
Tel: 0203 025 4205

Objectives

We have identified a number of key objectives relating to how we communicate with our stakeholders, and these are:

- Communicate in a clear, concise manner
- Promote the Scheme as a valuable benefit and provide information so members can make informed decisions about their benefits
- Provide a service that is valued by all members, responding to their personal circumstances and supports them in their decision making process.
- Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders
- Look for efficiencies in delivering communications through greater use of technology and partnership working
- Regularly evaluate the effectiveness of communications and shape future communications appropriately

Regulatory framework

With effect from 1 April 2005 regulation 106B of the Local Government Pension Scheme Regulations 1997 (as amended) required that administering authorities "….prepare, maintain and publish a written statement setting out their policy concerning communications with members; representatives of members, prospective members and employing Authorities. Regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2007, effective from 1 April 2008, states:

This regulation applies to the written statement prepared and published by an administering authority under regulation 106B of the Local Government Pension Scheme Regulations 1997.

The authority;

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

The matters are;

- The provision of information and publicity about the Scheme to members, representatives of members and employing authorities.
- The format, frequency and method of distributing such information or publicity.
- The promotion of the Scheme to prospective members and their employers.

As a provider of an occupational pension scheme, we are also obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other legislation, for example the Pensions Act 2004. The disclosure requirements are prescriptive, concentrating on time-scales rather than quality. A summary of our expected time-scales for meeting the various disclosure of information requirements is set out in the section on performance measurement, alongside those defined by the Disclosure Regulations.

Communication will always be in accordance with the provisions of Data Protection legislation.

Representation

The EA performs the roles of Administering and Employing Authorities with the Pensions Committee and Pension Board, supported by the Pension Fund Management team and a variety of external advisors, taking overall responsibility for Administering Authority functions. The EA's HR Pensions team performs the role of Employing Authority. The day-to-day administration of the funds is outsourced to Capita.

The Pensions Committee is a sub-committee of the EA Board with 14 members made up of 4 Board members, 2 Executive members, 1 NRW Executive member, 5 employee/Trades Union nominees, with 2 member nominees for pensioners and deferred members. The Committee is supplemented by an Investment Sub Group where specific advice can be provided by Officers, and external advisors. There are 2 Trade Union nominees on the Investment Sub-Group.

The Pension Board consists of 10 members, and includes members of the Pensions Committee less the 2 Executive Directors members of the Environment Agency and 2 Active Scheme members.

Responsibilities and resources

The EAPF is responsible for the administration of the Fund 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, the HR Pensions' team 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
- Employing authorities – Human Resources & Payroll
- The EA Board and executive managers
- Pensions Committee members
- Pension Board members
- Recognised Trades Union representatives
- Pensions staff and HR
- Fund administrator

How we communicate

General communication

The Fund continues to develop and enhance its communication program which started with the introduction of an easily recognisable brand and writing style. This was aligned to a totally restructured website using rich media (which included the use of calculators, flowcharts and audio and visual presentations) to help enhance member experience and encourage regular use.
Both our public facing website and web portal facility, EAPF Online are ‘device enabled’ which means they allow users to access information on any mobile phone or tablet in an easily readable format, so our members can look up information or access online tools at a time of their choosing.
We continue to engage with members through a number of channels to establish a view on how our members prefer to communicate and interact with the Fund.

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

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

Introducing webinars allows us to:

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

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

Our Communications strategy

As part of our long term strategy, 2018 saw us continue our move to digital communications by using our 5 segmented groups to ensure the way we engage remains relevant and personalised to our members.

Our segmented groups are:

- Spontaneous spender – adventure
- Pension Sceptic – protection
- Assured saver – relaxed
- Responsible worrier – detail and focus
- Mature planner – companionship

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

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

Here's an example

We regularly receive feedback from members asking us to reduce the amount of paper used, so we've listened and as part of our recent developments to EAPF Online, we introduced a new online nomination form in February 2019. This has made it easier for our members to access the form at a time that suits them, reduced the amount of paper being used and simplified administration.

To make our members aware of our new online form, we created an email campaign called 'Looking after your loved ones' (LAYLO) using different tailored content aimed at two different segments, registered and non-registered members.

