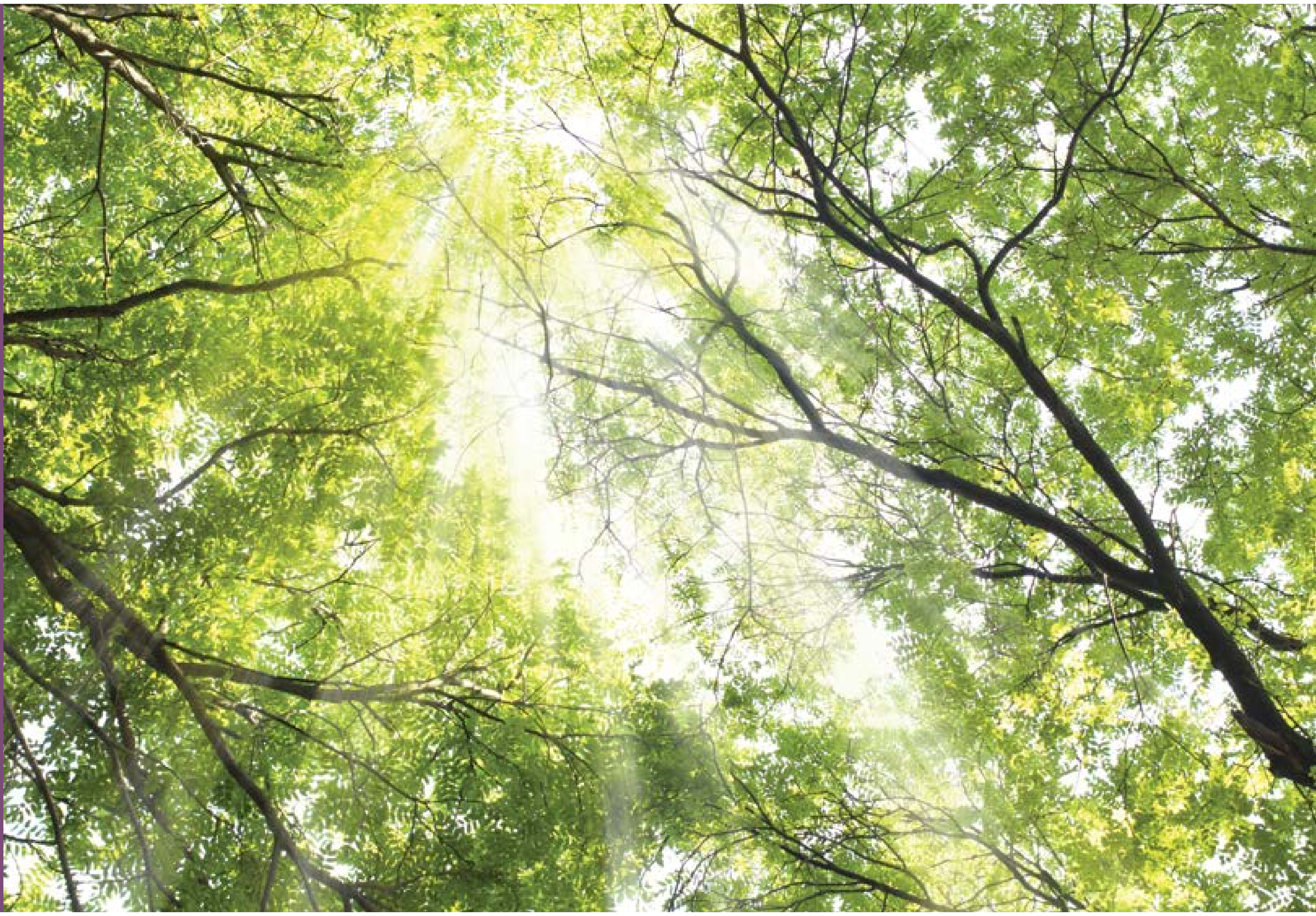
Environment Agency
Pension Fund

Active Pension Fund

Annual Report and Financial Statements 2013 – 2014



Environment Agency Active Pension Fund

Annual Report and Financial Statements 2013 - 2014

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

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

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Contents

Chairman's statement

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

It has been a year of change for the Fund. 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. Also in April 2013, we said farewell to Howard Pearce, our Head of Pension Fund Management for 10 years. We thank Howard for the tremendous work he did championing responsible investment whilst growing our assets to over £2 billion.

Throughout these challenging times, improving the Fund's financial performance remains paramount. I am therefore delighted to report that our investment strategy delivered excellent results of +8.4% performance during 2013-14, which is +3.9% against our strategic benchmark, increasing the Funds assets by £188m to £2.3bn. This is wonderful news, building on our robust funding position of 90%, as assessed by our triennial actuarial valuation at 31 March 2013. Our funding position remains amongst the best in the Local Government Pension Scheme (LGPS) and was estimated to be as high as 99% at March 2014. Alongside this, employer contribution rates for the three years to 31 March 2017 were agreed well in advance of the end of 2013. Our employers remain committed to providing good pension benefits for their employees.

We remain passionate about investing the Funds assets responsibly. We started the year implementing our innovative real assets mandate with Townsend Group which brings together real estate, infrastructure, forestry and agricultural land. During the year we also built on our existing relationship with Generation Investment Management with allocations into their Global Credit Fund and Climate Solutions Fund II, respectively. All these investments have strong sustainability themes.

Our work to reduce climate risk in the management of the fund included a study into our exposure to carbon embedded within fossil fuel reserves held by globally listed companies. This work complemented our carbon foot printing which focuses on the green house gas emissions from the companies we invest in. Our success in this area has continued to be recognised externally for its innovation and leadership with two awards during 2013-14. Firstly, from Investment and Pensions Europe, for "Smart Beta"; and secondly, from Portfolio Institutional for "Best Implementation of Responsible Investment" which particularly focused on progressing our work on managing climate risk in the Fund.

Reform of the LGPS and the wider issue of pension provision in general has been an important focus for the Fund throughout the year. This culminated in the implementation of the new LGPS from 1 April 2014, which brought a number of changes to employee's pensions. The Committee and our employers have worked hard to ensure that members are aware of these changes and it is good to see that our level of membership remains very high, with 95% of eligible employees continuing to contribute to the Fund. In fact, over the last year, total membership of the Fund increased by 472 to 23,586 members.

For 2014-15 the theme of change will continue. The Committee will continue to engage with the review of options for future LGPS structures and governance arrangements with further consultations expected in the next 12 months. It is envisaged that the new governance arrangements for the Pensions Committee will need to be in place for 1 April 2015.

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

John Varley
Chairman
Environment Agency Pensions Committee
17 June 2014

Membership of the Pensions Committee for the year ended 31 March 2014

	Date of appointment	Length of service	End of current appointment	Residual period of current appointment
Board members				
John Varley (Chair)	01/11/09	4 yr 5 mth	30/09/15	1 yr 6 mth
Robert Light	07/07/09	4 yr 9 mth	30/06/15	1 yr 3 mth
Clive Elphick	01/09/12	1 yr 7 mth	31/07/14	0 yr 4 mth
Emma Howard-Boyd	18/10/12	1 yr 6 mth	30/06/15	1 yr 3 mth
Executive members				
Mark McLaughlin	01/11/09	4 yr 5 mth	n/a	n/a
Jonathan Robinson	01/04/12	2 yr 0 mth	n/a	n/a
Dawn Turner	01/05/13	0 yr 11 mth	n/a	n/a
Kevin Ingram	07/07/09	4 yr 9 mth	06/07/15	1 yr 3 mth
Howard Pearce	12/02/03	10 yr 2 mth	30/04/13	n/a
Active member nominees				
Jackie Hamer	01/04/08	6 yr 0 mth	31/03/17	3 yr 0 mth
Stuart Martin	17/11/09	4 yr 5 mth	16/11/15	1 yr 7 mth
Simon Peate	07/07/11	2 yr 9 mth	06/07/14	0 yr 3 mth
Ian Woolven	18/10/12	1 yr 6 mth	17/10/15	1 yr 6 mth
Colin Chiverton	01/04/13	1 yr 0 mth	31/03/16	2 yr 0 mth
Pensioner member				
Brian Engel	22/05/05	8 yr 11 mth	22/05/15	1 yr 1 mth
Deferred member				
John Kerr	09/02/10	4 yr 2 mth	08/02/16	1 yr 10 mth
Chief Executive - ex officio				
Paul Leinster	01/06/08	5 yr 9 mth	n/a	n/a

Committee member biographies

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

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

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

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

Emma Howard Boyd joined Jupiter Asset Management in 1994 and since then has been integral to the development of Jupiter's reputation in the corporate governance and sustainability fields. In recent years she has played an important external role in engaging with companies at Board level. As Director, Stewardship, Emma's responsibilities include stewardship policy development and engagement activities, working alongside fund managers, with company chairmen and non-executives across Jupiter's investments.

Emma is a non-executive director of Future Cities Catapult and a director of the Aldersgate Group. She is also a member of the 30% Club Steering Committee, a cross-business initiative aimed at achieving 30% women on UK corporate boards by 2015 through voluntary, business-led change. During 2007, Emma was a member of the Commission on Environmental Markets and Economic Performance, set up by the UK Government to make detailed proposals specifically on enhancing the UK environmental industries, technologies and markets. Emma was Chair of UKSIF, the sustainable investment and finance association for eight years until March 2006 and a director of Triodos Renewables PLC for eight years until June 2012.

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

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

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

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

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

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

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

Colin Chiverton has been a member of the Committee since 2013. He is an Area Environment Manager in West Thames Area in the South East region of the Environment Agency and has been an active member of the LGPS for 27 years. Colin has attended the induction training events on the LGPS and will develop his knowledge on pension fund investment and management over time. He is the Pensions Representative of Prospect Union's Environment Agency Branch.

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

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

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

Professional advisers to the Committee

Actuarial Adviser	Hymans Robertson (Richard Warden)
Bankers	National Westminster Bank Plc
Benefit Adviser	Hymans Robertson
Custodian	The Northern Trust Company
External Auditor	Comptroller and Auditor General
Fund Manager Selection Adviser	bFinance Ltd. (Sam Gervaise-Jones)
Governance and risk	Aon Hewitt (Karen McWilliam)
Investment Adviser	Mercer Investment Consulting (Nick Sykes)
Independent Investment Adviser	Investment Adviser and Trustee Services Ltd (Carolan Dobson)
Legal Adviser	Osborne Clarke (Mark Womersley)
Pensions Administrator	Capita

Report by the Pensions Committee

Governance

Chairman and members

There were no changes in Board appointed members or active member nominees during the year. There was one change in executive members during the year. Howard Pearce retired from the Environment Agency on 30 April 2013 and was replaced by Dawn Turner from 1 May 2013.

Committee governance

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

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

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

1) Schedule 7 of the Environment Agency's Financial Memorandum
2) Pension Funds Governance Compliance Statement which includes:
    a. The Statement of Compliance which details the level of compliance with Government Guidance;
    b. The Pensions Committee Terms of Reference and Standing Orders which details the status, composition and responsibilities of Pensions Committee members; and
    c. Pension Funds Scheme of Delegation which prescribes the arrangements for, and limitations to, the delegation of powers and duties within the Environment Agency under The Local Government Pension Scheme (Administration) Regulations 2008 (as amended), and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 in its capacity as Administering Authority and encompassing the Employing Authority Discretions.

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

In December 2008 the Government issued statutory guidance on the preparation of Governance Compliance Statements. Our own statement, which incorporates the Pensions Committee Terms of Reference and Standing Orders and the Pension Funds Scheme of Delegation, demonstrates our compliance with this guidance. The Statement of Compliance with Government guidelines has been updated this year and may be found at page 37.

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

Committee training

As an administering authority of the LGPS, the Committee recognises the importance of ensuring that all staff and members charged with the financial management and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge those responsibilities. The Committee seeks to ensure that membership is both capable and experienced and will provide/arrange training for its members so that they can acquire and maintain an appropriate level of expertise, knowledge and skills. The Committee's training strategy currently takes account of the requirements of the Pensions Act 2004. The Act requires that trustees of occupational pension schemes should have knowledge and understanding of the law relating to pensions and the role of trustees, the principles of scheme funding and investment and the management and administration of pension scheme benefits. Following the issue of CIPFA guidance “Pensions Finance Knowledge and Skills Frameworks”, the training strategy seeks to ensure that it will fully reflect how the recommended knowledge and skills level requirements set out in the CIPFA guidance are to be acquired.

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

In each subsequent year of membership they are expected to undertake two to three days’ training aimed at building or refreshing their knowledge and skills in specific topics in greater depth. A detailed log of all training undertaken and planned by Committee members is maintained and is presented in the following table. During 2013/14, three full day formal training sessions were carried out covering funding and investment risk, benefits and communications and governance. Additional sessions on fees and benchmarking, funding strategy statements, the 2013 valuation, responsible investment risks, liability risk management and sustainable investment were also carried out as part of Committee meetings.

Committee training log

Member name	Training log
John Varley (Board Member) Appointed to PC: 01/11/2009	2009 Half day induction training 2009 Half day training on cost sharing 2009 Half day training on Active Fund funding strategy review 2011 Investment strategy 2011 Strategic asset allocation/investment strategy 2012 Investment risks (and LDI) 2012 Investment risks - fund manager selection 2012 LGPS Fundamentals training Day 1 2012 Risk training – 2013 valuations 2012 Bulk transfers and admitted bodies 2013 LGPS Fundamentals training Day 3 2013 Risk training – 2013 funding strategy statements 2013 Foundation level of the Sarasin Trustee Training seminar 2013 Fees and Benchmark training (11 December) 2013 Day 2: Benefits and communications (full day) 2013 Hedging Strategies training - 2 September 2013 (1 hour) 2013 Responsible investment risks, including climate risk (30mins) 2013 Sustainable investment (David Blood presentation and discussion) (1 hour) 2014 Day 3: Governance (full day) 2014 Responsible investment risks, including climate risk (stranded assets) (1hour) 2014 Introduction to liability risk management (1.5 hours)
Robert Light (Board Member) Appointed to PC: 07/07/2009	2009 Half day induction training 2009 Half day training on cost sharing 2009 Half day training on Active Fund funding strategy review 2011 Investment strategy 2012 Risk training – 2013 valuations 2012 Bulk transfers and admitted bodies 2013 Risk training – 2013 funding strategy statements 2013 Day 2: Benefits and communications (full day) 2013 Sustainable investment (David Blood presentation and discussion) (1hour) 2014 Day 3: Governance (full day)
Clive Elphick (Board Member) Appointed to PC: 01/09/2012	2012 Half day induction training 2012 Investment risks and LDI 2012 Investment risks - fund manager selection 2012 LGPS Fundamentals training Day 1-3 2012 Risk training – 2013 valuations 2012 Bulk transfers and admitted bodies 2012 LGPS Trustee Training - Fundamentals Day 1-3 2013 Risk training – 2013 funding strategy statements

Member name	Training log
	2013 Fees and Benchmark training (11 December) 2013 Day 1 : Funding and investment risk (full day) 2013 Hedging Strategies training - 2 September 2013 (1 hour) 2013 Responsible investment risks, including climate risk (30mins) 2013 Sustainable investment (David Blood presentation and discussion) (1 hour) 2014 Day 3: Governance (full day) 2014 Responsible investment risks, including climate risk (stranded assets) (1hour) 2014 Introduction to liability risk management (1.5 hours)
Emma Howard Boyd (Board Member) Appointed to PC: 18/10/2012	2012 Risk training – 2013 valuations 2012 Bulk transfers and admitted bodies 2013 Hymans Robertson Pensions Committee Training Day 2013 Risk training – 2013 funding strategy statements 2013 Pension Committee Training day Hymans Robertson 2013 Day 1 : Funding and investment risk (full day) 2013 Day 2: Benefits and communications (full day) 2014 Day 3: Governance (full day)
Mark McLaughlin Appointed to PC: 01/11/2009	2009 Half day induction training 2009 Half day training on cost sharing 2009 Half day training on Active Fund strategy review 2011 Investment strategy 2011 Strategic asset allocation/investment strategy 2012 Investment risks and LDI 2012 Investment risks - fund manager selection 2012 Risk training – 2013 valuations 2012 Bulk transfers and admitted bodies 2013 Risk training – 2013 funding strategy statements 2013 Day 1 : Funding and investment risk (full day) 2013 Day 2: Benefits and communications (full day) 2013 Hedging Strategies training - 2nd September 2013 (1 hour) 2013 Responsible investment risks, including climate risk (30mins) 2013 Sustainable investment (David Blood presentation and discussion) (1 hour) 2014 Day 3: Governance (full day) 2014 Responsible investment risks, including climate risk (stranded assets) (1hour)
Jonathan Robinson Appointed to PC: 01/04/2012	2012 PC induction training 2012 Risk training 2013 valuations 2012 Bulk transfers and admitted bodies 2013 Hymans Robertson Pensions Committee Training Day 2013 Risk training – 2013 funding strategy statements 2013 Pension Committee Training day Hymans Robertson 2013 Day 1 : Funding and investment risk (full day) 2013 Sustainable investment (David Blood presentation and discussion) (1 hour)
Dawn Turner Appointed to PC: 01/05/2013	2013 Hymans Robertson Pensions Committee Training Day 2013 Risk training – 2013 funding strategy statements 2013 Pension Committee Training day Hymans Robertson 2013 Foundation level of the Sarasin Trustee Training seminar 2013 2013 Advanced level of the Sarasin Trustee Training seminar 2013 2013 Environment Agency Data Custodian Security training – 17 July 2013 Day 1 : Funding and investment risk (full day) 2013 Day 2: Benefits and communications (full day) 2013 Hedging Strategies training - 2 September 2013 (1 hour) 2013 Responsible investment risks, including climate risk (30mins) 2013 Sustainable investment (David Blood presentation and discussion) (1 hour) 2014 Day 3: Governance (full day) 2014 Responsible investment risks, including climate risk (stranded assets) (1hour) 2014 Introduction to liability risk management (1.5 hours)
Kevin Ingram Appointed to PC: 07/07/2009	2009 Half day training on cost sharing 2009 Half day training on Active Fund strategy review 2011 3 days LGPS trustee training fundamentals 2011 Investment strategy 2011 Strategic asset allocation/investment strategy 2012 Risk training – 2013 valuations

Member name	Training log
	2012 Bulk transfers and admitted bodies 2013 Risk training – 2013 funding strategy statements 2013 Day 1 : Funding and investment risk (full day) 2013 Day 2: Benefits and communications (full day)
Stuart Martin (Member nominee) Appointed to PC: 17/11/2009	2009 Half day training on cost sharing 2009 Half day training on Active Fund funding strategy review 2011 Half day PC induction training on the new LGPS 2011 Investment strategy 2011 2 day LGPS "Trustees" conference 2011 Strategic asset allocation/investment strategy 2012 Risk training – 2013 valuations 2012 Bulk transfers and admitted bodies 2013 Risk training – 2013 funding strategy statements 2013 Day 1 : Funding and investment risk (full day) 2013 Day 2: Benefits and communications (full day) 2013 Sustainable investment (David Blood presentation and discussion) (1 hour) 2014 Day 3: Governance (full day)
Jackie Hamer (Member nominee) Appointed to PC: 01/04/2008	2008 1 day PC induction training on the new LGPS 2009 1 day training on outsourcing and pension issues 2009 1 day training on bulk transfers and admitted bodies 2009 Half day training on cost sharing 2009 Half day training on Active Fund funding strategy review 2011 3 days LGPS trustee training fundamentals 2011 Investment strategy 2011 Strategic asset allocation/investment strategy 2012 Investment risks and LDI 2012 Investment risks - fund manager selection 2012 Risk training – 2013 valuations 2012 TUC Trustee training 2012 Fair Pensions training 2012 Bulk transfers and admitted bodies 2013 Risk training – 2013 funding strategy statements 2013 Fees and Benchmark training (11 December) 2013 Day 1 : Funding and investment risk (full day) 2013 Day 2: Benefits and communications (full day) 2013 Hedging Strategies training - 2 September 2013 (1 hour) 2013 Responsible investment risks, including climate risk (30mins) 2013 Sustainable investment (David Blood presentation and discussion) (1 hour) 2014 Responsible investment risks, including climate risk (stranded assets) (1hour) 2014 Introduction to liability risk management (1.5 hours)
Simon Peate (Member nominee) Appointed to PC: 07/07/2011	2011 3 days LGPS trustee training fundamentals 2011 Investment strategy 2012 Half day induction training 2011 Strategic asset allocation/investment strategy 2012 Risk training – 2013 valuations 2012 Bulk transfers and admitted bodies 2013 Risk training – 2013 funding strategy statements 2013 Day 1 : Funding and investment risk (full day) 2013 Day 2: Benefits and communications (full day) 2013 Hedging Strategies training - 2 September 2013 (1 hour) 2013 Responsible investment risks, including climate risk (30mins) 2014 Day 3: Governance (full day)
Ian Woolven (Member nominee) Appointed to PC: 18/10/2012	2012 Risk training – 2013 valuations 2012 Bulk transfers and admitted bodies 2013 Hymans Robertson Pensions Committee Training Day 2013 Risk training – 2013 funding strategy statements 2013 Pension Committee Training day Hymans Robertson 2013 Day 1 : Funding and investment risk (full day)
Colin Chiverton (Member nominee)	2013 Hymans Robertson Pensions Committee Training Day 2013 Risk training – 2013 funding strategy statements

Member name	Training log
Appointed to PC: 01/04/2013	2013 Pension Committee Training day Hymans Robertson 2013 Day 1 : Funding and investment risk (full day) 2013 Day 2: Benefits and communications (full day) 2013 Hedging Strategies training - 2 September 2013 (1 hour) 2013 Responsible investment risks, including climate risk (30mins) 2013 Sustainable investment (David Blood presentation and discussion) (1 hour) 2014 Responsible investment risks, including climate risk (stranded assets) (1hour) 2014 Introduction to liability risk management (1.5 hours)
Brian Engel (Pensioner nominee) Appointed to PC: 22/05/2005	2005 3 days EA PC induction training and LGPS trustee fundamentals 2006 Half day Defra seminar on changes to the LGPS 2006 1 day special PC meeting for briefing on New Look LGPS 2007 1day Hymans Robertson actuarial valuation training. 2008 1 day training on the new LGPS 2008 2 day 6th Annual LGPS Trustees' Conference 2009 1 day training on outsourcing and pension issues 2009 1 day training on bulk transfers and admitted bodies 2009 Half day training on cost sharing 2009 Half day training on Active Fund strategy review 2011 Investment strategy 2011 Strategic asset allocation/investment strategy 2012 LGPS Trustees Annual Conference 2012 Risk training – 2013 valuations 2012 Bulk transfers and admitted bodies 2013 Risk training – 2013 funding strategy statements 2013 LGPS Trustees Annual Conference x 2 day training 2013 Day 1 : Funding and investment risk (full day) 2013 Day 2: Benefits and communications (full day) 2013 Sustainable investment (David Blood presentation and discussion) 1(1 hour) 2014 Day 3: Governance (full day)
John Kerr (Deferred Member nominee) Appointed to PC: 09/02/2010	2011 Half day training on the new LGPS 2011 3 days LGPS trustee training fundamentals 2011 Investment strategy 2011 Strategic asset allocation/investment strategy 2012 Risk training 2013 valuations 2012 Bulk transfers and admitted bodies 2013 Day 1 : Funding and investment risk (full day) 2013 Day 2: Benefits and communications (full day) 2013 Sustainable investment (David Blood presentation and discussion) (1 hour) 2014 Day 3: Governance (full day)

Members' attendance at Committee meetings through the year

	Pensions Committee Meeting	Pensions Committee Training	Special Pensions Committee Meeting	Investment Sub Group	Benefits Sub Group	TOTAL
Number of meetings	4	3	1	4	4	16
Board members						
John Varley (Chair)	3	2	1	4	3	13
Robert Light	2	2	1		4	9
Clive Elphick	4	2	1	4		11
Emma Howard Boyd	4	3	0			7
Executive members						
Mark McLaughlin	4	3	1	4	4	16
Jonathan Robinson	4	1	0		3	8
Dawn Turner	4	3	1	4	4	16
Kevin Ingram	2	2	0		2	6
Active members						
Stuart Martin	3	3	0		3	9
Jackie Hamer	4	2	1	4		11
Simon Peate	2	3	1	2		8
Ian Woolven	2	2	0		2	6
Colin Chiverton	4	2	1	4		11
Pensioner member						
Brian Engel	4	3	1		4	12
Deferred member						
John Kerr	4	3	1		4	12
Chief Executive - ex officio attendee						
Paul Leinster	0	0	0			0

Note – shaded areas above indicate non-membership of that sub-group

Pension Fund membership

Unless they have elected in writing not to be members, all full and part-time employees, whether permanent or temporary (over 3 months), become active members of the Fund. The 12 months ended 31 March 2014 have seen a 1.1% decrease in the Fund's active members (2013: increase of 7.1%). There was an increase of 3.9% in deferred members and 6.7% increase in pensioners.

Movement in number of members and pensioners	Active members	Deferred members	Current pensioners	Total
At 1 April 2013	**11,379**	**6,624**	**5,111**	**23,114**
Adjustment for late notifications	(1)	(8)	13	4
Revised opening balance	11,378	6,616	5,124	23,118
Add:				
New active members	605	-	-	605
New deferred members	-	436	-	436
New pensioners	-	-	356	356
New spouses pensions	-	-	52	52
New children's pensions	-	-	8	8
	605	**436**	**416**	**1,457**
Less:				
Deferred benefits	(436)	-	-	(436)
New retirement pensions	(281)	(75)	-	(356)
Deaths in service	(8)	-	-	(8)
Refunds of contributions	(5)	-	-	(5)
Options pending	(2)	-	-	(2)
Transfers out	(1)	(82)	-	(83)
Deaths in deferment	-	(10)	-	(10)
Commutation of pension	-	(2)	-	(2)
Death in retirement	-	-	(80)	(80)
Suspended/Ineligible pensions	-	-	(7)	(7)
	(733)	**(169)**	**(87)**	**(989)**
At 31 March 2014	**11,250**	**6,883**	**5,453**	**23,586**

Based on data supplied by Capita as at 1 April 2014

Age profile of active members at 31 March	2014		2013	
	No.	%	No.	%
15 - 19	4	0.1	6	0.1
20 – 24	139	1.2	293	2.5
25 – 29	870	7.7	1,087	9.6
30 – 34	1,655	14.7	1,839	16.2
35 – 39	1,851	16.5	1,812	16.0
40 – 44	1,742	15.5	1,707	15.0
45 – 49	1,762	15.7	1,720	15.1
50 – 54	1,464	13.0	1,317	11.6
55 – 59	1,084	9.6	1,034	9.1
60 – 64	574	5.1	506	4.3
65 – 69	103	0.8	57	0.4
70 – 74	2	0.1	1	0.1
Total	**11,250**	**100.0**	**11,379**	**100.0**

Age profile of deferred members at 31 March	2014		2013	
	No.	%	No.	%
20 – 24	23	0.3	27	0.4
25 – 29	310	4.5	424	6.4
30 – 34	884	12.8	1,026	15.4
35 - 39	1,273	18.5	1,191	18.0
40 - 44	1,303	19.0	1,305	19.7
45 - 49	1,363	19.8	1,278	19.3
50 - 54	976	14.2	769	11.6
55 - 59	553	8.0	488	7.4
60 - 64	172	2.5	101	1.5
65 - 69	24	0.3	8	0.1
70 - 74	2	0.1	4	0.1
75 - 79	0	0	3	0.1
Total	**6,883***	**100.0**	**6,624***	**100.0**

**The figure for deferred members includes 318 cases (2013: 332) where there is no entitlement to a deferred pension only to a refund of contributions. These are former employees whom we are unable to trace, with refunds being paid as and when contact is made with them.*

Age profile of current pensioners at 31 March	2014		2013	
	No.	%	No.	%
Child dependants	56	1.0	51	1.0
Pensioners and spouses				
Under 50	56	1.0	64	1.2
50 - 54	58	1.0	67	1.3
55 - 59	264	4.8	326	6.3
60 - 64	1,117	20.5	1,206	23.6
65 - 69	1,595	29.3	1,544	30.2
70 - 74	1,137	20.9	955	18.7
75 - 79	717	13.2	571	11.2
80 - 84	348	6.4	260	5.1
85 - 89	98	1.8	66	1.3
90 - 94	7	0.1	1	0.1
Total	**5,453**	**100.0**	**5,111**	**100.0**
Total membership	**23,586**		**23,114**	

Based on data supplied by Capita as at April 2014.

Summary of active member retirements	2014	2013
Ill Health Retirements (all ages) Tier 1	9	14
Ill Health Retirements (all ages) Tier 2	1	1
Ill Health Retirements (all ages) Tier 3	2	6
Early Retirements - efficiency/redundancy over age 55	134	21
Early Retirements – with employer consent	1	2
Flexible retirements - over age 55	21	28
Early Retirements - age 60 and under age 65	58	45
Normal Retirements - age 65	17	6
Late Retirements - over age 65	38	27
Total retirements	**281**	**150**

Benefits administration

Administration

The Environment Agency Pension Fund (EAPF) is responsible for administering the current and future pension benefits for over 23,500 members of the Active Pension Fund.

While the Committee (and Benefits Sub-Group) provides strategic direction and regular oversight, day-to-day pension fund administration is delivered through our third party pension administrator, Capita (a subsidiary of Capita Group Plc). We do this because it involves specialist knowledge, complex activity and significant investment in IS/IT which is considered beyond the core business of the Environment Agency and its Fund employers. Capita is the largest UK third party administrator and were awarded a new contract by the Environment Agency Pension Fund in 2010 following an EU procurement exercise.

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

Performance measurement

The Committee measures the performance of Capita through monthly, quarterly and annual reports showing progress against the contractual Service Level Agreement (SLA). During 2013 the Pension Committee approved a new look quarterly update that helped to report administration performance in a dashboard format that better reflects feedback on member complaints and compliments and summarises progress on project work. 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 17,297 Fund member requests/queries and for paying pensions to over 5,000 pensioners during the year. Over the year, Capita achieved the required service levels for 99% of casework processed.

The 5 largest case types processed by Capita for the Active Pension Fund during 2013-14 were:

Case type	2014	2013
Joiners	621	1,267
Transfers into the Fund	643	646
Retirement estimates	603	394
Leavers with deferred pensions	387	292
Retirements	313	266

The total number of staff allocated by Capita to the EAPF administration contract is 24, of which 13 deal solely with pension benefits administration. Based on a membership of 40,996 across Active and Closed Funds at 31 March 2014, this represents an average of 3,153 members per administrator. This compares well with the CIPFA LGPS average of 3,900 (2013).

Active Fund administration costs for the year to 31 March 2014 were £513k (2013: £510k) including member communications and postage costs. Across both Active and Closed Funds, this is equivalent to £24.64 per member. We are investigating appropriate cost benchmarks and will aim to include these in future reports.

2013/14 has been a challenging time with the Fund's triennial valuation and preparing for the implementation of the 2014 LGPS reforms. Natural Resources Wales (NRW) became a new Fund employer from 1 April 2013, changing the status of the EAPF from a single to multiple employer, and was followed from 1 November 2013 by Shared Services Connected Limited (SSCL) with the outsourcing of the Environment Agency's HR and Finance Service Centres.

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

Internal controls

The EAPF system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Fund's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. During 2013 we undertook a radical reform of risk management and reporting, undertaking 3 full days of risk training and deeply embedded risk in all committee papers and discussions.

The system of internal control has been in place in the Environment Agency and in the operation of the Fund for the year ended 31 March 2014, in accordance with LGPS and Treasury guidance and best practice.

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

The Pension Fund compliance audit concluded that the Pension Fund has complied fully with the provisions of the Pensions Schedule of the Financial Memorandum and that it has been able to maintain compliance with the range of activities mandated in the Financial Memorandum whilst responding to significant changes that include the EAPF becoming a multi-employer fund.

The Pension Fund risk audit evaluated that in relation to the management of pension fund risks, they identified an improvement in processes compared with their previous Risk Management Audit in 2012. These included detailed training for Members of the Pension Committee, a simplified risk register for easier review and maintenance, and the continuation of risk identification from a broad range of information, including advice and guidance from professional advisors, public sector pensions networking groups and internal expertise.

Data quality

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

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

Data quality testing has been carried out for the Active Fund during 2013/14 and a certificate issued reflecting compliance with TPR guidance. Our post June 2010 data is 99.6% (2012/13: 99.6%) with pre June 2010 data at 97.4% (2012/13: 96.2%). The missing data for both categories relates to members moving house and not informing our administrators. We are carrying out an exercise to trace these members and will update their records accordingly.

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

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.

Changes to the Local Government Regulations during 2013-14

The Public Service Pensions Bill received Royal Assent on 25 April 2013 becoming the Public Service Pensions Act 2013.

The Act introduces a number of new terms and provides the framework for the forthcoming changes to public sector pension schemes. Some of the main areas covered include:

- provision for scheme regulations to be made within a common framework
- new Career Average Revaluaed Earnings (CARE) schemes across public sector schemes
- links the normal retirement age to State Pension age
- develops a new governance framework
- requires a cost control mechanism to keep the ongoing cost of the schemes within defined margins with steps outlining action to be taken

The Local Government Pension Scheme Regulations 2013 (SI 2013/2356) were laid before parliament 19 September 2013, and came into force 1 April 2014. The regulations provide the rules for the 2014 CARE scheme.

The LGPS (Miscellaneous Amendments) Regulations 2014 (SI 2014/44) came into force 10 February 2014 and provide that employees with a contract of less than 3 months are to be enrolled into the LGPS on the member's automatic enrolment date, or on the first day of the payment period following an election to join the scheme or an extension of the contract to be for three months or more, as well as some other minor amendments.

The Local Government Pension Scheme (LGPS) (Transitional Provisions, Savings and Amendment) Regulations 2014 (SI 2014/525) were laid before parliament 10 March 2014, and came into force 1 April 2014 and provide details of how the 2014 Scheme interacts with the earlier schemes regulations.

Pensions increase

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

Pensions in payment and deferred pensions were increased by 2.7% with effect from 7 April 2014 (8 April 2013: 2.2%). Any pension which had been in payment for less than a year was increased by a proportionate amount depending upon the number of months it has been in payment.

The following table shows the rate of increases that have applied to pensions in payment and deferred pensions since 1991:

Year (April)	Rate of Increase %	Year (April)	Rate of Increase %	Year (April)	Rate of Increase %
1991	10.9	1999	3.2	2007	3.6
1992	4.1	2000	1.1	2008	3.9
1993	3.6	2001	3.3	2009	5.0
1994	1.8	2002	1.7	2010	0.0
1995	2.2	2003	1.7	2011	3.1
1996	3.9	2004	2.8	2012	5.2
1997	2.1	2005	3.1	2013	2.2
1998	3.6	2006	2.7	2014	2.7

National Fraud Initiative/mortality checks

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

As a general principle, where we investigate cases and fraud is suspected, we will pursue the case and will seek to agree a repayment plan or, if necessary, take legal action or involve the police. Our monthly mortality checks are in place to help reduce potential fraud on the Fund. There are no reported cases for 2013/14.

Communications

Our summary statement of policy on communications can be found at Annex 6.

In 2013/14 our focus has been to find new and innovative ways of communicating the introduction of the new look LGPS from April 2014 and highlight to members that the scheme remains a highly valued element of their benefits package.

The EAPF's unique status as a single employer fund changed in April 2013, with the introduction of Natural Resources Wales (NRW), and again in November 2013 with the introduction of Shared Services Connected Ltd (SSCL) as admitted bodies within the Fund.

This change in status presented new challenges for the fund, and so we undertook some work with focus groups to help better inform our communication strategy, and to help identify the brand need within the EAPF as a multi-employer pension fund.

The result of the first focus group, along with Pension Committee approval, is that the Environment Agency Pension Fund would use its own branding. This would help to better inform stakeholders, and differentiate the Fund.

A comprehensive review of EAPF's current communications objectives is currently taking place and following approval by the Pension Committee, will be implemented from summer 2014.

Details of specific communications for the year and some of our plans for next year are shown below:

www.eapf.org.uk – Our static website has been updated to include a dedicated 'one stop shop' of information on the 2014 new look scheme. The section contains topic based factsheets, videos and access to calculators to help better inform members. The style and design of this material makes it easily identifiable as relating to the new scheme.

Review of public sector pensions – Members have been kept regularly informed on the progress towards the Government's public sector pension reform. Updates have been issued in the 'Your pension' newsletters throughout the year, along with the EAPF's response to the consultations provided in the 'Latest news' section of the site. The new look LGPS was successfully implemented on 1 April 2014.

Short Guide and Member Guide – These key member guides provide summary and comprehensive information about LGPS benefits and were reviewed and updated as part of rolling out the new scheme. The short guide is mailed to all new starters and both guides are available at www.eapf.org.uk .

Your pension – Two newsletters were issued in summer 2013 and spring 2014 to all members providing updates on public sector pension reform, tax relief, and changes to the LGPS. The spring issue was provided in a new layout with different sections for general fund information along with specific pensioner and active member updates, along with an overview of the Fund's financial position and membership. This new design was in keeping with the refreshed branding used on the 2014 materials.

Annual Benefit Statements – These were issued to all active and deferred members in July 2013. The 2014 benefit statements for active and deferred members will be issued at the end of July 2014.

Fundfare – The decision has been made to replace this report with a new document called 'Spotlight'. This will be made available on the website from December 2014 and will provide a short visual update on the Fund's financial status and membership statistics. Anyone wishing to receive more detailed information will be able to access the Fund's Annual Report and Accounts for both the Active and Closed Fund from the website or on request.

Topping up your LGPS pension – This booklet is currently under review as part of changes to the details of some of the options available to members for increasing their Fund benefits. Three short factsheets addressing these key changes have been produced in the interim. The full guide is expected to be made available in July 2014.

Pension briefings - The pension administration contract with Capita includes the provision of annual presentations for employees and HR staff on pensions and related matters nationwide. These briefings took place between September and October 2013 at 30 different venues with over 1,100 people attending. Pension briefings for our pensioner and deferred members took place in Southampton and Peterborough in May 2013 and we are planning a consolidated central location for next year, which will be in Birmingham in June 2014.

Webinars – There were 3 interactive pension tax webinars to 125 participants dealing with complex pension tax regulations changes in January and February 2014.

The Environment Agency Pension Fund website www.eapf.org.uk provides our members with access to information pertaining to the national Local Government Pension Scheme (LGPS) and the Environment Agency Pension Fund. To that end we have developed and updated the following communications over the last year:

- How is my pension worked out
- Member contributions
- When can I take my pension
- Paying in before April
- Frequently Asked Questions
- Short scheme guide
- Full scheme guide
- New pension contribution bands
- A guide to pensions increases for the LGPS
- The tax controls on pension savings
- Annual allowance & pension saving statement
- Topping up my LGPS pension
- Starting an Additional Voluntary Contribution
- Investing my Additional Voluntary Contribution

The website has been updated to reflect the technical changes that have taken place and will undertake a further restructure in 2014 to better represent information pertaining to the new look scheme.

Accessibility - key pension publications for members are provided in bilingual versions in order to satisfy Natural Resources Wales Welsh Language requirements. Electronic versions are available at www.eapf.org.uk.

Complaints

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

In addition, the Internal Dispute Resolution Procedure (IDRP) is a formal two stage procedure for settling disputes under the Local Government Pension Scheme (Administration) Regulations 2008 (as amended). At Stage 1 the dispute will be reviewed by a person nominated by the Fund employer to investigate complaints regarding decisions made under LGPS regulations, known as the ‘specified person’. If you disagree with the Stage 1 decision you can apply to Stage 2 where the dispute will be reviewed by a representative of the Administering Authority. If you still cannot agree with the decision you can apply to the Pensions Ombudsman who will make a binding decision and who has the power to award compensation if he feels this is justified.

In 2013/14 Capita processed 17,297 cases (2012/13: 20,980) of which 34 (36 for 2012/13) formal complaints from members were received and these have all been resolved. There were four cases raised and under Stage 1 of the IDRP during the year and three remain open at year end. There were no cases at Stage 2 or to the Pensions Ombudsman.

Pension Fund investment

Investment regulations

All LGPS Funds are required to publish a Funding Strategy Statement and a Statement of Investment Principles. The Funding Strategy Statement is used by the Actuary to inform his valuation and is reproduced in Annex 2 to this document. It provides the context for the development of our investment strategy.

The Statement of Investment Principles was adopted by the Committee on 16 June 2014 and is reproduced in Annex 3 to these financial statements. It outlines the high level investment principles and strategy adopted by the Fund.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which came into force on 1 January 2010 require the Environment Agency Pension Fund (EAPF) to invest in accordance with its investment policy, any Fund money that is not needed immediately to make payments from the Fund. Although it may vary the types of investment, the EAPF's policy must be formulated with a view to the advisability of investing Fund money in a wide variety of investments; and the suitability of types of investments and particular investments.

Investment strategy

As responsible investors, we fully embrace the need to deliver a truly sustainable Pension Fund that delivers financially to meet the objectives of our scheme employers and members. Although the management of the Fund's investments is vested in the Environment Agency, responsibility for altering its investment policy is delegated to the Committee.

The investment strategy agreed by the Committee aims to maximise the return of the Fund, within an acceptable level of risk, by diversifying its investments throughout world markets. For 2013/14, the Fund has been completing the implementation of the new investment strategy agreed in 2012/13, which includes a more flexible approach to asset allocation, within strict guidelines, and sets out in an investment strategy framework. This new strategy is outlined in the Statement of Investment Principles in Annex 3. The strategy is intended to get maxium value from the fund while minimising risk, and uses multiple levers to achieve this (active mandates, specialist benchmarks, detailed risk analysis.).

A key aspect of the new investment strategy was to make a material commitment to real assets (property, infrastructure, forestry and agriculture) of up to 12% of the Fund and a new manager, the Townsend Group, was appointed at the start of the year to implement this. Significant progress has been made on reorganising the property portfolio, and a commitment to a new environmentally focused infrastructure fund has been made. Investment of the mandate is taking a little time, reflecting a cautious approach to investing in long term, illiquid funds. The benchmark was switched to RPI+4% and the allocation increased during the year from 5% to 9% at a rate of 1% a quarter.

Private Equity has fallen below its 4-6% target range, reflecting a subdued performance compared with other assets, rather than an active investment decision. The Pension Committee is currently considering further allocations to private equity.

The Fund has slightly overallocated to equities, pending investment of the real asset mandate. Within equities, it worth noting the excellent performance by those managers with a strong commitment to sustainability. Generation, Sarasin, Impax, and First State all outperformed their benchmarks, by an average of 6.76%. During the year we have been reviewing our sustainable equity strategy and expect to launch a tender for a new manager in during 2014/15.

Last year the Fund made significant allocations to "alternative beta" approaches in equities that do not use the usual market capitalisation weighted benchmarks, as it is expected these will offer superior long-term risk adjusted returns. These included the appointment of two new low volatility active managers, an investment in L&G RAFI 3000 index (an index weighted by fundamental rather than market value) and a capped benchmark for active UK equities. The Passive RAFI index performed well in the year, as did our active UK mandate (both in terms of the modified benchmark against the old benchmark and the manager against the benchmark). Our appointment of active managers to the low volatility mandate was vindicated as they strongly outperformed the low volatility indices. Our efforts in the area were recognised when we received the IPE "Smart beta" award.

To maintain the percentage of the quoted equity and bonds close to the target percentages, the Fund has adopted a rebalancing programme that automatically brings the Fund back in line with the agreed allocation if market movements change the asset allocation within the Fund. During the year the Committee decided to wind down the fund currency hedging programme, as it was not effective at reducing risk in equities. Potentially more effective approaches to managing and reducing risks are currently under review.
Although our managers added considerable value over the year we continue to be very conscious of costs and value for money. Investment management fees have increased this year, partly reflecting the appointment of new managers last year, but also significant performance fees due to two of our most successful managers. We have negotiated fee reductions or concessions with four managers this year, leading to fee savings of potentially £320,000 per annum in future years, and other negotiations are ongoing.

Overall the fund had a very successful year in terms of financially performance, outperforming its strategic benchmark by 3.9%. Our active managers generally outperformed, adding some £30.5m in value over the year in excess of their fees. Currency hedging also contributed, offsetting its negative contribution last year, as did the detailed implementation of the investment strategy.

Custody arrangements

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

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

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

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

Investment management

The Fund's investment managers implement the Committee's investment strategy. Each manager of a segregated portfolio has full discretion in the management of their portfolios, subject to complying with statutory limits and the Statement of Investment Principles, and is required to take due regard of the Active Fund Responsible Investment policy and supplementary guidance, for example on environmental issues or voting. The Committee has set the overall investment objective for the Fund in the light of the triennial actuarial valuation. It has considered the Fund’s net contribution inflows and the maturity profile of its liabilities.
The Fund does not support or directly engage in stock-lending in its segregated portfolios, but stock lending may occur in the pooled funds in which the Fund invests, which are outside our control.

Fund benchmark

The Committee has set the following strategic benchmark for the Fund:

Asset Class	Index	Weight 31 Mar 2014	Weight 31 Mar 2013
UK equities	FTSE All Share	13%	13%
Global equities	FTSE All World	39%	43%*
Emerging market equities	FTSE Emerging Markets	6%	6%
Index-linked gilts	FTSE-Actuaries UK Index-Linked Gilts over 15	8%	8%
Corporate bonds	iBoxx Sterling all non-gilt	20%	20%
Private equity	MSCI World	5%	5%
Real Assets	Retail Price Index +4%	9%	5%

* The allocation to global equities contains a temporary declining 4% allocation pending investment in the real assets as planned under the investment strategy.