Our campaign objectives were to:

- Raise awareness that the Fund provides family protection
- Encourage members to log in and complete a nomination form
- Drive members to our public website for more information

Within the first week of campaign, it had a real positive effect in driving members to the online portal as we received 352 web nomination forms and 526 new registrations during our short campaign period. It also increased new visitors and views to our website pages on family protection with 500 views in a 1 week campaign period. This is a fantastic result which demonstrates how listening, monitoring and focusing on member feedback works.

Accessibility

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

We do not have a policy of automatically translating our material into community languages. We do want to communicate with minority communities, so we aim to use plain English for our printed and online materials. We believe this is the most effective way to communicate with people for whom English is not their first language but we will arrange translation on request. Our website is compliant with Shaw Trust's usability standards.

Performance measurement

To measure the success of our communications with active, deferred and pensioner members, we will use the following methods:

Timeliness

We will measure against the following target delivery timescales:

Communication	Audience	Statutory delivery period	Target delivery period
Scheme short guide	New joiners to the LGPS	Within two months of joining	Within two weeks of joining the LGPS
E Shot Introduction to the EAPF & video	New joiners to the LGPS	Within 2 months of joining	Within 1 month of joining the LGPS and on receipt of email address
Annual estimated Benefit Statements as at 31 March	Contributing & deferred members	31 August each year	31 August each year
Telephone calls	All	Not applicable	90% within 15 seconds
Issue of retirement benefits (at normal pension age)	Contributing members retiring	Within one month of retirement	On day of retirement - 90% of estimate if final details not known. Balance within five days of receipt of information
Issue of retirement benefits (early retirements)	Contributing members retiring	Within two months of retirement	On day of retirement - 90% of estimate if final details not known. Balance within 5 days of receipt of information
Issue of deferred benefits	Leavers	Within two months of notification	Within two months
Transfers in	Joiners & contributing members	Within three months of request	Within two months
Transfers out	Leavers & deferred members	Within three months of request	Within two months
Issue of forms i.e. expression of wish	Contributing & deferred members	Not applicable	Within five working days
Changes to scheme rules	Contributing & deferred & pensioner members, as required	Within three months of the change coming into effect	Within three months of change coming into effect
Pension Fund Annual Report and Accounts	All	Within two months of request	Within two working days (once published)
Spotlight	All	Not applicable	By 31 December each year
Pensioner payslips	Pensioners	On change to pension amount due	Monthly five days before pay date

Quality

We make use of a range of mechanisms to monitor the quality of our communications which include surveys, focus groups and website activity. All our publications and our website include invitations for comment on content and offer suggestions for future editions and contact details are provided.

The EAPF are accredited with the Customer Service Excellence ® standard which tests in great depth those areas that research has indicated are a priority for customers, with particular focus on delivery, timeliness, information, professionalism and staff attitude. There is also emphasis placed on developing customer insight, understanding the user's experience and robust measurement of service satisfaction.

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 which is available on our website. Full details will be reported regularly to our Pensions Committee.
We report to our Pension Committee quarterly, and provide a communications update annually.

Protecting member data

The Environment Agency Pension Fund (EAPF) is a Data Controller under the General Data Protection Regulations (GDPR). This means we store, hold and manage personal data in line with statutory requirements to enable us to provide members with pension administration services. To enable us to carry out our statutory duty, we are required to share information with certain bodies, but will only do so in limited circumstances.

For more information about how we hold data, who we share it with and what rights our members' have to request information from the Fund, please read our **full privacy policy**. We have also produced a helpful **Q&A factsheet**.

Review process

We will review our communication policy to ensure it meets audience needs and regulatory requirements at least every two years. A current version of the policy statement is always available at **www.eapf.org.uk**

Paper copies are available on request.

Approved by the Pensions Committee on 17 June 2019 and reviewed annually.

Enquiries

Any enquiries regarding this Report should be addressed to:

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

Tel: 0203 025 4205
Email: **info@eapf.org.uk**

Enquiries concerning the Environment Agency Pension Scheme or entitlement to benefits should be addressed to:

Environment Agency Pensions Team
Capita
11b Lingfield Point
DARLINGTON
DL1 1AX

Tel: 0800 121 6593
Email: **info@eapf.org.uk**

The Annual Report and Financial Statements are also available at our website: **www.eapf.org.uk**

www.gov.uk/government/publications

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