Fund managers

Responsibility for managing the Fund's investments has been allocated to 13 managers. Our managers, their investment styles and the division of the portfolio is as follows:

Manager	% of Portfolio	Investment style
Legal & General Investment Management	33.7	Passive index tracking Funds
Royal London Asset Management	10.0	Active Sterling Corporate Bonds
Generation Investment Management	8.0	Active Global Equities
Standard Life Investments	7.9	Active UK Equities
Sarasin & Partners	7.1	Active Global Equities
PIMCO Funds: Global Investor Series	6.9	Global Unconstrained Bonds, hedged to £
Quoniam Asset Management	4.4	Low Volatility Global Equities
Townsend Group	4.2	Active UK Property Funds & Infrastructure
Robeco Institutional Asset Management	3.9	Low Volatility Global Equities
Robeco Alternative Investment	3.7	Active Private Equity
Comgest Asset Management	3.6	Active Emerging Markets Equities
Impax Asset Management	3.1	Active Global Equities
First State Investments	2.8	Active Emerging Markets Equities
AVC investments and cash	0.7	Other
Total	**100.0**	

Limited changes were made to managers during the year. At the start of the year, we appointed The Townsend Group to manage a broad real assets portfolio, taking over the property assets managed by Aviva, whose mandate was terminated. A commitment of $50m was made to the Generation Climate Solutions Fund II, run by Generation Investment Management, which invests in a mixture of unlisted private companies and small listed companies, with a focus on high growth companies offering solutions to the challenge of climate change. The first drawdown was made after the year end.

Manager benchmark

Each manager has been set a specific benchmark that reflects the asset class being managed. The benchmarks of the managers are:

Passive Management	Asset Class	Benchmark
Legal & General	UK equities	FTSE All Share
Legal & General	Global equities	FTSE Developed World Index*
Legal & General	Global equities	FTSE RAFI 3000 index
Legal & General	UK index-linked gilts	FTSE-A UK Index-Linked Gilts over 15 yrs
Legal & General	Corporate bonds	iBoxx Sterling Non Gilts
Legal & General	£UK cash	7 Day Libid

* Allocation to global equities consists of regional funds managed to their specific benchmarks

Active Management	Asset Class	Benchmark
Royal London	Corporate bonds	iBoxx Sterling Non Gilts
PIMCO	Global bonds	1 month Sterling Libor
Standard Life	UK equities	Customised capped Index*
Sarasin	Global equities	MSCI All Country World
Impax	Global equities	MSCI All Country World
Generation	Global equities	MSCI All Country World
Robeco (Low Volaility)	Global equities	MSCI All Country World
Quoniam	Global equities	MSCI All Country World
Comgest	Emerging market	MSCI Emerging Markets
First State Stewart	Emerging market	MSCI Emerging Markets
The Townsend Group	Real Assets	Retail Price Index + 4% p.a.
Robeco (private equity)	Private equity	Higher of 10% IRR or MSCI World + 5%**

* Customised benchmark from January 2012, using similar constituents and methodology to the FTSE All Share but with individual constituents capped at 2%.

**Benchmark and target adjusted for performance monitoring purposes as measured differently to the other main asset classes and managers.

Performance target

Each segregated manager has been set a performance target over three-year rolling periods as follows:

Legal & General	to match their benchmarks
Quoniam	to beat their benchmark with lower volatility
Robeco (low volatility equities)	to beat their benchmark with lower volatility
The Townsend group	to beat their benchmark long term
Royal London	to beat their benchmark by 1% per annum
Standard Life	to beat their benchmark by 2% per annum
Sarasin	to beat their benchmark by 2% per annum
Impax	to beat their benchmark by 3% per annum
Generation	to beat their benchmark by 3% per annum
Comgest	to beat their benchmark by 3% per annum
Robeco (private equity)	to beat their benchmark long term

Pooled funds do not usually have outperformance targets as such, however our internal expectation of PIMCO and First State is that they should outperform by 3% over the medium to long-term.

Financial performance

The total return of the Fund over the year and over three years to 31 March 2014 is as follows:

Financial performance	2014	2013
1 year		
Fund performance %	+8.4	+14.2
Benchmark performance %	+4.5	+14.3
Active Fund Relative performance %	+3.9	-0.1
3 year		
Fund performance %	+9.1	+8.9
Benchmark performance %	+8.0	+9.3
Active Fund Relative performance %	+1.1	-0.4

Details of financial performance by fund managers is available on page 24.

Funding level

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

Valuation results	2001	2004	2007	2010	2013
Value of assets £m	937	983	1,521	1,589	2,118
Value of liabilities £m	840	1,050	1,455	1,684	2,351
Funding level %	112	94	105	94	90
Asset allocation (%)	**2001**	**2004**	**2007**	**2010**	**2013**
Equities	86	71	67	58	63
Bonds	8	15	9	12	20
Gilts	2	7	14	15	9
Property	0	0	5	3	3
Private equity	0	0	2	5	4
Cash	4	7	3	7	1
Total	**100**	**100**	**100**	**100**	**100**

The funding level of the Active Fund is estimated at 99% at 31 March 2014, a 9% improvement on the level last year for the triennial valuation. This is due to the strong outperformance of the fund against its benchmark and to a rise in the level of real yields on Index linked government bonds, which are used to value our liabilities. This rise led to a decrease in the current value of our liabilities.

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, which should continue for around 13 years, as the employer and members' contributions should continue to exceed Fund outgoings, which gives the Fund time to build its Fund level. The future size of the Active Fund will also be affected by the long-term return of the fund's assets, which should be related to the amount of risk the Fund is prepared to take, as over the long-term investing in riskier assets should yield higher returns.

Awards

We were proud to be the recipients of a number of awards recognising innovation in our investment strategy, our ongoing work with risk reduction and achievements in our approach to responsible investment.

The Fund was successful in winning the IPE 'Smart Beta' award in November 2013, recognising EAPF's work in maximising portfolio value and controlling risk. The IPE awards operate across Europe's diverse pension fund industry.

We were also winner of the aiCIO European Innovation Award for a Public Pension Scheme for 2013.

In addition, we were very pleased to receive the number one ranking from The Asset Owners Disclosure Project for the work we are doing in reducing the risks posed by climate change. We've also received recognition from a number of other industry bodies for our wider responsible implementation and reporting.

- Winner of the inaugural Responsible Investor Reporting Awards (for funds under $25 billion) 2013
- Highly commended in the Portfolio Institutional Awards for Best Implementation of Responsible Investment for 2013

Further details about our investments and awards can be found on our website at **www.eapf.org.uk**.

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

Manager	Date appointed / (closed)	Value at 31 Mar 2014 £m	Fund %	Asset class / Mandate	Benchmark	2013-14 Performance Target %	2013-14 Performance Fund return %	2013-14 Performance Benchmark return %	2013-14 Performance Relative to benchmark %	2012-13 Performance Fund return %	2012-13 Performance Benchmark return %	2012-13 Performance Relative to benchmark %
Bonds												
Index Linked Gilts												
Legal & General	Nov-09	201.6	8.7	UK Index Linked Gilts (passive)	FTSE Index Linked Gilt > 15 Year	+0.0	-3.3	-3.4	+0.1	+13.8	+13.9	-0.1
Corporate Bonds												
Royal London	Jul-07	231.2	10.0	Corporate Bonds (active)	iBoxx £ Non Gilt all bonds	+1.3	+4.5	+1.6	+2.9	+15.5	+12.0	+3.5
PIMCO	Dec-12	160.1	6.9	Global Unconstrained Bonds, hedged to £	1 Month Sterling LIBOR	+3.0	-1.9	+0.6	-2.5	n/a	n/a	n/a
Legal & General	Nov-09	94.0	4.1	UK Corporate Bonds (passive)	iBoxx £ Non Gilt all bonds	+0.0	+0.5	+0.9	-0.4	+12.2	+12.2	+0.0
Equities												
UK Equities												
Standard Life	Apr-05	181.9	7.9	UK Equity (active)	Customised FTSE All Share capped at 2%	+2.0	+15.6	+10.4	+5.2	+21.5	+19.2	+2.3
Legal & General	Nov-07	132.3	5.7	UK Equity (passive)	FTSE All Share	+0.0	+8.9	+8.8	+0.1	+16.7	+16.8	-0.1
Global Equities												
Quoniam	Mar-13	101.7	4.4	Global Equity (low volatility)	MSCI AC World GD (part hedged to £)	> 0	+14.3	+14.7	-0.4	n/a	n/a	n/a
Robeco	Mar-13	91.2	3.9	Global Equity (low volatility)	MSCI AC World GD	> 0	+3.2	+6.2	-3.0	n/a	n/a	n/a
Legal & General	Nov-07	236.5	10.2	Global Equity (passive)	FTSE All World	+0.0	+9.1	+6.8	+2.3	+17.8	+16.9	+0.9
Legal & General	Dec-12	114.5	5.0	Global Equity (passive)	FTSE RAFI 3000 All World	+0.0	+10.9	+10.6	+0.3	n/a	n/a	n/a
Sarasin & Partners	Apr-05	164.1	7.1	Global Equity (active)	MSCI AC World	+2.0	+9.0	+6.2	+2.8	+16.8	+16.3	+0.5
Generation	Aug-08	184.1	8.0	Global Equity (active)	MSCI AC World	+3.8	+12.7	+6.2	+6.5	+24.1	+16.3	+7.8
Impax	Aug-08	71.1	3.1	Global Equity (active)	MSCI AC World	+3.0	+19.3	+6.2	+13.1	+14.7	+16.3	-1.6
Emerging Markets Equities												
Comgest	Nov-10	83.4	3.6	Emerging Markets Equity (active)	MSCI Emerging Market TR GD	+3.0	+0.6	-10.2	+10.8	+9.8	+7.3	+2.5
First State	Oct-12	64.9	2.8	Emerging Markets Equity (passive)	MSCI Emerging Market ND	+0.0	-5.7	-10.2	+4.5	n/a	n/a	n/a
Alternatives												
Robeco	Oct-05	86.3	3.7	Private Equity (active)	MSCI World (Gross)	+5.0	n/a	n/a	n/a	n/a	n/a	n/a
Townsend	Jul-05	97.5	4.2	Real Assets (active)	RPI	+4.0	+9.1	+6.5	+2.6	-0.2	+2.6	-2.8
Cash & Other												
AVC & other net assets		14.3	0.7									
Total Fund		**2,310.7**	**100.0**		**Strategic Benchmark**	**+0.9**	**+8.4**	**+4.5**	**+3.9**	**+14.2**	**+14.3**	**-0.1**

Notes:

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

No comparative figures are applicable for mandates appointed in 2012-13 which includes PIMCO global unconstrained bonds, Quoniam and Robeco low volatility global equities and First State emerging markets equities.

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

Robeco's Private Equity return is included in Total Fund performance but excluded from this table as it is measured differently to the main asset classes and managers above who manage over 95% of the Fund's assets.

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

13.0% FTSE All Share GD, 43% FTSE All World GD, 6% FTSE Emerging Markets GD, 8.0% FTSE Actuaries ILGs > 15 Years, 20% iBoxx Sterling All Non-Gilts, 5% IPD UK Monthly Property and 5% MSCI World GD.

Portfolio analysis

Distribution of net assets by market value as at 31 March 2014

	Legal & General	Royal London	Generation	Standard Life	Sarasin & Partners	PIMCO	Quoniam	Townsend	Robeco Low Volatility Equity	Robeco Private Equity	Comgest	Impax	First State	Cash/Other	Total	% of Fund
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Overseas equities (including pooled)	320.4		157.9		153.9		81.9		84.2		78.0	63.5	64.9		**1,004.7**	43.4
North America	*185.3*		*104.3*		*88.2*		*31.2*		*45.1*			*26.5*			***480.6***	*20.8*
Europe	*67.9*		*36.8*		*51.5*		*14.7*		*15.1*		*8.0*	*23.3*			***217.3***	*9.4*
Emerging Markets and other areas	*10.5*		*5.6*		*6.0*		*14.5*				*44.3*	*2.3*	*64.9*		***148.1***	*6.4*
Asia Pacific	*24.4*		*11.2*				*8.6*		*18.9*		*25.7*	*6.8*			***95.6***	*4.1*
Japan	*32.3*				*8.2*		*12.9*		*5.1*			*4.6*			***63.1***	*2.7*
UK equities	162.1		9.2	180.8	7.3		17.1		6.6		1.8	6.7			**391.6**	16.9
UK fixed interest	201.3	152.2													**353.5**	15.3
Pooled fixed interest	94.0	10.4				160.1									**264.5**	11.4
Pooled property & Infrastructure								89.1							**89.1**	3.9
Private equity										83.9					**83.9**	3.6
Overseas fixed interest		64.8													**64.8**	2.8
Cash	0.2	2.1	17.0	0.4	2.2		2.2	8.4	0.1	2.4	4.0	0.7		6.4	**46.1**	2.0
AVC investments														7.9	**7.9**	0.3
Other net investments	0.9	1.7		0.7	0.7		0.4		0.3		(0.4)	0.2			**4.5**	0.2
Derivatives							0.1								**0.1**	0.1
Total	**778.9**	**231.2**	**184.1**	**181.9**	**164.1**	**160.1**	**101.7**	**97.5**	**91.2**	**86.3**	**83.4**	**71.1**	**64.9**	**14.3**	**2,310.7**	**100.0**

Top 20 holdings of the Fund

Holding	Asset class	2014 £m	% of Fund
PIMCO Global Investors Unconstrained Bond Fund	Pooled fixed interest - UK corporate bonds	160.1	6.9
L&G Developed World North America Equity Index	Pooled equities - Global	135.0	5.8
L&G FTSE RAFI All World 3000 Equity Index	Pooled equities - Global	114.5	5.0
L&G Investment Grade Corporate Bond All Stocks Index	Pooled fixed interest - UK corporate bonds	90.0	3.9
First State Global Emerging Markets SU-B	Pooled emerging markets equity	64.9	2.8
L&G Europe (ex UK) Equity Index	Pooled equities - Global	44.0	1.9
L&G Developed World Japan Equity Index	Pooled equities - Global	20.6	0.9
L&G UK Equity Index	Pooled equities - Global	20.1	0.9
UK Government 1.25% index-linked 22/11/55	Fixed interest - UK index linked gilts	18.5	0.8
UK Government 1.125% index-linked 22/11/37	Fixed interest - UK index linked gilts	17.2	0.7
L&G Asia Pacific (ex Japan) Developed Equity Index	Pooled equities - Global	16.9	0.7
UK Government 2.00% index-linked 26/01/35	Fixed interest - UK index linked gilts	16.5	0.7
UK Government 1.25% index-linked 22/11/32	Fixed interest - UK index linked gilts	16.4	0.7
Carbon Workplace Trust	Property – Real estate equity trust	16.1	0.7
UK Government 0.75% index-linked 22/11/47	Fixed interest - UK index linked gilts	16.1	0.7
Union Investment Lux SA Quoniam Select Em Markets Min Risk	Equities - Emerging Markets	14.5	0.6
UK Government 0.375% index-linked 22/03/62	Fixed interest - UK index linked gilts	14.5	0.6
UK Government 0.5% index-linked 22/03/50	Fixed interest - UK index linked gilts	14.4	0.6
UK Government 0.625% index-linked 22/03/40	Fixed interest - UK index linked gilts	13.9	0.6
UK Government 0.75% index-linked 22/03/34	Fixed interest - UK index linked gilts	13.9	0.6
Total		**838.1**	**36.1**

Geographical distribution of quoted and pooled equity investments

	2014 £m	% of total equity	2013 £m	% of total equity
North America	480.6	28.1	472.0	35.3
United Kingdom	391.6	34.4	369.8	27.6
Europe (excluding UK)	217.3	15.6	195.4	14.6
Emerging Markets & other areas	148.1	10.6	151.0	11.3
Asia Pacific (excluding Japan)	95.6	6.8	88.0	6.6
Japan	63.1	4.5	61.1	4.6
Total	**1,396.3**	**100.0**	**1,337.3**	**100.0**

Top 10 Global equities by sector

Sectors	2014 £m	% of Fund	Sectors	2013 £m	% of Fund
Industrial Goods & Services	146.7	6.3	Industrial Goods & Services	130.5	6.2
Healthcare	108.2	4.7	Healthcare	105.7	5.0
Technology	88.9	3.8	Technology	74.8	3.5
Retail	62.4	2.7	Food & Beverages	60.6	2.9
Insurance	60.8	2.6	Oil & Gas	54.2	2.6
Banks	60.0	2.6	Banks	51.3	2.4
Oil & Gas	56.5	2.4	Insurance	49.4	2.3
Food & Beverage	50.9	2.2	Retail	47.7	2.2
Personal & Household Goods	50.1	2.2	Personal & Household Goods	47.1	2.2
Telecommunications	39.8	1.7	Telecommunications	41.2	1.9
Total	**724.3**	**31.2**	Total	**662.5**	**31.2**

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

Top 10 UK equity holdings

Company	2014 £m	% of UK equity	Company	2013 £m	% of UK equity
HSBC Holdings	11.2	2.9	Standard Chartered	12.9	3.5
Standard Chartered	10.5	2.7	HSBC Holdings	12.7	3.4
BP	9.7	2.5	BP	8.9	2.4
Rio Tinto	8.6	2.2	Vodafone	8.8	2.4
BT Group	8.5	2.2	BG Group	8.0	2.2
GlaxoSmithKline	7.9	2.0	GlaxoSmithKline	7.6	2.1
BG Group	7.9	2.0	Rio Tinto	7.6	2.0
Prudential	7.9	2.0	Barclays	7.3	2.0
Vodafone	7.5	1.9	Diageo	7.2	1.9
Barclays	7.0	1.8	Prudential	6.7	1.8
Total	**86.7**	**22.2**	Total	**87.7**	**23.7**

Note: These figures are a combined total for segregated index tracking and active positions.

Top 10 global equity holdings

		2014				2013	
Company	**Country**	**£m**	**% of global equity**	**Company**	**Country**	**£m**	**% of global equity**
Qualcomm Inc	United States	13.5	1.3	Unilever NV	Netherlands	10.3	1.1
Waters Corp	United States	9.5	0.9	Qualcomm Inc	United States	9.8	1.0
Unilever NV	Netherlands	8.9	0.9	Henry Schein Inc	United States	8.7	0.9
MSCI Inc	United States	7.7	0.8	Becton Dickinson & Co	United States	8.5	0.9
Intuit	United States	7.3	0.7	Danaher Corp	United States	8.3	0.8
Novo-Nordisk	Denmark	6.9	0.7	Waters Corp	United States	7.2	0.7
Varian Medical Systems Inc	United States	6.3	0.6	Legrand SA	France	7.0	0.7
Becton Dickinson & Co	United States	6.2	0.6	Novo-Nordisk	Denmark	6.8	0.7
Pentair Inc	United States	6.0	0.6	MISCI Inc	United States	6.7	0.7
Ecolab Inc	Sweden	5.7	0.6	Svenska Cellulosa	Sweden	6.3	0.6
Total		**78.0**	**7.7**	Total		**79.6**	**8.1**

Note: These figures are active positions only, as overseas index stocks are pooled.

Responsible investment

As responsible investors, we're really passionate about our Pension Fund. 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.

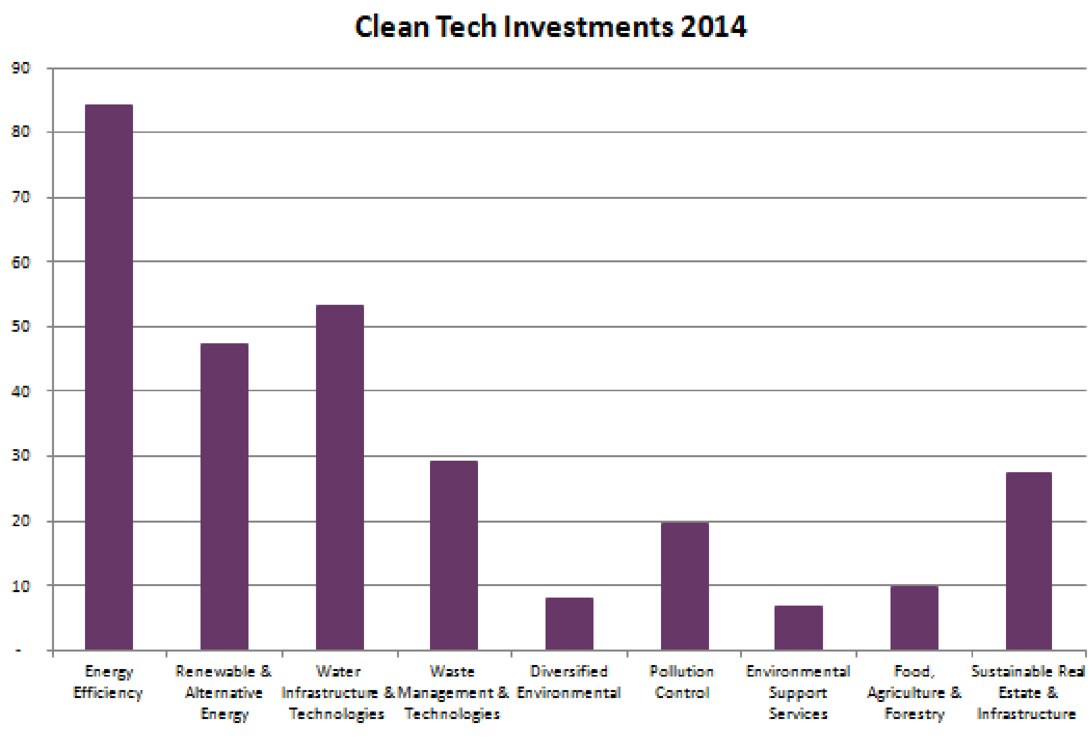
We have a strong Responsible Investment (RI) policy (annex 5) and are an active signatory to the United Nations Principles for Responsible Investment, which is an investor initiative linked to United Nations Environment Programme (UNEP), and recognises environmental, social, and governance issues can affect financial performance. We continue to support the PRI directly through participation in two technical committees.

Our approach is to integrate environmental, social and governance (ESG) considerations into all decision making regarding the investment of the funds. We have summarised some of our key achievements during 2013 to demonstrate the delivery of our responsible investment policy. One of our key targets for 2014 is to restructure our website and to enable easier access to information about our approach, and covering all topics in more depth.

At the heart of our strategy

Our Pension Committee has adopted 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.

We are delighted with the progress in meeting our target and that by 2015 some 25 per cent of the fund will be invested in the sustainable and green economy. As at 31 March 2014, 24% (£558m) of the fund was invested these assets, 13% (£285m) of which is specifically invested in companies with significant revenues (in excess of 20%[1]) involved in energy efficiency alternative energy, water and waste treatment, public transport together with property and infrastructure funds with a low carbon, or strong sustainability criteria.



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

A key part of our progress to meet our target, was the allocation of £250 million to real assets covering real estate, infrastructure, forestry and agricultural land to **Townsend Group**. The mandate places a high priority on long term responsible investments that meet our financial targets, with a preference to invest positively in sustainable real assets such as energy efficient buildings, renewable energy projects, public transport, water treatment facilities, eco-friendly farming, and sustainable forestry. A case study on our investment in the **Threadneedle Low Carbon Workplace Fund** is illustrated below.

Responsible Investment in low carbon property

We have invested £15m to the **Threadneedle Low-Carbon Workplace Trust** (a partnership between Threadneedle Investments, Stanhope, and the Carbon Trust) which refurbishes properties to best practice low carbon standards, set by the Carbon Trust, and uniquely offers occupiers on-going advice and support to ensure the building's energy efficiency specification is achieved in-use. It targets outperformance for investors through generating strong capital returns from its refurbishment activities, as well as delivering a secure, long term income stream satisfying the considerable demand from high quality occupiers for low carbon properties.

Responsible investment monitoring in all asset classes

Private equity

In addition to the investments above, we look to all our managers to monitor the environmental, social and governance performance of all the assets they manage on our behalf. **Robeco**, our private equity manager, undertakes an annual survey of the underlying funds in which we invest against a wide range of ESG criteria. It is a pre-requisite of investment that the funds sign up to the Robeco Sustainable Private Equity (RSPE) programme developed by Robeco with its investment partner, the Dutch bank, Rabobank. The average ESG score for 2013 is 72.4% up from 63.9% in 2007, despite increasing the thresholds for each criteria, making it harder to score well and allowing better differentiation in performance.

Bonds

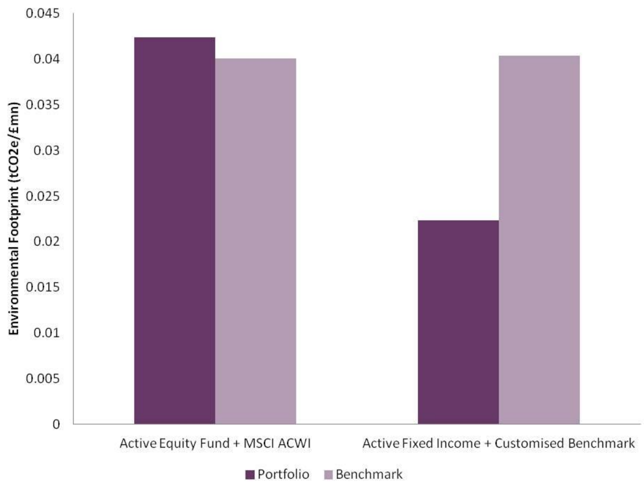
Our UK bond Manager, **Royal London Asset Management**, work with EIRIS (Ethical Investment Research and Information Service) to assess the environmental mitigation strategies of the companies they invest, selecting those with the strongest performance where possible.

Environmental and carbon footprinting

We undertake environmental and carbon foot printing of the active equities and bonds, which looks at companies' environmental impacts; for example, how efficient are they in the use of raw materials, water and energy, the waste produced and carbon emitted. The methodology calculates inputs via a company's supply chain and waste outputs based on publically available information. Where this is not available, **Trucost** try to model the data. For some companies the quality of the data and reporting is too poor to provide a meaningful result. This year we had to exclude three companies (representing, in aggregate, less than 1% of active equities) from our footprinting exercise, and our managers will engage with the companies on improving reporting and disclosure.

The footprint for each equity manager, in relation to the Fund, is compiled by allocating a proportion of the environmental impact of each company, relative to the amount of stock that is held. For corporate bonds each holding's contribution to the environmental and carbon footprint of the portfolio is calculated on a capital ownership basis (the bond value as a proportion of enterprise value). The graphics below illustrate our performance against the MSCI All Country World Index (ACWI), the stock market index maintained by MSCI Inc and a customised bond index in reflecting the same balance as our investments.

Carbon Footprint 2014
Active equities and active corporate bonds



Environmental Footprint 2014
Active equities and active corporate bonds

The carbon footprints for both equities and bonds are considerably below their benchmarks, however the combined environmental footprint exceeded the benchmark for the first time since we began the use of the environmental footprinting in 2005. As described above, the scope of the footprinting seeks to determine a company's operational environmental impact and use of resources within its upstream supply chain. However, any environmental impacts, and therefore any efficiencies or benefits, of the company's output during its "in-use" phase are not currently captured within this scope. The ability to capture downstream or "in-use" benefits across companies on a large scale, will only be feasible when companies' are able to robustly report on downstream impacts using methodologies such as **Natural capital accounting** (a process of calculating the total stocks and flows of natural resources and services).

The fund's increased exposure to some clean and sustainable technologies including metals recycling, waste water treatment, animal nutrition and such like have actually increased the environmental footprint of the fund, due to their operational and/or upstream supply chain environmental impacts. However, many of these companies are focusing on delivering sustainable solutions within their specific industries, whereby the environmental benefits of these solutions will be realised in their use downstream. For example, the food and beverage company Unilever contributes significantly to the fund's environmental footprint from an impact perspective due to water consumption within its upstream supply chain. However, Unilever is very focused on reducing its environmental footprint, especially within the consumer use stage which is the largest contributor to the footprint of its whole value chain. One such product designed to address this is the new compressed aerosol cans that Unilever launched in 2013; these use half the propellant, around 25% less aluminium packaging and a third less road transport – meaning the carbon footprint per can is around 25% less.

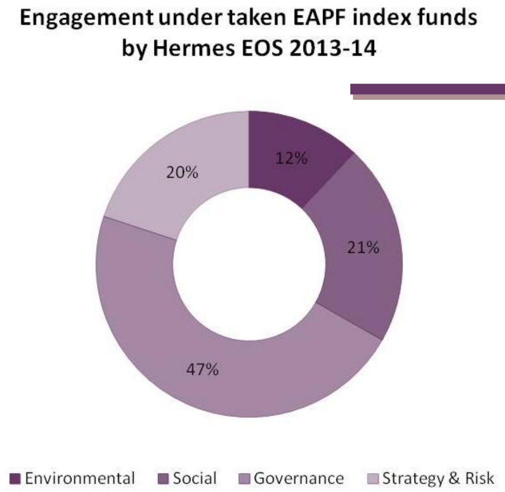
We will be working with Trucost, our managers and the underlying companies on developing an appropriate methodology for calculating the 'benefits' of these companies, so that going forward, such benefits can be reported alongside the impacts to provide a more comprehensive understanding of the overall 'net' environmental footprint of the fund.

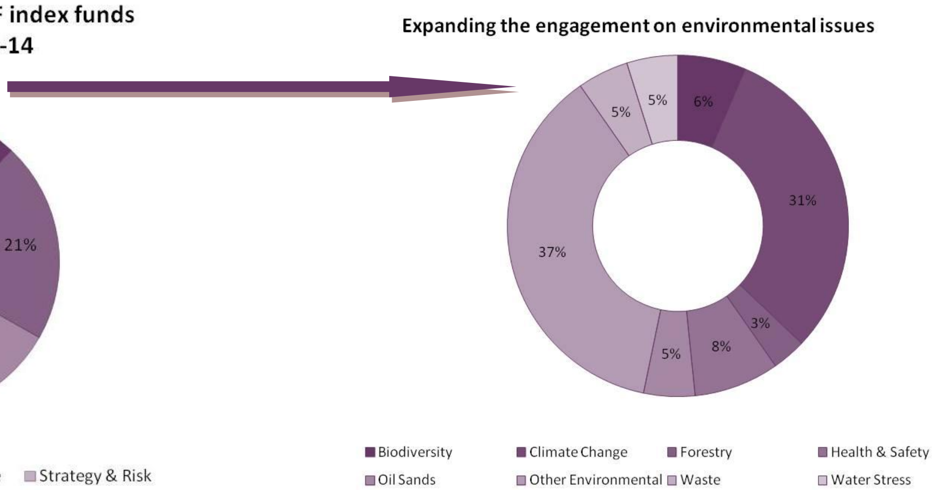
Voting and engagement

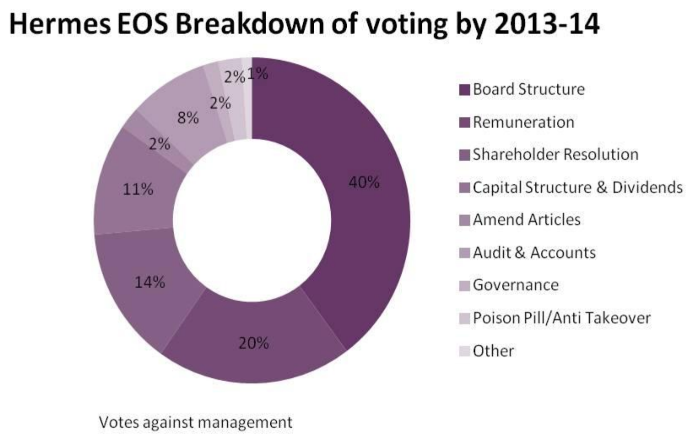
We believe that well governed companies reduce the risk to shareholder value and will, over time, produce more sustainable returns compared to poorly governed companies. All our equity fund managers regularly engage with companies either directly or through a specialist provider, to assess policies, processes and practices, for many this forms a core component of the investment process. During 2013/14 our managers engagements led to a number of improvements, for example, **Kingspan** agreed to participate in the **Carbon Disclosure Project (CDP).**

Our fund managers vote at their discretion and must confirm that they subscribe to the principles of good corporate governance and, when exercising their vote, take this into account. On environmental governance issues, such as climate change disclosure, we directly instruct the voting for all the stocks held by our public equity managers. In 2013/14 we instructed the voting on 72 resolutions. You can read our voting record on these issues on our website.

Indexed or tracker funds are an important part of our overall investment strategy. They offer highly diversified investments and low management costs. The use of pooled and indexed products can be cost-effective. However, it does reduce the range of governance tools open to us, although we have much less control in a index fund, we are still able to exercise some measure of influence – primarily through voting and company engagement. **Hermes Equity Ownership Services (HEOS)** provide comprehensive engagement and voting service on our index funds. To provide context, they vote at over 11,000 company meetings a year. They are able to exert more influence on the companies we invest by representing the combined assets of all their clients, circa £98bn. A quarterly engagement report on their activities is available on our website. A summary of the engagement and voting undertaken on behalf of the EAPF is illustrated in the graphics below.







Working with others

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

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

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

Transparency

We publish regular updates on voting and engagement, research reports and articles on our website www.EAPF.org.uk. In 2012 we published our second Responsible Investment review, providing comprehensive detail of how we have implemented Responsible Investment across all the asset classes, and we were delighted this report won the inaugural Responsible Investor Reporting Awards (for funds under $25 billion) in June 2013.

Climate Risk Initiatives

Focusing on Climate Risk and Carbon Stranded Assets

We have been working to reduce climate risk in the management of the fund for over a decade. In late 2013, in response to new research we commissioned a detailed study to provide us with information regarding the exposure of the Active Fund to carbon embedded within fossil fuel reserves held by globally listed companies (equity and debt). This was both to highlight the potential risk of specific holdings that could be exposed to the issue of **carbon stranded assets** and to identify priority areas for us to action to reduce our overall level of exposure of the fund to climate change risk. This work complements our carbon footprinting which focuses on the greenhouse gas emissions from the companies we invest.

What is the issue of carbon stranded assets?

Stranded assets are those which suffer unanticipated or premature write-offs, downward valuations, or are converted to liabilities. The concept of fossil fuel or carbon stranded assets was first highlighted in 2011 by Carbon Tracker's 'Unburnable Carbon' report, which developed the investment thesis that, should we wish to avoid catastrophic climate change impacts and thus limit maximum temperature rises to 2°C, the majority of fossil fuel reserves listed on global stock markets would be 'unburnable' – in that the economic value ascribed to the asset would be overstated.

Fossil fuel extractives companies form a significant portion of global stock markets and investment funds. In addition, the supply chain reach of fossil fuels is inescapable in several other economic sectors, including primary industry, energy and transport. This exacerbates the extent to which very many pension funds are exposed to the consequences of fossil fuel asset stranding.

How does this impact our fund?

Our work has been recognised by a number of organisations, including being **ranked number one globally by the Asset Owners Disclosure Project** for the work we're doing to manage your retirement savings in reducing the risks posed by climate change. However, we believe to fulfil our fiduciary duty we needed to do more.

We commissioned Trucost to assess and analyse sixteen of their investment portfolios, active and passive listed equities and bonds, with regard to their exposure to the embedded carbon emissions within fossil fuel reserves held in their funds.

The analysis aimed to identify;

- The absolute level of embedded carbon in the investment portfolios.
- The relative level of embedded carbon for the active portfolios.
- The most emissions intensive companies across the consolidated portfolios.
- The capital expenditure of the largest fossil fuel companies in the portfolio.
- Issues for funds in addressing the issues of carbon risk in investment portfolios.
- Areas for engagement with companies and regulators.

The detail findings of the full report evidenced that the EAPF had made considerable progress in addressing climate risk, but that there were still opportunities to further reduce the financial risk to the portfolio and potentially increase the returns of the fund as a shareholder.

We have identified 10 key areas of implementation to address our potential exposure to stranded assets and wider climate risk, and we will publish progress against these actions via our website and in our annual report and accounts.

For full details of the report, our plan to reduce climate risk and for more information on climate risk please access our website www.EAPF.org.uk.

The financial statements

Foreword to the financial statements

The Environment Agency Active Pension Fund ("the Fund") is a statutory public service pension scheme (as defined by the Pension Schemes Act 1993) under the LGPS (Benefits, Membership and Contributions) Regulations 2007(as amended), the LGPS (Transitional Provisions) Regulations 2008 (as amended), the LGPS (Administration) Regulations 2008 (as amended) ("the 2007 regulations") and the LGPS Regulations 1997 and earlier regulations (saved provisions).

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

Roles and responsibilities of the Pensions Committee

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

The Committee and Accounting Officer is responsible for obtaining audited financial statements for each financial year which give a true and fair view of the financial transactions of the Fund and the disposition of its assets and liabilities at the year end, other than the liabilities to pay pensions and benefits after the scheme year end. In preparing the financial statements the Committee has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent; and
- followed applicable accounting standards, in particular the CIPFA guidance on narrative reporting and accounting disclosures for LGPS Funds.

The Committee and Accounting Officer are responsible for keeping proper accounting records which disclose, with reasonable accuracy, at any time, the financial position of the Fund and to enable it to ensure that the financial statements comply with Schedule 7 to the Financial Memorandum issued by Defra. However, responsibility for the regulations governing the LGPS lies with the Local Government Pensions Unit at DCLG.

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

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

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Summary of the financial statements

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

Contribution income has risen by £23.3m to £91.6m (2013: fallen by £16.8m to £68.3m). The increase for the year ended 31 March 2014 was due, in the main, to advance contributions of £14.9m being paid in the year to fund historical past service deficit and special contributions of £5.8m to fund early retirements. The 12 months ended 31 March 2014 have seen a 2.0% increase in total Fund membership (2013: increase of 5.2%).

Net income from all transfer values received in the year has decreased by £0.7m to £5.1m (2013: increased by £4.4m to £5.8m). The £5.1m is due to new joiners in the year and also members who joined prior to 31 March 2013 but transferred their funds from previous arrangements during this financial year. Retirement benefits and other payments made to or in respect of members during the year have increased by £9.5m to £70.7m (2013: decreased by £5.9m to £61.2m). This is primarily due to an increase in lump sum retirement grants.

In overall terms the net additions from dealings with members during the year have increased by £11.5m to £21.2m (2013: decreased by £5.7m to £9.7m).

The value of the net assets of the Fund at 31 March 2014 has increased by £188.3m to £2,314m (2013: increased by £265.0m to £2,125.7m). This is primarily due to an increase in the market value of its investments under management.

Governance Compliance Statement

Introduction

Under Regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 (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:

1. whether the administering authority delegates its function or part of its function in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the administering authority;
2. if it does—
   a. the terms of reference, structure and operational procedures of the delegation;
   b. the frequency of any committee or sub-committee meetings; and
   c. whether the committee or sub-committee includes representatives of employing authorities (including non-Scheme employers) or members, and if so, whether those representatives have voting rights;
3. the extent to which a delegation, or absence of delegation, complies with guidance given by the Secretary of State and, if it does not comply, the reason for not complying.

The first such statement was required to be published on or before 1 April 2006.
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 was made and approved by the Environment Agency Pensions Committee will be reviewed again in 2014.

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) and its Sub-Groups are set out in the Pensions Committee Terms of Reference and Standing Orders approved by the EA Board.
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	Our PC has 15 members, appointed by the EA Board and includes: 4 Non-Executive EA Board members 4 Executive members 5 EA Employees (Trades Union nominees) 1 Pensioner nominee 1 Deferred member nominee 2 Employee nominees are also members of the Investment Sub-Group (ISG) 1 Employee nominee and the deferred and pensioner nominees are members of the Benefits Sub-Group (BSG)
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	The Chairman of the Pensions Committee reports to each EA Board meeting. Reports of the ISG and BSG meetings are circulated to all PC members. Recommendations from the ISG and BSG are presented to the main Committee.
d) That where a secondary committee or panel has been established, at least one	Compliant	The membership of our ISG and BSG comprises members of the main PC.

Statutory Guidance Governance Standards and Principles	Our compliance status	Evidence of compliance and justification for non-compliance
seat on the main committee is allocated for a member from the secondary committee or panel.		
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 is currently a single employer fund and the EA is represented on the main PC, the ISG and BSG. It is likely we will become a multi-employer fund in 2013 arising from the splitting off of the EA Wales into the Natural Resource Body for Wales. The current representation of EA Wales on the PC will be reviewed in order to accommodate this change.
ii) scheme members (including deferred and pensioner scheme members);	Compliant	The main PC has 11 scheme members on it, including 5 EA Employees (Trades Union nominees), 1 pensioner nominee and 1 deferred member nominee. Our ISG includes 2 EA Employees (Trades Union nominees) and our BSG includes 1 EA Employee (Trades Union nominees) and 1 deferred member and 1 pensioner nominee. Our deferred member and pensioner nominees are members of our decision-making main PC.
iii) independent professional observers; and	Compliant	Our independent investment adviser attends all ISG and all relevant main PC meetings. Our other professional advisers also regularly attend our PC, ISG and BSG meetings.
iv) expert advisers (on an ad-hoc basis).	Compliant	We invite our expert advisers to attend our PC, ISG and BSG meetings as needed. This includes our actuary, legal adviser, investment consultants, pension fund administration consultants, and external auditors.
b) 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, ISG and BSG 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 induction training and a handbook that describes the role of the PC, ISG and BSG. Our PC members understand that their primary fiduciary duty of care is our Funds' beneficiaries, in whose best interests they are required to act at all times, particularly in terms of investment and financial

Statutory Guidance Governance Standards and Principles	Our compliance status	Evidence of compliance and justification for non-compliance
		decisions. They also understand that they are not there to represent or promote their own personal or political interests, and that they must declare any self-interest or conflicts of interest of either a financial or non-financial nature arising from any other roles they may perform and abstain from participation in that item on the agenda.
b) That at the start of any meeting, Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Compliant	Declaration of interests is a standing agenda item at the start of all PC, ISG & BSG meetings. A register of interests is also maintained and audited annually.
D – Voting		
a) 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 Committee and BSG and ISG.
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 strategy which is reviewed regularly. We provide induction training and a member's handbook. 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 members training. Members of the main PC, the ISG and BSG are reimbursed the cost of travel and overnight hotel expenses. The cost of all PC, ISG and BSG training is met from the pension funds 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	All PC, ISG & BSG members have equal access and rights.
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. 7 of the 15 PC members (including at least 1 Board member and 1 employee nominee) 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 ISG and BSG meetings are synchronised to meet 4 times a year before the PC so they can report to and make recommendations to the full PC.
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 employee nominees, 1 pensioner nominee and 1 deferred member nominee. Due to the geographical spread of our organisation and fund membership across England and Wales we do not hold an AGM. We do not feel this is necessary as we hold annual briefings which provide a forum for Fund members and stakeholders to be

Statutory Guidance Governance Standards and Principles	Our compliance status	Evidence of compliance and justification for non-compliance
		informed about changes to the LGPS and to allow them to ask questions. All active Fund members are invited to attend regional pension briefings each year at different locations around England and Wales. We also organise an annual briefing for deferred and pensioner members. The briefings are presented by Capita (Pension Fund Administrator), with either administering authority or HR staff also in attendance. 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, ISG and BSG receive the same agenda and papers containing information and advice for each meeting. Members of the PC who are not members of the ISG or BSG can request full ISG or BSG papers and they also receive summary reports of all meetings. All our PC, ISG and BSG members can ask questions of our professional advisers who attend the PC, ISG or BSG 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, ISG and BSG 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. Our BSG & ISG review their risk register at all meetings. The PC carries out annual reviews of Fund performance, key strategic risks, and our statutory governance 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 on our website, and it is available in hard copy from our Pension Fund Management Team. It is also published in our Annual Report & Accounts. We have an agreed procedure for our recognised Trades Unions to nominate new employee nominees to our PC when vacancies arise. We have also advertised in pensioners' and deferred members' newsletters for nominees when vacancies arose.

Signed on behalf of the Environment Agency

John Varley
Chairman
Environment Agency Pensions Committee
17 June 2014

Paul Leinster
Accounting Officer
Environment Agency
17 June 2014

Statement by the Consulting Actuary

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013-14.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated December 2013. In summary, the key funding principles are as follows:

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

The FSS sets out how the administering authority seeks to balance the aims of securing the solvency of the Fund and keeping employer contributions stable.

Funding Position as at the last formal funding valuation

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

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 28 March 2014.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial Assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount Rate	4.6%	2.4%
Pay Increases	3.5%	1.3%
Price Inflation / Pension Increases	2.2%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to a long-term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Pensioners	Males	Females
Current Pensioners	22.6 years	24.5 years
Future Pensioners*	24.7 years	27.0 years

*Figures assume members aged 45 as at 2013 valuation

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

Experience over the year since April 2013

The Pensions Committee monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31 March 2014. Assets had a market value of £2,303m as at 31 March 2014. Liabilities were estimated to be £2,334m on an ongoing funding basis as at 31 March 2014, implying that the Fund's funding level (excluding the effect of any membership movements) has increased to 99% over the year.

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

Steven Scott
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
27 May 2014

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

The Comptroller and Auditor General's statement about contributions to the Houses of Parliament, the Board of the Environment Agency and the Secretary of State for Environment, Food and Rural Affairs

I have examined the summary of contributions to the Environment Agency Active Pension Fund for the year ended 31 March 2014 which is set out on page 45.

Respective responsibilities of the Environment Agency, its Pensions Committee and the auditor

The Pensions Committee and Accounting Officer are responsible for keeping records in respect of contributions received in respect of active members of the Fund and for monitoring whether contributions are made to the Fund by the Environment Agency in accordance with the Local Government Pension Scheme Regulations 1997, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and other related regulations and the recommendations of the Consulting Actuary.

It is my responsibility to provide a Statement about contributions as reported in the attached summary of contributions payable for the Fund year ended 31 March 2014 and to report my opinion to you.

Scope of work on Statement about contributions

My examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Fund and the timing of those payments in accordance with the Local Government Pension Scheme Regulations 1997, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and other related regulations and the recommendations of the Consulting Actuary.

Statement about contributions

In my opinion, contributions for the Fund year ended 31 March 2014 as reported in the attached summary of contributions have in all material respects been paid at least in accordance with the Local Government Pension Scheme Regulations 1997, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and other related regulations and with the recommendations of the Consulting Actuary.

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

Date: 20 June 2014

Summary of contributions payable in the year

During the year, the contributions payable to the Scheme in accordance with the Local Government Pension Scheme Regulations 1997 (as amended) by the Employee and Employer for the year ended 31 March 2014 were as follows:

	Notes	Employee £'000	Employer £'000
Required by the LGPS regulations			
Normal contributions		23,215	46,091
Contributions to fund historical past service deficit		-	14,850
Special contributions to fund early retirements		-	5,754
Contribution to fully fund bulk transfer		-	109
Total		**23,215**	**66,804**
Other contributions payable			
Purchase of added years		631	-
Additional voluntary contributions (AVCs)		983	-
		1,614	**-**
Total		**24,829**	**66,804**
Total employee and employer contributions (as per Fund account)	7		**91,633**

Signed on behalf of the Environment Agency

John Varley
Chairman
Environment Agency Pensions Committee
17 June 2014

Paul Leinster
Accounting Officer
Environment Agency
17 June 2014

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

I certify that I have audited the financial statements of the Environment Agency Active Pension Fund for the year ended 31 March 2014 under the Environment Act 1995. These comprise the Fund Account, the Net Assets Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

As explained more fully in the section entitled roles and responsibilities of the Pensions Committee, the Accounting Officer and the Pension committee are responsible for preparing the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on Regularity

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

Opinions on the financial statements

In my opinion:

- the financial statements show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2014, and of the amount and disposition at that date of its assets and liabilities; and

- the financial statements have been properly prepared in accordance with Schedule 7 to the Environment Agency Financial Memorandum issued by Defra, in accordance with the Local Government Pension Scheme Regulations 1997, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and other related LGPS regulations and guidance.

Report

I have no observations to make on these financial statements.

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

Date: 20 June 2014

Financial statements for the year ended 31 March 2014

	Notes	2014 £000	2013 £000
Fund account			
Contributions and transfers			
Contributions	7	91,633	68,308
Transfer values received	8	5,079	5,797
		96,712	74,105
Benefits and other payments			
Benefits payable	9	(70,696)	(61,193)
Payments to and on account of leavers	10	(3,143)	(1,933)
Administration expenses	11	(1,662)	(1,304)
		(75,501)	(64,430)
Net additions from dealings with members		**21,211**	9,675
Return on investments			
Investment income	12	42,140	32,489
Taxes on income	13	(915)	(799)
Change in market value of investments	15 (a)	137,574	231,902
Investment expenses	14	(11,695)	(8,328)
Net returns on investments		**167,104**	255,264
Net increase in the Fund during the year		**188,315**	264,939
Opening net assets of the Fund at 1 April		2,125,661	1,860,722
Net assets of the Fund at 31 March		**2,313,976**	2,125,661
Net assets statement			
Investment assets	15 (c)	2,321,753	2,142,540
Investment liabilities	15 (c)	(10,998)	(20,941)
Current assets	20	14,075	8,561
Current liabilities	21	(10,854)	(4,499)
Net assets of the Fund at 31 March		**2,313,976**	2,125,661

The financial statements summarise the transactions and net assets of the Fund. The financial statements do not take account of liabilities to pay pensions and other benefits that fall due after the end of the Scheme year. The actuarial position of the Fund, which does take account of such liabilities, is dealt with in the statement by the Consulting Actuary on page 42 and these financial statements should be read in conjunction with it. The Actuary's statement dated 27 May 2014 is based on a valuation as at 31 March 2013. The notes on pages 50 to 74 form part of these financial statements.

John Varley
Chairman
Environment Agency Pensions Committee
17 June 2014

Paul Leinster
Accounting Officer
Environment Agency
17 June 2014

Notes to the financial statements

1. Description of the Fund

The Environment Agency Active Pension Fund is part of the Local Government Pension Scheme and is administered by the Environment Agency. The Environment Agency is the reporting entity for this pension fund. The Fund is overseen by the Environment Agency Pension Fund Committee.
The following description is a summary only. For more detail, reference should be made to the Funding Strategy Statement (Annex 2).

General

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

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended);
- the LGPS (Administration) Regulations 2008 (as amended); and
- the LGPS (Management and Investment of Funds) Regulations 2009.

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

Membership

Unless they have elected in writing not to be members, all Fund employees are eligible for membership of the Local Government Pension Scheme (LGPS) (excluding Environment Agency Board Members and those employees who are eligible to join another pension scheme) providing they are under the age of 75. As at 31 March 2014, total membership of the Fund is 23,586, which represents 11,250 Active members, 6,883 deferred members and 5,453 current pensioners.

Funding

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

2. Basis of preparation

The financial statements have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. They are prepared with a strong covenant from Defra and the Welsh Government who are the financial sponsors of the Environment Agency under the Environment Agency Act 1995 and the DCLG as the statutory guarantors of the LGPS. The accounting policies have been drawn up in line with recommended accounting principles as specified in the Code of Practice on Local Authority Accounting and as disclosed below.

3. Summary of significant accounting policies

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

Investments

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

(i) Quoted securities listed on recognised stock exchanges are valued at bid prices at the year end. UK Government securities are valued at Gilt-edged Market Makers Association (GEMMA) closing prices.

(ii) Pooled investment vehicles are stated at the bid price as quoted by the relevant fund managers, which reflect the underlying investments. In the case of single priced pooled investment vehicles, the closing single price is used as the best estimate of fair value.

(iii) Unquoted securities are valued by fund managers on the basis of latest dealings, professional valuations and financial information at the year end. In the case of private equity limited company funds, the investments are valued at latest values which are previous quarter (generally end of December) values, updated for new investment and distributions. For private equity direct investments the price taken is that as provided by the Fund Manager, which reflect the prices at the latest round of financing if available, or book cost, unless impaired when this value is reduced.

(iv) Acquisition costs are included in the purchase cost of investments.

(v) Investment management fees are accounted for on an accruals basis.

(vi) The Fund's global custodian is not authorised to enter into stock lending arrangements.

Derivatives

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

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

Investment income

(i) Income from fixed interest and index linked securities and other interest receivable is taken into account on an accruals basis. Income from all other marketable securities is taken into account on an accruals basis on the date when stocks are quoted ex-dividend.

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

(iii) Accrued interest is excluded from the market value of fixed interest securities but is included in investment income receivable.

(iv) Income on investments in pooled investment vehicles with accumulation units is reflected in the unit price. Income on investments in property pooled investment vehicles is distributed and recognised on an accruals basis.

(v) Income from cash and short-term deposits is accounted for on an accruals basis.

Exchange rates

(i) Where forward contracts are in place for assets and liabilities in foreign contracts, the contract rate is used.

(ii) Other assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the year end.

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

Note 3 cont.

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

(i) Regulation 39 of the Local Government Pension Scheme (Administration) 2008 (as amended), stipulates that the employer's standard contributions must be made at a rate as noted in the rates and adjustments certificate as determined by the Pension Fund Actuary under regulations 36 or 38 of those same regulations. The employer's standard contributions are necessary to ensure that the Fund is able to meet its existing and prospective liabilities including indexation.

(ii) The employee's standard contributions are determined with reference to the table shown in regulation 3 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended).

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

(i) Awarding additional years and days to an active member or making such an award within six months of leaving to a member who has left his employment on the grounds of Redundancy or in the interests of efficiency under Regulation 12 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended). The costs for such an award are calculated and paid in accordance with Regulations 38 and 40 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).

(ii) Awarding additional pension to an active member under Regulation 13 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended). The costs for such an award are calculated and paid in accordance with Regulations 40 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).

(iii) Any extra charge to the Pension Fund as a result of a member retiring on the grounds of ill-health (Regulation 20), early retirement with employer consent (Regulation 31) or flexible retirement (Regulation 18) of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended). The costs for such an award are calculated and paid in accordance with regulation 41 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).

(iv) Any extra charge to the Pension Fund as a result of benefits immediately becoming payable as a result of a member been dismissed on the grounds of redundancy or in the interests of efficiency under regulation 19 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended). The costs for such an award are calculated and paid in accordance with regulation 41 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).

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

(i) Purchase of additional years payable under regulation 55 of the Local Government Pension Scheme 1997 Regulations (as amended), and/or

(ii) Purchase of additional pension payable under regulation 14 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), and/or

(iii) Payment of additional voluntary contributions (AVCs) payable under regulation 15 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended).

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

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

Note 3 cont.

Other expenses

Investment management and administration expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT. The fees of the Fund's external investment managers reflect their differing mandates. Fees are generally linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. Fees are also payable to the Fund's global custodian. In cases where expenditure relates to both the Active Fund and the Environment Agency Closed Pension Fund, this has been respectively apportioned during the year as follows:

Apportionment of common expenditure	2014 %	2013 %
Custodial arrangements	80/20	80/20
Other (e.g. Environment Agency administration costs)	60/40	60/40

Taxation

UK income tax and capital gains tax

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

Value added tax

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

US withholding tax

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

Overseas tax deductions

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

4. Critical judgements 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 judgements 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 2014 was £83.9m (2013:£94.1m).

Pension Fund liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

The Financial Statements contain figures that are based on assumptions made by our Private Equity manager. Estimates are made taking into account historical experience, current trends and other relevant factors. The items in the net assets statement at 31 March 2014 for which there is a risk of material adjustment in the forthcoming financial year is as follows:

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

6. Events after the net asset statement date

The financial statements were approved by the Pensions Committee on 16 June 2014 and were approved and signed at the Audit and Risk Committee on 17 June 2014 under delegated authority of the Board. They were also noted at a meeting of the Board on 17 July 2014. There are no adjusting or non-adjusting events that need to be recognised in the financial statements after the net asset statement date.

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

7. Contributions receivable

	2014 £000	2013 £000
Employer		
Normal	46,091	43,806
Advanced	14,850	-
Special	5,863	735
	66,804	44,541
Members		
Normal	23,215	22,140
Additional voluntary contributions (AVCs)	983	1,021
Purchase of added years	631	606
	24,829	23,767
Total	**91,633**	68,308

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

8. Transfer values received

	2014 £000	2013 £000
Individual transfers from other schemes	5,079	5,761
AVC transfers	-	36
Total	**5,079**	5,797

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

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

9. Benefits payable

	2014 £000	2013 £000
Retirement and dependants' pensions	53,963	50,894
Lump sum retirement grants	15,279	8,408
Lump sum death grants	1,451	1,887
Life assurance through AVC provider	3	4
Total	**70,696**	61,193

10. Payments to and on account of leavers

	2014 £000	2013 £000
Individual transfers to other schemes	2,391	1,793
Bulk transfer to other schemes*	747	118
Refunds of contributions	5	5
AVC transfers	-	17
Total	**3,143**	1,933

* In 2014, the bulk transfer amount represents a transfer to the Principal Civil Service Pension Scheme regarding a transfer of employees to Welsh Government. The 2013 figure also represents a bulk transfer amount to the Principal Civil Service Pension Scheme.

11. Administration expenses

	2014 £000	2013 £000
Environment Agency Pension Fund Management	498	528
External professional fees:		
Specialist advice	610	226
Scheme administration	513	510
External audit	41	40
Total	**1,662**	1,304

The external auditor remuneration does not include any fees in respect of non-audit services for 2014 and 2013.

12. Investment income

	2014 £000	2013 £000
Dividends from equities	24,592	18,191
Income from fixed interest securities	11,689	10,478
Income from pooled property & infrastructure	3,075	2,843
Income from private equity	1,912	333
Income from pooled investment vehicles	554	367
Interest on cash deposits	318	277
Total	**42,140**	32,489

13. Taxes on income

	2014 £000	2013 £000
Withholding tax – equities	(915)	(663)
Withholding tax – pooled property	-	(136)
Total	**(915)**	(799)

14. Investment expenses

	2014 £000	2013 £000
Fund manager base fees	7,522	5,161
Fund manager performance fees	3,040	1,658
Irreclaimable VAT	720	981
Investment advisers	167	266
Global custody	130	131
Performance and risk measurement	116	131
Total	**11,695**	8,328

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

15. Investments

a) Investment movements summary

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

Note 15 cont.

	Market value at 01.04.12 £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts £000	Change in market value £000	Market value at 31.03.13 £000
Equities	679,320	564,612	(385,847)	116,522	974,607
Fixed interest	366,812	242,678	(262,170)	30,361	377,681
Pooled equities	402,556	233,495	(358,280)	84,898	362,669
Pooled fixed interest	144,364	217,461	(155,394)	17,775	224,206
Private equity	83,597	11,943	(3,550)	2,109	94,099
Pooled property	59,190	7,082	(6,382)	(2,413)	57,477
Pooled currency	54,845	140	(54,250)	(735)	-
Pooled cash	10,299	-	(10,335)	36	-
AVC investments	6,331	1,062	(642)	656	7,407
Derivatives	8,208	574,089	(577,926)	(17,847)	(13,476)
	1,815,522	**1,852,562**	**(1,814,776)**	**231,362**	**2,084,670**
Cash deposits & instruments	33,807			540	29,058
Other investment balances	6,114				7,871
	1,855,443			**231,902**	**2,121,599**

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

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

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

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £800,468 (2013: £771,418). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund.

Note 15 cont.

b) Investment value details

Investment assets	2014 £000	2013 £000
Equities		
Overseas quoted	684,191	638,200
UK quoted	360,804	336,407
	1,044,995	974,607
Fixed interest		
UK index linked gilts public sector	204,825	186,752
UK corporate quoted	148,680	137,211
Overseas corporate quoted	63,470	53,250
Overseas public sector quoted	1,365	468
	418,340	377,681
Pooled equities		
Overseas unit trusts	320,307	329,277
UK unit trusts	30,732	33,392
	351,039	362,669
Pooled fixed interest		
Overseas corporate quoted unit trusts	174,580	135,525
UK corporate quoted unit trusts	89,985	88,681
	264,565	224,206
Private equity		
Overseas unquoted	75,616	87,446
UK unquoted	8,292	6,653
	83,908	94,099
Pooled property and infrastructure		
UK unit trusts	73,394	45,760
UK managed funds	9,522	7,541
UK unquoted collective limited partnership investments	4,072	4,176
UK infrastructure funds	2,039	-
Overseas infrastructure funds	96	-
	89,123	57,477
AVC investments	**7,938**	7,407
Derivative contracts		
Futures	118	(79)
Forward foreign exchange	(32)	(13,397)
	86	(13,476)
Cash deposits and instruments		
Cash with custodian and fund managers	45,390	28,277
Cash margin with brokers	707	781
	46,097	29,058
Other investment balances		
Amounts due from trade and currency brokers	7,704	2,927
Accrued income	7,154	6,844
Income tax recoverable	411	694
Amounts due to trade and currency brokers	(10,605)	(2,594)
	4,664	7,871
Net investment assets	**2,310,755**	2,121,599

Note 15 cont.

c) Financial assets and liabilities

	2014 £000	2013 £000
Financial assets		
Equities (includes pooled and private equity)	1,479,942	1,431,375
Bonds (includes pooled and gilts)	682,905	601,887
Pooled property and infrastructure	89,123	57,477
Cash	46,097	29,058
AVC	7,938	7,407
Derivatives – Futures and forward foreign exchange	479	4,871
Other investment assets	15,269	10,465
Total financial assets	**2,321,753**	2,142,540
Financial liabilities		
Derivatives – Futures and forward foreign exchange	(393)	(18,347)
Amounts due to trade and currency brokers	(10,605)	(2,594)
Total financial liabilities	**(10,998)**	(20,941)
Net financial assets	**2,310,755**	2,121,599

d) Derivative contracts

	2014		2013	
Derivatives	Asset £000	Liability £000	Asset £000	Liability £000
Futures contacts	118	-	39	(118)
Forward foreign currency contracts	361	(393)	4,832	(18,229)
	479	**(393)**	4,871	(18,347)
Net derivatives	**86**	**-**	-	(13,476)

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. For example, our passive manager could buy ‘futures’, which are contracts to purchase equities in the relevant index at a given date. This allows the manager to smooth out index changes and track the index more efficiently.

In the table below, the ‘nominal value’ of the futures contracts is the ‘economic exposure’ of those futures as at 31 March 2014. The ‘Fair value’ is the unrealised profit or loss of the futures as at 31 March 2014.

Futures

Type of contract	Expiration	2014 Nominal value £’000	2013 Nominal value £’000	2014 Fair Value £’000	2013 Fair value £’000
FTSE 100 UK exchange traded June 2013 (L&G)	3 months	584	1,282	5	(12)
E-mini S&P 500 US exchange traded June 2013 (Generation)	3 months	4,892	3,889	2	39
Eurostoxx 50 index exchange traded June 2013 (Generation)	3 months	3,765	3,494	111	(106)
Total		**9,241**	8,665	**118**	(79)

Note 15 cont.

Forward over the counter foreign currency contracts

At 31 March 2014 there was an unrealised loss of £32,000 on the currency forwards (2013: unrealised loss of £13.4m). A series of six month rolling 'forward' currency contracts were used by our passive currency manager to hedge 60% of the Fund's exposure currency movements on overseas equities back to Sterling. The main currency hedging programme has been terminated, and the current position relates to specific hedging undertaken by individual managers.

Currency Bought	Currency sold	Settlement dates	2014 Asset £000	2014 Liability £000	2013 Asset £000	2013 Liability £000
Canadian Dollar	US Dollar	25 days	-	(25)	-	(97)
Euro	Sterling	24 days	-	(7)	-	(56)
HK Dollar	Sterling	2 days	-	-	-	(4)
Japanese Yen	Sterling	25 days	-	(1)	-	-
Japanese Yen	US Dollar	25 days	-	(76)	-	(134)
Norwegian Krone	Sterling	24 days	-	(1)		
New Zealand Dollar	Sterling	24 days	1	-	-	-
Sterling	Danish Krone	14 days	13	-	78	-
Sterling	Euro	24 to 87 days	110	-	960	(3,992)
Sterling	Japanese Yen	24 days	69	-	940	(199)
Sterling	Norwegian Krone	24 days	2	-	19	-
Sterling	Mexican Peso	2 days	-	-	1	-
Sterling	Canadian Dollar	24 days	1	(8)	-	-
Sterling	Australian Dollar	24 days	-	(167)	22	-
Sterling	New Zealand Dollar	24 days	-	(50)	-	(2)
Sterling	Singapore Dollar	24 days	-	(6)	-	-
Sterling	South African Rand	2 to 4days	-	-	-	(2)
Sterling	Swedish Krone	2 to 24 days	38	-	48	-
Sterling	Swiss Franc	24 days	41	-	25	(1)
Sterling	US Dollar	1 to 24 days	86	-	2,561	(13,742)
US Dollar	Sterling	1 to 8 days	-	(37)	-	-
US Dollar	Thai Baht	25 days	-	(15)	-	-
US Dollar	Euro	19 days	-	-	178	-
Total			**361**	**(393)**	4,832	(18,229)

e) Investments exceeding 5% of net investment assets

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

Holding	2014 Market value £m	2014 % of net assets	2013 Market value £m	2013 % of net assets
L&G North America Equity Index Fund	**135.0**	**5.8**	146.2	6.9
PIMCO Unconstrained Bond Fund	**160.1**	**6.9**	-	-

16. Financial Instruments

Classification of financial instruments

The accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2014	Designated as fair value through profit and loss £000	Receivables £000	Financial liabilities at amortised cost £000
Financial assets			
Equities	1,044,995	-	-
Fixed interest	418,340	-	-
Pooled equities	351,039	-	-
Pooled fixed interest	264,565	-	-
Private equity	83,908	-	-
Pooled property and infrastructure	89,123	-	-
Pooled currency	-	-	-
Pooled cash	-	-	-
AVC investments	7,938	-	-
Derivatives	479	-	-
Cash deposits and instruments	-	49,327	-
Other investment assets	15,269	-	-
Debtors	-	10,845	-
	2,275,656	**60,172**	**-**
Financial liabilities			
Derivative contracts	(393)	-	-
Other investment liabilities	(10,605)	-	-
Creditors	-	-	(10,854)
	(10,998)	-	(10,854)
Net assets of the Fund	**2,264,658**	**60,172**	**(10,854)**

Note 16 cont.

31 March 2013	Designated as fair value through profit and loss £000	Receivables £000	Financial liabilities at amortised cost £000
Financial assets			
Equities	974,607	-	-
Fixed interest	377,681	-	-
Pooled equities	362,669	-	-
Pooled fixed interest	224,206	-	-
Private equity	94,099	-	-
Pooled property	57,477	-	-
Pooled currency	-	-	-
Pooled cash	-	-	-
AVC investments	7,407	-	-
Derivatives	4,871	-	-
Cash deposits and instruments	-	32,192	-
Other investment assets	10,465	-	-
Debtors	-	5,427	-
	2,113,482	**37,619**	**-**
Financial liabilities			
Derivative contracts	(18,347)	-	-
Other investment liabilities	(2,594)	-	-
Creditors	-	-	(4,499)
	(20,941)	-	(4,499)
Net assets of the Fund	**2,092,541**	**37,619**	**(4,499)**

Net gains and losses on financial instruments

	2014 £000	2013 £000
Financial assets		
Fair value through profit and loss	137,574	249,749
Financial liabilities		
Fair value through profit and loss	-	(17,847)
Total change in market value	**137,574**	231,902

Fair value of financial instruments and liabilities

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

	2014		2013	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
Financial assets				
Fair value through profit and loss	1,951,476	2,260,387	1,822,862	2,103,017
Receivables	75,441	75,441	48,084	48,084
Financial liabilities				
Fair value through profit and loss	(393)	(393)	(18,347)	(18,347)
Financial liabilities at amortised cost	(21,459)	(21,459)	(7,093)	(7,093)
Net assets of the Fund	**2,005,065**	**2,313,976**	1,845,506	2,125,661

Note 16 cont.

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

Valuation of financial instruments carried at fair value

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

Level 1
Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index-linked securities and unit trusts.
Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

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

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

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various techniques that require significant judgement in determining appropriate assumptions.
The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Environment Agency Active Pension Fund has invested.

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

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

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3 based on the level at which the fair value is observable:

Values at 31 March 2014	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	2,147,271	28,729	84,387	2,260,387
Receivables	75,441	-	-	75,441
Total financial assets	**2,222,712**	**28,729**	**84,387**	**2,335,828**
Financial liabilities				
Financial liabilities at fair value through profit and loss	-	-	(393)	(393)
Financial liabilities at amortised cost	(21,459)	-	-	(21,459)
Total financial liabilities	**(21,459)**	**-**	**(393)**	**(21,852)**
Net assets of the Fund	**2,201,253**	**28,729**	**83,994**	**2,313,976**

Note 16 cont.

Values at 31 March 2013	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	1,979,960	24,087	98,970	2,103,017
Receivables	48,084	-	-	48,084
Total financial assets	**2,028,044**	**24,087**	**98,970**	**2,151,101**
Financial liabilities				
Financial liabilities at fair value through profit and loss	-	-	(18,347)	(18,347)
Financial liabilities at amortised cost	(7,093)	-	-	(7,093)
Total financial liabilities	**(7,093)**	**-**	**(18,347)**	**(25,440)**
Net assets of the Fund	**2,020,951**	**24,087**	**80,623**	**2,125,661**

17. Nature and extent of risks arising from financial instruments

Risk and risk management

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

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

Market risk

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

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

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

To mitigate specific market risk, the Fund and its investment advisers undertake appropriate monitoring of individual manager's selection of securities, their performance against benchmarks and their compliance with their individual Investment Management Agreement and the Fund's overall investment strategy. Broader market risk, analysed below, is regularly monitored by the Fund and its advisers, and is a key consideration in

Note 17 cont.

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 2013/14 reporting period:

Asset Class	Potential change in value from market risk	
	31 March 2014 £'000	31 March 2013 £'000
UK equities	64,826	59,167
Global equities (ex UK)	195,005	183,713
Private equity	23,625	25,951
Property	13,248	8,306
Corporate bonds	31,278	30,670
UK index linked gilts	17,088	15,870
Unconstrained Global bond (hedged)	4,943	3,182
Cash	333	221
(Less impact of diversification)	(75,366)	(68,245)
Total Fund volatility	274,980	258,835

Asset Class	1 Year Expected volatility %	% of Fund %
UK equities	16.6	16.9
Global equities (ex UK)	19.4	43.5
Private equity	28.4	3.6
Property	14.7	3.9
Corporate bonds	9.6	14.1
UK index linked gilts	8.5	8.7
Unconstrained Global bond (hedged)	3.1	6.9
Cash and other	0.6	2.4
Total Fund volatility	**11.9**	**100.0**

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

Note 17 cont.

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 2014	31 March 2013
Total net investment assets (£'000)	**2,310,755**	2,121,599
Percentage change (%)	**11.9**	12.2
Value on increase (£'000)	**2,585,735**	2,380,434
Value on decrease (£'000)	**2,035,775**	1,862,764

Interest rate risk

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

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

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

	As at 31 March 2014	**Interest rate sensitivity duration 2014**	As at 31 March 2013	Interest rate sensitivity duration 2013
UK Index Linked Gilts	204,825	27.6	186,752	26.4
Pooled Sterling Bonds Indexed	89,985	7.8	88,681	8.0
Sterling Bonds Actively Managed	388,095	7.8	326,454	7.9
TOTAL	**682,905**		601,887	

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.

Note 17 cont.

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 2014	Possible change in the net assets available to pay benefits	
		+1%	-1%
	£000	£000	£000
UK Index Linked Gilts	204,825	(56,532)	56,532
Pooled Sterling bonds Indexed	89,985	(7,019)	7,019
Sterling bonds Actively managed	388,095	(30,271)	30,271
Total	**682,905**	**(93,822)**	**93,822**

	Carrying amount as at 31 March 2013	Possible change in the net assets available to pay benefits	
		+1%	-1%
	£000	£000	£000
UK Index Linked Gilts	186,752	(49,303)	49,303
Pooled Sterling bonds Indexed	88,681	(7,094)	7,094
Sterling bonds Actively managed	326,454	(25,790)	25,790
Total	601,887	(82,187)	82,187

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£).

Currency risk is also included in the overall estimate of market risk earlier. Most of the Fund's currency risk is through exposure to overseas equities, which are exposed to a complex range of risk factors of which currency is only one. There may also be some indirect currency exposure in the Fund's sterling denominated assets, such as UK equities, but these are impossible to quantify. During the year the Pension Committee decided to end the Funds currency hedging programme as it was not effective at reducing the Fund's overall risk.The Pension Fund's currency rate risk are routinely monitored by the Fund and its investment advisors.

The following table summarises the Fund's currency exposure as at 31 March 2014 and as at the previous period end:

Currency exposure – asset type	Asset value as at 31 March 2014 £000	Asset value as at 31 March 2013 £000
Overseas quoted securities	684,191	638,200
Overseas pooled equities	320,307	329,277
Overseas unquoted private equity	75,616	87,446
Total overseas assets	**1,080,114**	1,054,923
Less currency hedging	-	(668,000)
Net unhedged overseas assets	**1,080,114**	386,923

Note 17 cont.

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Fund's advisers, the Fund considers the likely volatility associated with foreign exchange rate movements to be 13% (as measured by one year expected standard deviation).

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

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

Currency exposure Asset type	Asset value as at 31 March 2013	Possible change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas quoted securities	638,200	82,966	(82,966)
Overseas pooled equities	329,277	42,806	(42,806)
Overseas unquoted private equity	87,446	11,368	(11,368)
Total change in assets available	1,054,923	137,140	(137,140)
Less currency hedging	(668,000)	(86,840)	86,840
Net unhedged overseas assets	386,923	50,300	(50,300)

Credit risk

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

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

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

Note 17 cont.

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 2014 was £49 million (31 March 2013 was £32 million). This was held with the following institutions:

Summary	Rating by Moody's	Balances as at 31 March 2014 £000	Balances as at 31 March 2013 £000
Money market funds:			
Northern Trust	Aaa	46,097	29,058
Bank current accounts:			
National Westminster Bank plc	A2	3,230	3,134
Total		**49,327**	32,192

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 2014, the value of potentially illiquid assets was £173.0m, which represented 7.5% of the total Fund assets (2013: £151.6m, which represented 7.1% 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 2014 are due within one year.

Refinancing risk

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

18. Funding arrangements

In line with the Local Government Pension Scheme (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013. The next valuation will take place as at March 2016.

The key elements of the funding policy are as follows:

- ensure that sufficient resources are available to meet all benefits as they fall due for payment;
- recover any shortfall in assets, relative to the value of accrued liabilities, over broadly the future working lifetime of current employees;

Note 18 cont.

- 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 authourity and employers;
- manage the Environment Agency's, as the employer, liabilities effectively; and
- maximise the returns from investments within reasonable risk parameters.

The Funding Strategy Statement (FSS) sets out how the administering authority seeks to balance the conflicting aims of securing solvency of the Fund and keeping employer contribution stable.

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

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

Employer name	Minimum contributions for the year ending:					
	31 March 2015		31 March 2016		31 March 2017	
	% payroll	£'000	% payroll	£'000	% payroll	£'000
EA	13.0%	-	14.0%	£14,000	14.0%	£14,000
NRW	20.2%	-	21.2%	-	21.2%	£2,000
SSCL	22.7%	-	22.7%	-	22.7%	-

Full details of the contribution rates payable can be found in the 2013 actuarial valuation report and the Funding Strategy Statement.

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

Financial assumptions

Financial assumptions	% per annum	Description
Investment Return (Discount Rate)	4.6%	Yield on long-term fixed interest Government bonds. plus an Asset Outperformance Assumption of 1.6%.
Retail Price Inflation (RPI)	3.0%	The difference between yields on long-term fixed and index-linked Government bonds less 0.3% p.a. in respect of the inflation risk premium.
Salary Increases*	3.5%	RPI plus 0.5%.
Pension Increases	2.2%	CPI (assumed to be 0.8% less than RPI).

*An allowance is also made for promotional pay increases.

Longevity assumptions

Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2010 model assuming that the current rate of improvement has reached a peak and will converge to a long term rate at 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

Pensioners	Males	Females
Current Pensioners	22.6 years	24.5 years
Future Pensioners*	24.7 years	27.0 years

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

Commutation assumption

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

19. Actuarial present value of promised retirement benefits

IAS26: Accounting and reporting by retirement benefit plans

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

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £2,816m (2013: £2,492m). The figure is only prepared for the purposes of IAS19 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

Assumptions

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

Financial assumptions

The financial assumptions adopted are summarised below:

Year ended	31 Mar 2014 % p.a.	31 Mar 2013 % p.a.
Inflation/Pensions Increase Rate	2.50%	2.50%
Salary Increase Rate	3.80%	4.60%*
Discount Rate	4.30%	4.50%

*Salary increases are assumed to be 1% p.a. until 31 March 2015 reverting to the long term assumption shown thereafter.

Demographic assumptions

The demographic assumptions (including longevity) used to determine the actuarial present value of promised retirement benefits as at 31 March 2014 are those adopted for the formal actuarial valuation as at 31 March 2013.

The actuary has estimated the impact of the change of assumptions to 31 March 2014 as an increase to the actuarial present value of £52m.

20. Current assets

	2014 £000	2013 £000
Debtors		
Contributions due – employers	8,491	3,475
Contributions due - employees	2,180	1,756
VAT to be reimbursed to the Fund	162	38
Cash in transit	-	50
Overpaid pensions on death to be refunded to the Fund	9	34
Sundry - amount due from Closed Fund / bank interest	3	74
	10,845	5,427
Cash at bank	**3,230**	3,134
Total	**14,075**	8,561

Note 20 cont.

Analysis of debtors

	2014 £000	2013 £000
Government Agencies – Environment Agency	10,672	5,301
Central government bodies - HMRC	162	38
Other entities and individuals	11	88
Total	**10,845**	5,427

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

- employers' and employees' contributions of £4,157,000 (2013: £3,391,000) and £2,180,000 (2013: £1,756,000) respectively outstanding in the normal course of collection at the year end and subsequently paid over within the statutory time limit;
- £4,252,000 (2013: £63,000) for special contributions due in respect of augmentations to members' benefits and £82,000 (2013: £21,000) in respect of shortfall funding for a bulk transfer payment; and
- £1,000 (2013: £70,000) is due from the Environment Agency Closed Fund in respect of member and administration expenses.

21. Current liabilities

	2014 £000	2013 £000
Creditors		
Administration and investment expenses	(5,634)	(2,920)
Benefits payable	(4,585)	(957)
PAYE	(635)	(622)
Tax payable on refunds	-	-
Total	**(10,854)**	(4,499)

Analysis of creditors

	2014 £000	2013 £000
Other entities and individuals – Benefits and admin fees	(10,178)	(3,732)
Central government bodies – HMRC	(635)	(622)
Independent Parliamentary Bodies – NAO fees	(41)	(40)
Government Agencies – Environment Agency	-	(105)
Total	**(10,854)**	(4,499)

22. Additional Voluntary Contributions

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

	2014 £000	2013 £000
Prudential		
Unit-linked funds	239	116
With-profits funds	243	189
Deposit accounts	506	450
	988	755
Standard Life		
Unit-linked funds	3,454	3,153
	3,454	3,153
Clerical Medical		
Unit-linked funds	1,689	1,637
With-profits funds	669	660
	2,358	2,297
The Equitable Life Assurance Society		
Unit-linked funds	696	736
With-profits funds	333	343
Deposit accounts	109	123
	1,138	1,202
Total AVC investments	**7,938**	7,407

The Environment Agency Pension Fund holds assets with Standard Life, Clerical Medical, The Equitable Life Assurance Society and Prudential.These are unit-linked, with-profits and deposit accounts and secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement receive an annual statement made up to 31 March 2014 confirming amounts held in their account and movements in the year.

23. Related party transactions

During the year ended 31 March 2014 there have been the following related party transactions:

- pensions administration costs of £439k (2013: £368k) recharged to the Active Fund by the Environment Agency;
- nine members of the Pensions Committee are contributing members of the Active Fund;
- one member of the Committee is in receipt of a retirement pension payable from the Active Fund;
- none of the Committee has deferred benefits in the Active Fund;
- payment of unfunded liabilities of £366,000 (2013: £369,000) recharged to the Environment Agency and funded by grant-in-aid from Defra in respect of compensatory added years; and
- during the year, special contributions totalling £nil (2013: £24,917) were not paid over to the Active Fund in line with statutory timescales. As at the year end, no special contributions were outstanding.

24. Contingent liabilities and assets

In accordance with authorised investment strategy and mandates, the outstanding investment commitments at 31 March 2014 are, Private equity £20.9m (2013: £24.0m) and Property and infrastructure £150.3m (2013: £nil). There are no contingent assets as at 31 March 2014 (2013: £nil).

25. Impairment losses

For the year to 31 March 2014 the Fund has recognised an impairment loss of less than £0.1m (2013: less than £0.1m) for the non-recovery of pensioner death overpayments.

26. IAS 10: Authorisation for issue

The Environment Agency Active Pension Fund annual report and financial statements are laid before the Houses of Parliament by Defra. IAS 10 requires the Environment Agency Active Pension Fund to disclose the date on which the annual report and financial statements are authorised for issue. The authorised date for issue is 20 June 2014.

The annexes

Annex 1 – Scheme rules and benefits

On 1 April 2008 the scheme rules and benefits became subject to the Local Government Pension Scheme (Benefits, Membership and Contribution) Regulations 2007 (as amended).

Scheme membership and income

(a) All Fund employees are eligible for membership of the Local Government Pension Scheme (LGPS) (excluding Environment Agency Board Members and those employees who are eligible to join another pension scheme) providing they are under the age of 75 and have a contract of employment that is valid for at least 3 months (or the aggregate of several continuous contracts is for at least 3 months). Providing the previous criteria are met, full and part time employees, whether permanent or temporary, become members automatically with the right to opt out (back dated to the statrt of membership if made within 3 months).

Members' contributions are deducted from pensionable pay and the rate is dependent on the value of the permanent pensionable earnings paid. The rate the member pays depends on which earnings band the members falls into, but the rate will fall between 5.5% and 7.5% of permanent pensionable earnings. If the member works part-time, the rate will be based on the full time equivalent permanent pensionable pay for the job, although the member will only pay contributions on the pensionable pay actually earned.

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

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

The EAPF 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 EAPF to increase benefits, providing the transfer payment is received within 12 months of joining the EAPF (or such a longer date that the Fund employer may allow).

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

(d) The Fund employer is required to fund early retirements (other than dismissal on the grounds of ill health) and any discretionary award of additional membership and/or pension by making up front payments into the Fund.

(e) Monies not immediately required for the payment of benefits and other outgoings have to be invested in accordance with the provisions of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Benefits available

Three months membership or more (or a transfer value has been received or the member holds a deferred benefit in the LGPS in England & Wales):

A. *Retirement pension and tax-free lump sum* (tax-free lump sum only based upon membership accrued prior to 1 April 2008):

1. Payable immediately on cessation of employment:

   - Voluntarily from age 55 onwards (with employer consent if under age 60); or
   - Through permanent incapacity at any age with employer consent; or
   - As a result of redundancy or efficiency after age 55.

2. Deferred on cessation of employment and payable from:

   - Normal retirement age; or
   - Voluntarily from age 55 onwards (with employer consent the Environment Agency's consent if under age 60);
   - Through permanent incapacity at any age with the Environment Agency's consent.

B. *Spouses', Civil Partners', Nominated Cohabiting Partners' and Children's pensions and a lump sum death grant* following death:

1. During employment, or
2. Whilst in receipt of a retirement pension (a death grant lump sum may not always be payable), or
3. Before deferred benefits become payable.

Under three months' membership (and no transfer value has been received or member does not hold deferred benefit in the LGPS in England & Wales):

A. Retirement pension on retirement at age 65.

B. Lump sum death grant on death in employment.

C. Refund of contributions or Cash Equivalent Transfer Value, when no other benefit payable.

Although it will take into consideration the deceased person's wishes, the Pension Fund has absolute discretion in deciding who should receive any lump sum death grant payable.

Pensions increase awards

Retirement and dependants' pensions in payment and deferred pensions are reviewed each year in line with the increase in the Consumer Prices Index.

Transfers to other schemes

When benefits are not payable immediately, a transfer can usually be made to another tax approved employer's pension scheme, or to a tax-approved personal pension, or stakeholder plan or to purchase an insurance annuity bond.

Outline of benefits under the new 2014 Local Government Pension Scheme

	Pre 2008 scheme	2008 scheme	2014 scheme
Basis of pension	Final salary	Final salary	Career Average Revalued Earnings (CARE)
Accrual rate	1/80th final salary for each year	1/60th final salary for each year	1/49th
Revaluation rate	Final salary		Consumer Price Index
Pensionable pay	Pay excluding non-contractual overtime and non-pensionable additional hours		Pay including non-contractual overtime and non-pensionable additional hours
Lump sum	3/80ths (+ commutation 12:1)	No automatic lump sum (commutation 12:1)	
Ill health retirements	one tier	three tiers	
Death benefits	2 x salary, 5 year guarantee	3 x salary, 10 year guarantee	
Contribution rate (see below)	flat rate of 6% (lower rate of 5.8% for small minority of employees)	7 contribution bands 5.5% to 7.5% Bands index linked	9 contribution bands 5.5% to 12.5% Bands index linked
Early retirement	from age 50 (either redundancy or employee request)	from age 55 (either redundancy or employee request)	
Voluntary retirement	from age 60 if employee has 25 years' service	from age 60 but with reductions	
85 year rule	Can retire when combined age and service equals 85	Removed but existing staff have protection	
Normal retirement age	age 65	age 65	State Pension Age (minimum 65)

Contributions Table

Remember that you receive tax relief on your contributions, so the actual amount you pay will be the net figure, but please note that these are approximate and will depend on your individual circumstances.

Range (based on actual Pensionable Pay paid to you)	Contribution Rate Main Section		Contribution Rate 50/50 Section	
	Gross	Net	Gross	Net
Up to £13,500	5.50%	**4.40%**	2.75%	**2.20%**
£13,501 to £21,000	5.80%	**4.65%**	2.90%	**2.32%**
£21,001 to £34,000	6.50%	**5.20%**	3.25%	**2.60%**
£34,001 to £43,000	6.80%	**5.44%**	3.40%	**2.72%**
£43,001 to £60,000	8.50%	**5.10%**	4.25%	**2.55%**
£60,001 to £85,000	9.90%	**5.94%**	4.95%	**2.97%**
£85,001 to £100,000	10.50%	**6.30%**	5.25%	**3.15%**
£100,001 to £150,000	11.40%	**6.84%**	5.70%	**3.42%**
£150,001 or more	12.50%	**6.88%**	6.25%	**3.44%**

Annex 2 – Funding Strategy Statement

1. Introduction

In accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 and the guidance paper issued in October 2012 by the Chartered Institute of Public Finance and Accountancy (CIPFA) this statement sets out the funding strategy for the Environment Agency Active Pension Fund (the "Fund"). This statement has been reviewed and updated as part of the 2013 actuarial valuation process.

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

As at 31 March 2013, the Active Fund contained 11,356 active members, 5,119 pensioners and 6,310 deferred pension members whose benefits have yet to come into payment.

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

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

- After consultation with relevant interested parties involved with the Active Fund the Administering Authority will prepare and publish its funding strategy;

- In preparing the FSS, the Administering Authority must have regard to:-
  - the guidance issued by CIPFA for this purpose; and
  - the Statement of Investment Principles (SIP) for the Fund published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);

- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles;

- The revised FSS should be complete and approved by the Pensions Committee prior to the completion of each actuarial valuation; and

- The Fund Actuary must have regard to the FSS as part of the fund valuation process

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

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

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

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

Public Service Pension Scheme Reform

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

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

- CARE scheme with a 49th accrual.
- survivor benefits, on a similar CARE basis, based on a 160th accrual.
- new employee contribution rates, where the rate payable is dependent on the member's actual pay (rather that full time equivalent pay).
- 50/50 option – reduced contribution rates for reduced benefit accrual.

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

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

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

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

2. Purpose of the FSS in policy terms

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

The purpose of this Funding Strategy Statement is to:

- establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- support the regulatory requirement to maintain as nearly constant employer contribution rates as possible;
- take a prudent longer-term view of funding those liabilities; and

- adopt appropriate funding strategies that reflect any key risk or demographic differences that exist between the employers that participate in the Fund, e.g. if open or closed to new entrants.

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

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

3. Aims and purpose of the Pension Fund

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

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

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

- receive monies in respect of contributions, transfer values and investment income; and
- pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses;

as defined in the Regulations.

4. Responsibilities of the key parties

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

The Environment Agency Pensions Committee as the Administering Authority should:

- operate the pension fund;
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in LGPS regulations;
- pay from the pension fund the relevant entitlements as stipulated in LGPS Regulations;
- invest surplus monies in accordance with LGPS Regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- take measures as set out in LGPS Regulations to safeguard the fund against the consequences of employer default;
- exercise discretions within the regulatory framework;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties;
- monitor all aspects of the Fund's performance and funding and amend the FSS/SIP as necessary; and
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and fund employer.

Each individual employer should:

- deduct contributions from employees' pay correctly;
- pay all contributions to the fund, including their own as determined by the actuary, promptly by the due date;
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework;

- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of pension benefits, and early retirement strain costs;
- notify the Administering Authority promptly of all changes to active membership which affect future funding; and
- exercise discretions within the regulatory framework.

The Fund actuary should:

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

5. Funding time horizon

Long term, secure open employers

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

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

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

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

Closed employers

For employers that are closed to new entrants, the Pensions Committee has regard to each employer's likely remaining period of participation in the Fund. The deficit recovery period for a closed employer is typically based on the future working lifetime of its active membership. If the employer has no guarantor within the Fund, the funding strategy will change over time as the membership matures. The use of an ongoing funding basis will be subject to review at future valuations.

Fixed period employers

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

6. Protection mechanisms

The Administering Authority has a duty to set prudent funding assumptions and protect the long term health of the Fund. The following table explains the key tools that have been used in the decision making process to arrive at the recommended set of assumptions.

	Tool	Description
1	Contribution stability a. Contribution stability overlay b. Contribution stability overlay safety check	Limit on annual changes in contributions for long term, secure employers (currently only the Environment Agency) of +/-0.5% of pay from April 2014. Asset liability modelling was carried out to ensure that the likelihood of the employer achieving full funding with the contribution stability mechanism in place was sufficiently high.
2	Pay growth check	In return for reducing the pay growth assumption by 0.5% p.a. at this valuation, an annual check on the impact of pay awards on the value of accrued liabilities, compared to assumptions made at this actuarial valuation, will continue to be undertaken. Each employer will be able to pay additional top-up contributions at its discretion.
3	Deficit recovery period	Determined separately for each participating employer by reference to the Future Working Life (FWL) of active members to avoid passing historic deficit costs onto future generations. Outstanding contract period is adopted for any contractors with fixed periods of participation in the Fund.
4	Past service deficit recovery contributions	Covered by fixed monetary amounts in order to ensure that deficit continues to be repaid at the correct level if payroll reduces.

7. Assumptions at the 2013 valuation

Key assumptions

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

	31 March 2013
Past Service (Current Yields Basis)	
Asset Valuation	£2,118m
Asset out-performance assumption (pre retirement)	1.6%

Asset out-performance assumption (post retirement)	1.6%
Discount rate (pre retirement)	4.6%
Discount rate (post retirement)	4.6%
Retail Price Inflation (RPI)*	3.0%
Pension Increases **	2.2%
Earnings Inflation ***	3.5%

Future Service (Current Yields Basis)	
Discount rate (pre retirement)	4.6%
Discount rate (post retirement)	4.6%
Retail Price Inflation (RPI)*	3.0%
Pension Increases **	2.2%
Earnings Inflation ***	3.5%

* based on market implied RPI less 0.3% pa (the premium that investors are prepared to pay for inflation protection in current bond markets)
** based on RPI less 0.8% pa (the long-term expected gap between CPI and RPI)
*** with an allowance for age-related promotional increases currently worth around 1.4% pa made in addition

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

Underlying these assumptions are the following two tenets:

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

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

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

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

8. Solvency and Target Funding Levels

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

'Solvency" is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary's *ongoing funding basis*. This quantity is known as a funding level.

As at 31 March 2013, the ongoing funding level was **90%**.

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

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

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

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

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

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

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes an allowance for anticipated returns from equities and other assets held by the Fund being in excess of UK Government bonds (gilts). There is, however, no guarantee that the Fund's assets will out-perform gilts but historical data demonstrates that over the long-term returns from investing in equities and other non-gilt assets tend to be greater than those from investing in gilts. When returns are measured over short periods such as the three years between formal actuarial valuations, actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long-term view of prospective returns from equities and other assets is taken. For the 2013 valuation, it was assumed that the Fund's assets will, over the long-term, deliver an average additional return of 1.6% a year in excess of the return available from investing in index-linked gilts at the time of the valuation.

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

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

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

9. Employer contributions

Derivation of Employer Contributions (before stability overlay)

Employer contributions are normally made up of two elements:

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

2013 actuarial valuation for the Environment Agency and 12.0 years for NRW).

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

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

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

Stability of Employer Contributions

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Active Fund. With this in mind, there are a number of prudent strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible. These include:-

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

Contribution stability overlay

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

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

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

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

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

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

Non stabilised employers

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

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

10. Funding for Early Retirement

Non Ill health retirements

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

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

Employees who joined the LGPS before 1 October 2006 (and are subject to Rule of 85 protections on their pre April 2008 benefits) but reach age 60 after 31 March 2020, plus all employees who joined after 1 October 2006 (and are assumed to retire before 1 April 2022), are assumed to take all of their benefits at age 65. Otherwise all benefits accrued will be payable at the member's State Pension Age (SPA). SPA is as per current legislation where the SPA is due to rise to 67 between 2034 and 2036 and to 68 between 2044 and 2046. The Government has indicated that further changes will be made to SPA, but as yet these are to be confirmed in legislation.

The additional costs of premature retirement are calculated by reference to these ages. Each employer is required to meet all costs of early retirement strain caused by early retirements other than on the grounds of ill health by immediate capital payments into the Fund.

Ill health monitoring

The Fund monitors employees' ill health experience on an ongoing basis. If the cumulative number of ill health retirements in any financial year exceeds the allowance at the previous valuation, the employer may, after the Environment Agency's Pensions Committee (the Administering Authority) has consulted with the actuary, be charged additional contributions on the same basis as apply for non ill-health cases.

11. New employers participating in the Fund

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

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

- starting assets and liabilities will be notionally ring-fenced within the Fund and the funding level of the new employer tracked over time based on its own experience, cash flows in and out and membership movements;
- the new employer will have its own individual contribution rate separate from any other employer in the Fund and based on its own membership profile, with a surplus/deficit spreading period no greater than the average future working lifetime of its active employees;
- any deficit left behind if past service benefits are transferred from a ceding employer in the Fund to the new employer as result of a fully funded transfer should be met via either an up-front capital payment or over a suitable spreading period, which should be no longer than that applied to the Environment Agency, as agreed with the paying body;
- any deficit that the new body inherits at commencement (e.g. as a result of a "share of fund" transfer from another employer within or outside the Fund) would be expected to be met via an up-front capital payment from the new employer or over some suitable spreading period, which should be no longer than that applied to the Environment Agency; and
- the calculation of all up-front capital payments are based on market conditions at the date that the new employer joins the Fund (i.e. the vesting or transfer date).

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

12. Risk sharing

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

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

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

13. Bulk transfers payable to and from the Fund

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

- when a group of active scheme members joins the EAPF, the Administering Authority's objective is to ensure, as far as practical that the EAPF does not accept an ongoing funding deficit in respect of the transferring employees;
- when a group of active scheme members leaves the EAPF, in order to protect the funding position in respect of the remaining members, the transfer values in respect of the transferring members should be no more than the assets held in respect of the transferring liabilities, and at most be 100% of the transferring liabilities on the ongoing funding basis as set out in the EAPF's Funding Strategy Statement;
- service credits granted to active scheme members should fully reflect the value of the benefits being transferred, irrespective of the transfer value paid or received; and
- there is also an overriding objective to ensure that the LGPS Regulations and any supplementary guidance (in particular the Cabinet Office Statement of Practice on Staff Transfers in the Public Sector 2000 (COSOP) and Fair Deal guidance) as they pertain to bulk transfers are adhered to. The Fair Deal guidance, in as much as it relates to LGPS employers, is currently under review.

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

EAPF employers should treat the EAPF's preferred terms on bulk transfers as non-negotiable. Any differences between the value the EAPF is prepared to pay (or receive) and that which the other scheme involved is prepared to accept should be dealt with by the employers concerned outside the EAPF.

14. Cessation of participating employers

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

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

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the employer;
- Any breach by the employer of any of its obligations under the agreement that they have failed to remedy to the satisfaction of the Fund;
- A persistent failure by the employer to pay any sums due to the Fund within the period required by the Fund, which leads to the accrual of arrears to a level deemed by the Fund to be significant; 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.

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

Funding and investment strategies are inextricably linked.

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

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

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

If, at the valuation date, the Active Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the investments. On this basis of assessment, the assessed value of the Active Fund's liabilities at the 2013 valuation would have been significantly higher and the declared funding level would be correspondingly lower.

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

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

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

*including emerging markets

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

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

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

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

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

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

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

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

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

Balance between risk and reward

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

Intervaluation Monitoring of Funding Position

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

16. Identification of risks and counter-measures

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

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

The following key risks have been identified:

Financial

Risk	Summary of Control Mechanism	Impact
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Analyse progress at three yearly valuations. Inter-valuation roll-forward of liabilities between formal valuations on a quarterly basis. Contribution stability overlay for long-term, open employers will reduce risk of volatile employer contributions.	High
Inappropriate long-term investment strategy.	Set fund-specific benchmark, informed by asset-liability modelling. A mechanism for enabling strategy to be linked to funding level could enable asset outperformance relative to liabilities to be locked in.	High
Risk-free returns on Government bonds fail to rise in line with assumptions, leading to liabilities being more highly valued than anticipated.	Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.	High
Active investment manager under-performance relative to benchmark.	Short term (quarterly) investment monitoring analyses market performance and managers relative to their index benchmark.	Medium

Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in index-linked bonds also helps to mitigate this risk. Investment in other “real” assets (e.g. equities and property) also helps to mitigate risks. Employers will be encouraged to make additional top-up contributions if future pay increases are in excess of the 2013 valuation salary increase assumption.	Medium
Effect of possible increase in employer’s contribution rate on service delivery.	Mitigate impact through deficit spreading and continuation of the contribution stability mechanism for long-term, open, secure employers at 2013 valuation to increase those employers’ budgeting certainty.	Low
Effects of possible shortfall in cash required to meet benefit outgo due to reduced cash contributions and/or maturing demographic profile.	Mitigate risk by introducing a cash flow monitoring process, whereby any possible future cash shortfall is identified early enough for appropriate action to be taken. Accuracy of cashflow projections is improved by use of bespoke baseline longevity assumptions.	Medium

Demographic

Risk	Summary of Control Mechanism	Impact
Pensioners living longer.	Actuary quantifies potential scale of risk associated with continuing improvements in longevity, and identifies separate reserve in the actuarial valuation. The reserve for future longevity improvements was increased in the 2013 actuarial valuation. The Fund is a member of Club Vita which provides annual monitoring of longevity experience amongst occupational pension scheme members. This monitoring will provide an early warning of the adequacy of the assumption and reserve for future longevity improvements. Also, as a member of Club Vita the Fund is able to use bespoke ‘baseline’ longevity assumptions, based on the pooled mortality experience of over 150 large occupational pension schemes. These bespoke assumptions allow for the individual characteristics of each individual member in the Fund providing a best estimate of current life expectancy for that individual, based on the information held.	Medium
Deteriorating patterns of early retirements.	Employers are charged the extra capital cost of non ill health retirements following each individual decision. Employer ill health retirement experience is monitored.	Low

Regulatory

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

Structural Changes in Employer

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

Governance

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

Further information on the EAPF Governance structure can be found in the Governance Compliance Statement.

17. Monitoring and Review

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

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

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

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

Annex 3 – Statement of Investment Principles

The Fund is a final salary (defined benefit) pension scheme with over 23,000 members and assets of £2.3bn as at 31 March 2014. Full details of the Environment Agency Pension Fund and our activities can be found on www.eapf.org.uk.

Regulatory context

This Statement has been prepared by the Pensions Committee of the Environment Agency Board. It sets out the principles that govern our decisions about the investment of the assets of the Active Fund. We will refer to the statement when making investment decisions to ensure they are consistent with these principles. Our fiduciary obligations to Fund members take precedence in the event of a conflict of interest with the Environment Agency's business objectives. 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.

This statement has been made under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("The LGPS Investment Regs") Section 12 that requires that the Environment Agency must (after consultation with such persons as it considers appropriate) prepare, maintain and publish a written statement of the principles governing its decisions about the investment of Fund money. The statement must also state the extent to which the administering authority complies with guidance given by the Secretary of State, and the associated guidance issued by CIPFA in December 2009, entitled Investment Decision-making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles. This can be found in the section 'Compliance with Myners Principles' at the end of this document.

This statement is required to cover the Environment Agency's policy on:

- the types of investment to be held;
- the balance between different types of investment;
- risk, including the ways in which risks are to be measured and managed;
- the expected return on investments;
- the realisation of investments;
- the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
- the exercise of the rights (including voting rights) attaching to investments, if there is any such policy;
- stock lending; and
- statement of compliance with the six Myners Principles.

Strategic and policy context

This Statement outlines the basic framework for investing the assets of the Environment Agency Active Pension Fund. This statement was made and approved by the Environment Agency Pensions Committee on 18 June 2013, after taking advice from its investment staff, investment consultants, independent investment adviser and consulting actuary.

The Environment Agency is also required by Local Government Pension Scheme (Administration) Regulations 2008 section 35 and Local Government Pension Scheme (Administration) Regulations 1997 section 76A to publish a separate Funding Strategy Statement for the Active Fund. This sets out the assumptions used by our Actuary in determining the funding level, and sets out a fund-specific strategy for the Fund which is reflected in the investment strategy adopted by the Environment Agency for the Active Fund.

The Statement should be read and implemented in conjunction with the Active Fund's Funding Strategy Statement, Pensions Committee Governance Policy Statement, Responsible Investment Policy and statement of compliance to the UK Stewardship Code. These provide and state our more detailed requirements and supplementary guidance on these specific topics for our external fund managers. It is also supplemented by the contents of our investment management agreements for each investment mandate. Details of the investment and performance objectives for each mandate are published in our annual report and financial statements.

High Level Investment Principles

The EAPF is an open, defined-benefit pension fund with strong employer backing, positive cash-flows and pension obligations stretching to the end of this century. In setting our investment strategy we seek to balance twin objectives: first, to achieve sufficient long-term returns for the scheme to be affordable, second, to keep the contribution rate as stable as possible. To achieve this, the fund needs to invest in assets which differ in return characteristics from our pension liabilities. These investment principles provide high level guidance on how we seek to meet these objectives and manage the risks arising from the differences between assets and liabilities.

1. We are long term investors: we invest in productive assets that contribute to economic activity, such as equities, bonds and real assets, and thereby aim to earn a sustainable and sufficient return on our investments.
2. We are responsible investors: we believe that we will overall generate better returns by investing in companies and assets that contribute to the long term sustainable success of society.
3. We adopt best practice fund governance with appropriate prioritisation, decision making at the right level, and internal accountability.
4. We make our decisions based on extensive expertise: trained and insightful committee members; experienced and professional officers; and high quality, knowledgeable advisors.
5. 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.
6. We are prepared to be innovative and demonstrate thought leadership in investment, within the requirement of prudence and our fiduciary duty.
7. We will make our investments work as hard as possible to meet our objectives: we recognise the importance of getting the right asset allocation, but also the value of getting the right structure and managers within asset classes. While we take account of market and economic levels in our decision making, we avoid making decisions on purely a short term basis.
8. We will be comprehensive in our consideration of risk, and efficient in where we take risk: we will base our assessment of risk on our liabilities and contributions; consider financial and non financial risk as appropriate; diversify risk as much as possible, but also recognise the limits of that diversification – as long term investors we accept that our investment success depends substantially on the sustainable growth of the economy.
9. We will exercise responsible stewardship of the assets we hold, and act as a responsible voice in the broader investment community.
10. We will seek the most cost-effective solutions to achieving our objectives and implementing these principles: we recognise the impact of costs on the fund, but we are prepared to pay for active management and other services when justified by the benefits.
11. 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.
12. We will collaborate with others whenever possible, to share ideas and best practice; to improve effectiveness and to minimise costs.

Fund governance

The Pensions Committee Governance Policy Statement sets out how the Active Fund is governed and the role of the Investment Sub-Group and Environment Agency officers with respect to investment matters. The Environment Agency Board appoints Pensions Committee and delegates' responsibility for compliance with legislation and best practice, overall strategic asset allocation, investment policy, budgets and the appointment of fund managers and investment advisors. The Environment Agency Board approves the annual report and accounts of the Fund, which sets out the policies under which the Fund is governed.

The Investment Sub-Group consists of five representatives of the Pensions Committee and receives advice from professional investment staff employed by the Environment Agency, specialist investment consultants, an independent investment adviser, plus our Fund actuary, and other professional advisers as required.

The Investment Sub-Group has delegated responsibility to advise the Pensions Committee on investment strategy and manager structure, to recommend the appointment of fund managers, and to monitor and report on the performance fund managers to the Committee.

Once appointed, Fund Managers are responsible for the day-to-day management of the Fund's assets in accordance with their investment management agreement with the Environment Agency. The Environment Agency has appointed a performance measurer independent of the fund managers to calculate risk and return measures for each manager and the Fund overall. The Environment Agency has also appointed a global custodian who is responsible for the safe-keeping of the directly held assets of the Active Fund and who works in close liaison with each fund manager.

The Active Fund's actuary is responsible for performing a formal valuation of the Active Fund every three years in order to assess the extent to which the assets cover accrued liabilities in order to inform the development of an appropriate Funding Strategy Statement.

Investment objectives

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

- is sufficient to meet Funding Strategy Statement objectives arising from triennial actuarial valuations of the Fund;
- in overall terms, seeks to outperform a fund-specific benchmark;
- contributes towards achieving and maintaining a future funding level of 100%;
- is set at a level which does not force the managers to take unnecessary risks; and
- acknowledges the risks inherent in making investments and have regard to best practice in managing those risks.

In addition the Environment Agency Active Fund seeks to use its influence as a large institutional investor to support and develop best practice in responsible investment, through best practice in corporate governance and environmentally responsible investment.

Choosing investments

Asset allocation

The Environment Agency is responsible for setting the strategic asset allocation of the Fund. It is set after considering the results of an asset and liability modelling exercise. In setting the strategic asset allocation the Environment Agency seeks a medium-term rate of returns sufficient to meet the investment objective, which has been determined as a return of +3.25% over the expected return on gilts. In setting the asset allocation the Environment Agency has also to consider the challenges presented by volatile market conditions, changes to the benefit structure of the LGPS, potential changes to the investment regulations all of which potentially impact on opportunity set for investment, contribution levels, future accruals and opt-outs.

Therefore, after reviewing the investment strategy in 2012, the Environment Agency has adopted a flexible approach to asset allocation, which consists of a broad framework and process for determining specific asset allocation on a more frequent basis.

The broad framework sets out acceptable ranges for specific assets classes rather than fixed amounts. These are set out in the table below. The asset allocation is subject to a range of risk control measures. The framework is intended to be fairly fixed, and to ensure asset allocation remains within acceptable limits but can also be responsive to changes in funding levels, market conditions and other factors.

The asset allocation will be reviewed at least annually by the Pensions Committee who will set a more tightly defined asset allocation, within the ranges below and with reference to the return requirements and acceptable risk, as well as the current funding levels, market conditions and valuations, and with the input of the Fund's advisors. Changes in allocations to lower risk (fixed income) assets in particular will be scrutinised to ensure that the timing and the impact on risk is appropriate. As part of this process the strategic benchmark will be updated. Asset allocation may vary outside the target ranges because of movements in market and the availability of suitable investment alternative investment opportunities.

Previous %	Asset Class	Framework Range %
63	Public Global Equities of which emerging markets	50-63 5-12
10 5 5 - -	Alternatives of which: private equity property infrastructure farmland-timberland	9-20 4-6 3-6 0-4 0-4
 13.5 13.5	Fixed Income Index-Linked gilts Corporate bonds	 5-20 13-28
	Cash	<3

The Environment Agency Pension Fund has a specialist manager structure for the management of the Fund's assets and has delegated the management of the Fund's investments to external fund managers. These managers have each been given a specific benchmark and performance target. They are required to comply with the investment provisions and limits prescribed in LGPS Investment Regulations 2009.

Subject to these statutory constraints and compliance with both this Statement of Investment Principles and the terms of their Investment Management Agreements, all the managers have full discretion over the choice of individual stocks and are expected to maintain a diversified portfolio.

The Environment Agency Pension Fund regularly reviews the balance between exposure to growth assets (public equities and alternatives) and lower risk assets (fixed income and cash), and if they vary by more than a certain amount from the target asset allocation, rebalances the portfolio back to the target asset allocation. The Fund's strategic benchmark and manager performance targets and their achievement are publicly disclosed within the Active Fund Annual Report and Financial Statements.

Types of investment to be held

The Fund may invest in any category of investment permitted by LGPS regulations. In selecting categories of investments to invest in, the Environment Agency Pension Fund will, inter alia, have regard to return potential, financial risk, liquidity, management costs and any environmental impacts.

The balance between different types of investment

The Fund will at all times hold a widely diversified portfolio of investments to reduce risk. Each investment manager will hold an appropriate spread of investments and within each asset class the Fund as a whole will seek to have a well-diversified portfolio. The Investment Strategy Framework and asset allocation results in a significant weight being given to equities, which the Environment Agency Pension Fund considers appropriate given the current liability profile and funding position of the Fund, but this will be spread across a range of managers with different approaches and styles.

The Fund's preference is for segregated portfolio's, where the Fund is the direct beneficial owner of the underlying investments, but the Fund also uses collective investments (pooled) funds when we consider them to be appropriate, based on considerations including speed of implementations, costs, flexibility, ease of administration and impact on voting and active ownership.

The Fund uses a combination of passive (indexed), enhanced indexed and active approaches to investment management, based on consideration of availability, cost, flexibility and returns potential. Passive approaches aim to deliver the market return of the underlying index and consequently contain a very large number of holdings that seek to replicate the make-up of the underlying market. They are used for gilts, equities and corporate bonds, in both pooled and segregated approaches. With global equities, an allocation has also been made to enhanced index and low volatility approaches, which aim to provide improved risk/return characteristics over conventional passive approaches.

The remainder of the Fund will be managed on an active basis, using investment managers to select the investments they consider to have the best return potential, with an average outperformance target of +1.5% p.a. This portion of the Fund is spread across UK equities, overseas equities, corporate bonds, property/real assets, currency and private equity. Specialist managers are appointed to manage specific portfolios within each asset class. Each investment manager is given an individual benchmark, performance and risk targets that are regularly monitored. The decision to appoint active managers is only made after careful consideration of the likely costs, the likelihood that the manager will be able to add value after fees, the impact on risk, and the ability of the manager to implement the responsible investment strategy. Once appointed, managers are carefully scrutinised for value for money, and any reasonable opportunities to reduce costs will be pursued .

The LGPS (Management and Investment of Funds) Regulations 2009 impose limits on certain categories of investments which are complied with by the Fund. These limits are set in Column 1 of Schedule 1 of these Regulations. There is a provision in Section 15 for a fund to change these limits to the higher limits in Column 2 of Schedule 1, if certain conditions are met.

The Pensions Committee considered the increased amount of risk associated with Column 1 and 2 and they do not think it is material and so decided to adopt Column 2.

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

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

Risk

Investment by its very nature is a risk-based activity and the returns achieved, will to a considerable extent, reflect the risks taken. There are a variety of risks to be considered including the risks of loss arising from default by brokers, banks or custodians. The Fund is careful only to deal with reputable service providers to minimise counterparty risks.

Investment risk includes the absolute risk of reduction in the value of assets through negative returns. It 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 minimising the risk of reductions in the value of the Fund's assets.

Investment risk also includes the risk of underperforming the Fund's benchmark. This is a relative risk. Our investment managers can, to a large extent, control risk within the portfolio, relative to the benchmark of the mandate, by using statistical techniques to forecast how volatile their performance is likely to be relative to their benchmark.

The Pensions Committee has set each external fund manager a mandate-specific benchmark and agreed suitable targets above that benchmark to control the amount of risk each manager can take. Furthermore, for many of the mandates, this is reinforced by the fee structure payable to the Manager, aligning the Fund and Fund Managers' risk / reward decisions.

Different types of investment have different risk characteristics and return potential. Historically the returns from equities have been higher than from bonds but they are more volatile and risky. In setting the investment strategy the Environment Agency pays regard to the expected risks and returns from various asset classes and the correlation between these returns to target an expected return within an acceptable level of risk.
The Environment Agency also believes that other financially material risks including, but not limited to, corporate governance, climate change, pollution, and other environmental issues, need to be considered and controlled. Our active Fund managers are required to consider these sources of risk (and opportunity) when evaluating investments on our behalf.

The most fundamental risk is that the Fund's assets produce worse long-term returns than those assumed by the Fund's actuary, leading to a deterioration in the Fund's solvency. To achieve the required returns the Environment Agency needs to invest in assets involving a degree of risk and so the EA seeks to manage its investment risk but cannot eliminate it.

Thus, the adoption of a strategic asset allocation and the explicit monitoring of performance and risk relative to targets, constrains the investment managers from deviating greatly from the intended approach, while permitting flexibility to manage the portfolio in such a way as to enhance returns. Further, the decision to appoint more than one investment manager achieves a satisfactory level of diversification of manager risk.
The Fund has decided to wind down its currency hedging programme of overseas equities as it was not effective in reducing risk. Any overseas fixed interest exposure would normally be hedged.

Realisation of investments

The majority of the Fund's investments will be made in stocks that are listed on recognised Stock Exchanges and may be realised quickly if required. Some investments, notably in private equity and pooled property funds, have limited liquidity. However, given the strong positive cash inflows of the Fund, the Environment Agency is satisfied that a sufficient proportion of the Fund is held in liquid assets to meet any expected or unexpected demands for cash. Our only materially illiquid assets within the Fund are those categorised as alternatives and we do not intend to exceed a 20% allocation in aggregate.

Investments (except private equity that makes capital payments) will normally yield regular income that will either be re-invested in existing or new mandates. The decision whether or not to hold an asset class that is considered to be suitable will only be made on investment grounds taking into account the fiduciary responsibilities of the Fund.

Expected return on investments

It is not possible to control the absolute return on investments but over the long-term the Fund seeks to achieve the returns required to achieve the objectives of its Funding Strategy Statement. In the short-term returns are measured against a Fund specific benchmark and the Actuary prepares quarterly intra-valuation updates on the Fund's Funding Level. Further details on the expected returns from investments and how they interact with the Actuary's formal triennial valuation of the Fund's assets and liabilities are included in the Funding Strategy Statement.

Each active manager has an outperformance target, and taken together the entire Fund is expected to out-perform the strategic benchmark for the Fund with a target of 1% outperformance each year (or £20-£25m in cash terms), which will over the long term lead to significantly reduced contributions.

Social, environmental and ethical considerations

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 responsibility is to act in the best interest of its members. We recognise that environmental, social and governance issues can adversely impact on the Fund's financial performance and should be taken into account in the funding and investment strategies. Accordingly, the Fund has integrated the consideration of environmental, social and governance (ESG) issues throughout the funding and investment decision making process.

The Environment Agency Active Fund it is a signatory of the United Nations Principles of Responsible Investment (UNPRI), which is an investor initiative in partnership with UNEP Finance Initiative and the UN

Global Compact. The principles reflect the view that environmental, social and corporate governance (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.

The Environment Agency Pension Fund has made a statement of compliance with the UK Financial Reporting Council's Stewardship Code.

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

The ability of managers to comply with the Responsible Investment Policy is assessed as part of the appointment process. The RI assessment criteria includes the relative quality, integration and impact of ESG research and information used in external managers' investment management and performance reporting processes, and also the amount of resource they have available to do this.

Each fund manager is required to submit a quarterly compliance report to the Environment Agency, to outline any ESG considerations or analysis that have arisen, and to explain any controversial investments, as well details on engagement and voting. Each active equity and bond manager is also required to assist the Environment Agency in assessing the annual environmental and carbon footprint of the Fund.

Exercise of rights

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

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

Stock lending

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

Statement of compliance with the Myners Principles

We fully comply with Lord Myners' six principles codifying a model of best practice in pension fund governance, investment decision-making and disclosure. Further details and evidence are contained with the documents referenced in our Annual Report and Financial Statements and on our internet site: www.eapf.org.uk.

Myners principle	Evidence of compliance and justifications for non-compliance
Principle 1: Effective decision-making	
Administering authorities should ensure that: • Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation. • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	Our Fund fully follows this principle. • Our Financial Memorandum, the Pensions Committee Terms of Reference, Standing Orders and Pension Funds Scheme of Delegation, clearly set out the governance structure and levels of responsibility of the Committee, Sub-Groups, officers and external suppliers. Our statutory Governance Compliance Statement provides further detail. • The Pensions Committee retains overall responsibilities for Fund and investment strategy. • The Pension Committee appoints a number of professional external advisers for investment, legal advice, actuarial services and fund management. These are detailed in our Annual Report and Financial Statements. A report on their performance is presented to the Pensions Committee and the Board annually. • The Pensions Committee skills and knowledge is vital to the robust governance of the scheme. Training needs are reviewed regularly and are linked to our risk management framework. Training records are disclosed in the Annual Report and Accounts. • Conflicts of interest are identified and records maintained and form part of an annual audit. A record of meeting attendance and training is published in our Annual Report and Financial Statements. • Managers are appointed to invest funds following a comprehensive due diligence process and with input from independent investment advisers.
Principle 2: Clear Objectives	
An overall investment objective(s) should be set for the Fund taking account of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.	Our Fund fully follows this principle. • In setting the investment objective(s), the Pensions Committee, as the Administering Authority, addresses the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes such as equities. This process is informed by actuarial and investment advice and the use of asset-liability modelling techniques to model the range of potential future funding levels and the impact on future contribution rates with reference to the Funding Strategy Statement and Statement of Investment Principles, detailed above.
Principle 3: Risk and liabilities	
In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	Our Fund fully follows this principle. • In setting the investment strategy, the Pensions Committee, as the Administering Authority, is informed by actuarial and investment advice and asset-liability modelling with inter-valuation monitoring, providing an early warning to the Committee. A summary of the assumptions is detailed in the statement of the Consulting Actuary and risks in the Funding Strategy Statement.
Principle 4: Performance assessment	
Arrangements should be in place for the formal measurement of	Our Fund fully follows this principle. • The Environment Agency has delegated responsibility and

Myners principle	Evidence of compliance and justifications for non-compliance
performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	accountability for overseeing the Fund to the Pensions Committee. • The Pensions Committee meets 4 times a year and has set up an Investment Sub Group which also meets at least 4 times a year to monitor investment performance and developments. • These bodies and officers monitor investment performance relative to benchmarks and the change in the value of liabilities by means of quarterly inter-valuation monitoring reports. • The Pension Committee reviews its effectiveness at each meeting and periodically the outcomes are reported to the Board of the Environment Agency.
Principle 5: Responsible ownership	
Administering authorities should: • Adopt, or ensure their investment manager adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. • Include a statement of their policy on responsible ownership in the statement of investment principle.	Our Fund fully follows this principle. • We have published a statement of compliance with the UK Stewardship Code which, in respect of investments in the United Kingdom, requires managers to have due regard to the UK Corporate Governance Code and, in respect of overseas investments, have due regard to relevant recognised standards. Failure to do so could be a breach of the Investment Management Agreement. • In addition to including responsible ownership in our Statement of Investment Principles above, we have separate published policies covering Responsible Investment and our compliance statement to the UK Stewardship Code. We are a signatory of the UNPRI.
Principle 6:Transparency and reporting	
Administering authorities should: • Act in a transparent manner; communicate with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. • Provide regular communications to scheme members in the form they consider most appropriate.	Our Fund fully follows this principle. • Our Annual Report and Financial Statements detail all the material issues relating to the Fund, its investments and administration. It is publicly available and can be provided in hard copy on request. • A spotlight report for members, providing details about the Fund are available on our website. • Our Communications Policy Statement details the stakeholders we have identified. It also details the communication channels and delivery targets for member communications.

Approved by the Pensions Committee on 16 June 2014.

Annex 4 – UK Stewardship Code 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. A summary of our compliance with the UK Stewardship Code is detailed below.

Principle 1 Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	**Our Fund fully follows this principle.** • Our Stewardship responsibilities extend over all the assets held by the Fund. • The EAPF has a comprehensive suite of published policy documents which define how we discharge our Stewardship responsibilities, including but not limited to our Statement of Investment Principles, Responsible Investment Policy and our Voting policy. • All new Investment Management Agreements (IMAs) include requirements to observe the FRC's UK Corporate Governance Code and UK Stewardship Code. • We do not undertake any stock lending.	**And in practice:** • Our Responsible Investment Review provides comprehensive coverage of how the EAPF has discharged our stewardship responsibilities, including details of the roles and responsibilities of own governance structure, how we consider stewardship from asset allocation, selection and monitoring of managers, voting, engagement and the analysis of our Fund.
Principle 2 Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.	**Our Fund fully follows this principle.** • Our policy is published in our Governance Compliance Statement and in our Annual Report and Accounts. • A public register of Pension Committee members' declaration of interests is also maintained and audited annually. • The need to avoid conflicts of interest is also highlighted in our Investment management agreements (IMAs) and contracts with external parties.	**And in practice:** • Declaration of conflict of interests is a standing agenda item at the start of all Pensions Committee and Investment Sub-Group meetings.
Principle 3 Institutional investors should monitor their investee companies.	**Our Fund fully follows this principle.** • We include our Responsible Investment policy and ESG reporting requirements in all our IMAs with all our fund managers and Service Level Agreement (SLA) with our equity engagement overlay provider.	**And in practice:** • Monitoring of specific investee companies is detailed in our quarterly reports and discussed at each fund manager review meeting. • A dedicated Responsible investment report is presented to our quarterly Investment Group and summarised in Pensions Committee reports.
Principle 4 Institutional investors should establish clear guidelines on when and how they will escalate their activities as a	**Our Fund fully follows this principle.** • Our Responsible Investment Policy and details our engagement policies. • We review each manager's policies on engagement and escalation prior to appointment and during regular review meetings with our fund managers we review	**And in practice:** • A public report on engagement activity undertaken on our behalf by Hermes EOS (external engagement provider) is available on our website.

method of protecting and enhancing shareholder value.	their engagement activity and support the planned escalation of activity.	• 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.
Principle 5 Institutional investors should be willing to act collectively with other investors where appropriate.	**Our Fund fully follows this principle.** • We actively work with other pension funds, asset managers and other organisations to promote responsible investment. These include, but are not limited to, the UNPRI, IIGCC, NAPF and UKSIF. • All our managers work collaboratively with other parties. Collaborative engagements, research and advocacy work is detailed in our quarterly and Annual Report and Accounts to our Investment Group, Pensions Committee and beneficiaries.	**And in practice:** • We worked with our managers to engage with companies in our portfolio as part of our collaborative engagements linked to the Carbon Disclosure Project and its programmes for, Forestry and Water. • Our direct engagement is focused on working with other institutional investors and services providers to the financial industry.
Principle 6 Institutional investors should have a clear policy on voting and disclosure of voting activity.	**Our Fund fully follows this principle.** • We delegate the large volume of non-environmental corporate research; engagement and voting to our fund managers or engagement provide and monitor, assess and externally report on this activity. • We detail on what basis our votes are cast and the guidelines we direct our managers to use in voting in our Responsible Policy, for example the National Association of Pension Fund Corporate Governance Policy and Voting Guidelines. • We publish specific guidelines on our Voting on Environmental Issues and publish all the votes on environmental resolutions. • All our equity manager have voting polices and most are publicly available. Similarly, our larger managers publish voting records on their website and others on request.	**And in practice:** • We voted directly on environmental resolutions. Details in the RI section above. Reports on these votes are available on our website. • Information on the voting undertaken on our behalf by Hermes EOS (overlay on our passive index funds) is also available on our website.
Principle 7 Institutional investors should report periodically on their stewardship and voting activities.	**Our Fund fully follows this principle.** • We include a comprehensive annual review of our activities in our Annual Report and Accounts and member communications. A more detailed review is provided in our periodic Responsible Investment Review.	**And in practice:** • A copy of our Responsible Investment Review is available on our website. • Public Engagement Reports are updated quarterly on our website. • We require all our managers to provide us with annual assurance on internal controls and compliance through international standard or a UK framework such as AAF01/06.

Approved by the Pensions Committee on 16 June 2014 and will be reviewed in 2015.

Annex 5 – Responsible investment strategy

Introduction

We are long-term investors who aim to deliver a truly sustainable Pension Fund ensuring that it is affordable, delivers financially to meet the objectives of our scheme employers and is invested responsibly.

Our fiduciary responsibility is to act in the best interest of its members. We recognise that environmental, social and governance issues can adversely impact on the Fund's financial performance and should be taken into account in the funding and investment strategies. Accordingly, the Fund has integrated the consideration of environmental, social and governance (ESG) issues throughout the funding and investment decision making process.

Responsible Investment Principles

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

A summary of the key *Responsible Investment* principles;

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

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

We became the first Local Government Pension Scheme (LGPS) signatory of the UNPRI in July 2006. The UNPRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact. The principles reflect the view that ESG issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary duty. The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption. We complete the annual report on progress in implementing the principles and publish on our website.

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

Implementation

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

Funding Strategy and Strategic asset allocation

We adopt a flexible approach in our investment strategy and asset allocation so that we can respond responsibly and robustly to both the changing global economic environment and impacts of climate change. Responsible investment considerations form part of the asset allocation decisions and as such form a core component of training and briefings to ensure our Pensions Committee and Investment sub-group maintain their high level of knowledge. ESG is integrated into our decision making for all asset classes, additional guidance on ESG risks and opportunities is available on our website and reviewed regularly.

Example: Use of Index Funds

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

Working with our fund managers

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

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

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

Working with others

We work collaboratively with other funds in both the public and private sector on a wide range of responsible investment topics. A key area is working with the financial sector, particularly asset managers on supporting the development and innovation in integrating ESG into investment decision making.

We actively work with and support the initiatives of other bodies with similar goals, including the **UK Sustainable Investment and Finance Association (UKSIF), Institutional Investors Group on Climate Change (IIGCC)** and **Carbon Disclosure Project (CDP).**

Approved by the Pensions Committee on 16 June 2014 and will be reviewed in 2015.

Annex 6 – Communications Policy Statement

Introduction

The Environment Agency Pension Funds (EAPF) are part of the Local Government Pension Scheme (LGPS). With effect from 1 April 2014 the Active Fund has three employers – the Environment Agency (EA), Natural Resources Wales (NRW) and Shared Services Connected Limited (SSCL).

The Active Fund is open to all members of the Environment Agency and to those employees of NRW and SSCL who transferred from the EA on their relevant vesting day. It has 11,250 active members, 6,883 deferred members and 5,453 pensioners.

The Closed Fund exists solely for the purpose of paying pensions and related benefits of a group of former employees in the water industry in England and Wales who did not transfer to one of the Privatised Water Companies' schemes in 1989. It has no active members, 2,650 deferred members and 14,760 pensioners. This is the ninth Communications Policy Statement for the EAPF and is effective from 16 June 2014.

We have an agreed strategy for implementing a move to more electronic communication which commenced in 2012 and continues to evolve. The changes are reflected in this policy statement. In particular we have developed our website www.eapf.org.uk to provide a knowledge centre for members. Further information with details of any employer related aspects of pensions such as polices on contributions, the use of discretions etc can be found on our Fund employer's respective intranets.

Any enquiries in relation to this Communication Policy Statement should be sent to:
Head of Pension Fund Management
Horizon House
Deanery Road
Bristol BS1 5AH
Email: info@eapf.org.uk
Tel: 0117 934 5094

Regulatory framework

With effect from 1 April 2005 regulation 106B of the Local Government Pension Scheme Regulations 1997 (as amended) required that administering authorities "….prepare, maintain and publish a written statement setting out their policy concerning communications with members; representatives of members, prospective members and employing Authorities.

Regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2007, effective from 1 April 2008, states:

- This regulation applies to the written statement prepared and published by an administering authority under regulation 106B of the Local Government Pension Scheme Regulations 1997.

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

(2) The matters are—
- (a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;
- (b) the format, frequency and method of distributing such information or publicity; and
- (c) 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, supported by the Finance Director and the Pension Fund Management team and a variety of external advisors, taking overall responsibility for Administering Authority functions. The EA's Director of Resources and Legal Services and the HR Pensions team perform the role of Employing Authority. The day-to-day administration of the funds is outsourced to Capita.

The Pensions Committee is a sub-committee of the EA Board with 15 members made up of 4 Board members, 3 Executive members, 1 NRW Executive member, 5 employee/Trades Union nominees, 1 pensioner nominee and 1 deferred member nominee. The Committee is supplemented by the Investment Sub Group and the Benefits Sub-Group, where specific advice can be provided by Officers, and external advisors. There are 2 Trade Union nominees on the Investment Sub-Group and 1 Trade Union nominee, the deferred member nominee and the pensioner nominee on the Benefits Sub-Group.

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 supported by the Pension Fund Management team in Finance, the HR Pensions' team in Resources and Legal Services and Capita.
All communications including any web based or electronic material are developed jointly by the Pension Fund Management team, Capita's Technical Consultants and Communications team, with support from the HR Pensions' teams.

One or more of these groups is also responsible for arranging all forums, workshops and meetings covered within this statement. Either the EAPF or Capita arranges design work and printing.

Where appropriate we may use external consultants to assist with the preparation and design or with the translation into Welsh of communications.

Our expenditure on our hard copy and electronic communications is inclusive in our administration contract but we estimate that it currently equates to approximately £3.00 per member.

Communication with key audience groups

Our audience
As an LGPS Administering Authority, we communicate with a number of stakeholders. For the purposes of this communication policy statement, we are considering our communications with the following audience groups:

- active members;
- deferred members;
- pensioner members;
- prospective members;
- the employing authorities – Human Resources (HR) and Payroll;
- the EA Board and executive managers;
- Pensions Committee members;
- recognised Trades Union representatives;
- pensions staff in Finance and HR and at the Funds' administrator;
- professional advisors and Funds' investment managers;
- EA and NRW sponsors - Defra and Welsh Government (WG);
- our auditors - National Audit Office (NAO);
- the LGPS Scheme regulator - Department for Communities and Local Government (DCLG);
- pensions and investment Media; and
- other stakeholders/interested parties and external bodies.

How we communicate

General communication

We continue to provide a mixture of paper-based and electronic communication and in previous years have used our annual ‘Fundfare’ document to report on our Annual Report and Accounts for both our Active and Closed Funds. We will introduce a new way of summarising this information in an online report called ‘Spotlight’, and this will be made available in the autumn for the 2013/14 accounts. Anyone wishing to see the full Annual Report and Financial Statements for both Funds can access the reports at **www.eapf.org.uk** or request a hard copy from Capita.

During 2013/14 we refreshed our website www.eapf.org.uk making it easier for members to find information relating to scheme changes, providing a dedicated area with a range of new factsheets, topical videos and access to calculators. We provided a promotional poster campaign encouraging members to access the website, presented to over 1,100 individuals at 30 briefings nationwide and issued a new look newsletter to 41,000 home addresses. Further support was given in the form of 3 interactive ‘pension tax’ webinars to 125 participants dealing with complex pension tax regulations changes.

We continue to encourage members to register for EAPF Online, which is a service that gives members access to their own personal information, including benefit statements and pensioner pay slips.

The content of the website has been reviewed and updated to accommodate the new 2014 Scheme with further work being undertaken in 2014 which will restructure the website to provide better navigation and the user experience brought about by these scheme changes. This work will be supported by stakeholder focus groups, the first of which was undertaken in December 2013. We have worked closely with our Fund employers to help ensure that their respective intranets provide the updated details of the scheme along with supporting forms and fact sheets.

We accept email communication and respond electronically where possible, and our third party administrator, Capita provides a freephone telephone help line and a dedicated email address for all Fund members. These are widely publicised in our Fund literature.

Branding

The EAPF in its role as administering authority produces all Pension Fund literature and communications and, with the advent of becoming a multiple employer in 2013 will develop its own distinct EAPF brand identity.

Accessibility

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

We do not have a policy of automatically translating our material into community languages. We do want to communicate with minority communities, so we aim to use plain English for our printed and online materials. We believe this is the most effective way to communicate with people for whom English is not their first language but we will arrange translation on request.

Our website is compliant with Shaw Trust’s usability standards.

Performance measurement

To measure the success of our communications with active, deferred and pensioner members, we will use the following methods:

Timeliness

We will measure against the following target delivery timescales:

Communication	Audience	Statutory delivery period	Target delivery period
Scheme short guide	New joiners to the LGPS	Within two months of joining	Within two weeks of joining the LGPS
Annual estimated Benefit Statements as at 31 March	Active & deferred members	By 1 April the following year	31 July each year
Telephone calls	All	Not applicable	90% within 15 seconds
Issue of retirement benefits (at Normal retirement date)	Active 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)	Active 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/active 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	Active/Deferred members	Not applicable	Within five working days
Changes to scheme rules	Active/deferred and pensioner members, as required	Within three months of the change coming into effect	Within three months of change coming into effect
Pension Fund Annual Report and Accounts	All	Within two months of request	Within five working days (once published)
Spotlight	All	Not applicable	By 31 December each year
Pensioner payslips	Pensioners	On change to pension amount due	Monthly five days before pay date

Quality

We make use of a range of mechanisms to monitor the quality of our communications which include surveys, focus groups and website activity. All our publications and our website include invitations for comment on content and offer suggestions for future editions and contact details are provided. Capita became the first pension administration provider to be awarded the Investors in Customers (IIC) accreditation. Comments received in the past have provided many useful suggestions that we have been able to incorporate in later publications.

Results

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

Review process

We will review our communication policy to ensure it meets audience needs and regulatory requirements at least every two years. A current version of the policy statement is always available at www.eapf.org.uk

Paper copies are available on request.

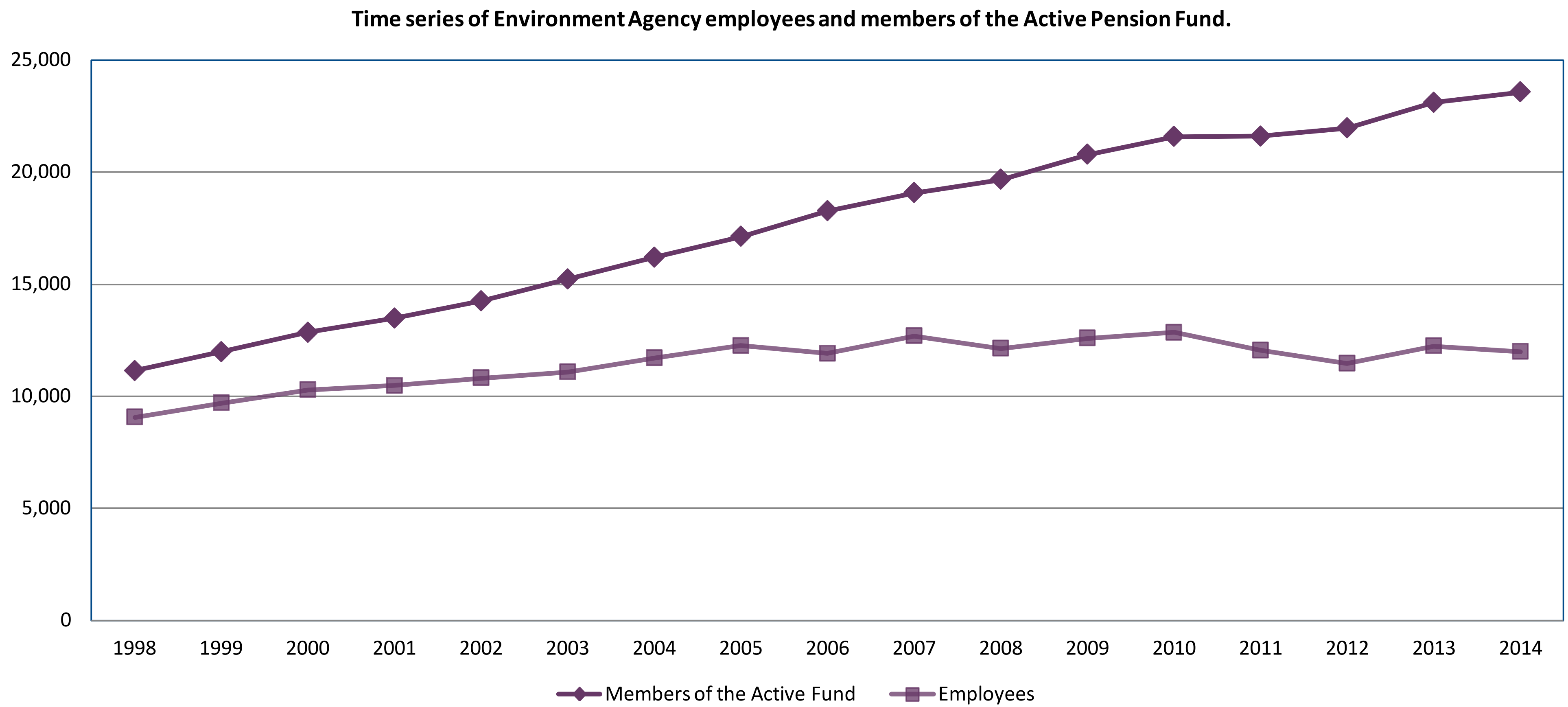
Approved by the Pensions Committee on 16 June 2014 and reviewed annually.

Additional information

Summary of Fund membership, total employees and financials as at 31 March

Fund membership	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Members	8,670	9,142	9,692	9,936	10,264	10,494	11,031	11,615	11,844	11,926	11,348	11,741	11,990	10,954	10,628	11,379	11,250
Deferred members	921	1,130	1,291	1,548	1,834	2,426	2,668	2,801	3,521	4,050	4,839	5,244	5,518	6,130	6,425	6,624	6,883
Pensioners	1,548	1,710	1,865	1,999	2,157	2,310	2,501	2,721	2,913	3,114	3,496	3,816	4,087	4,521	4,924	5,111	5,453
Total	**11,139**	**11,982**	**12,848**	**13,483**	**14,255**	**15,230**	**16,200**	**17,137**	**18,278**	**19,090**	**19,683**	**20,801**	**21,595**	**21,605**	**21,977**	**23,114**	**23,586**

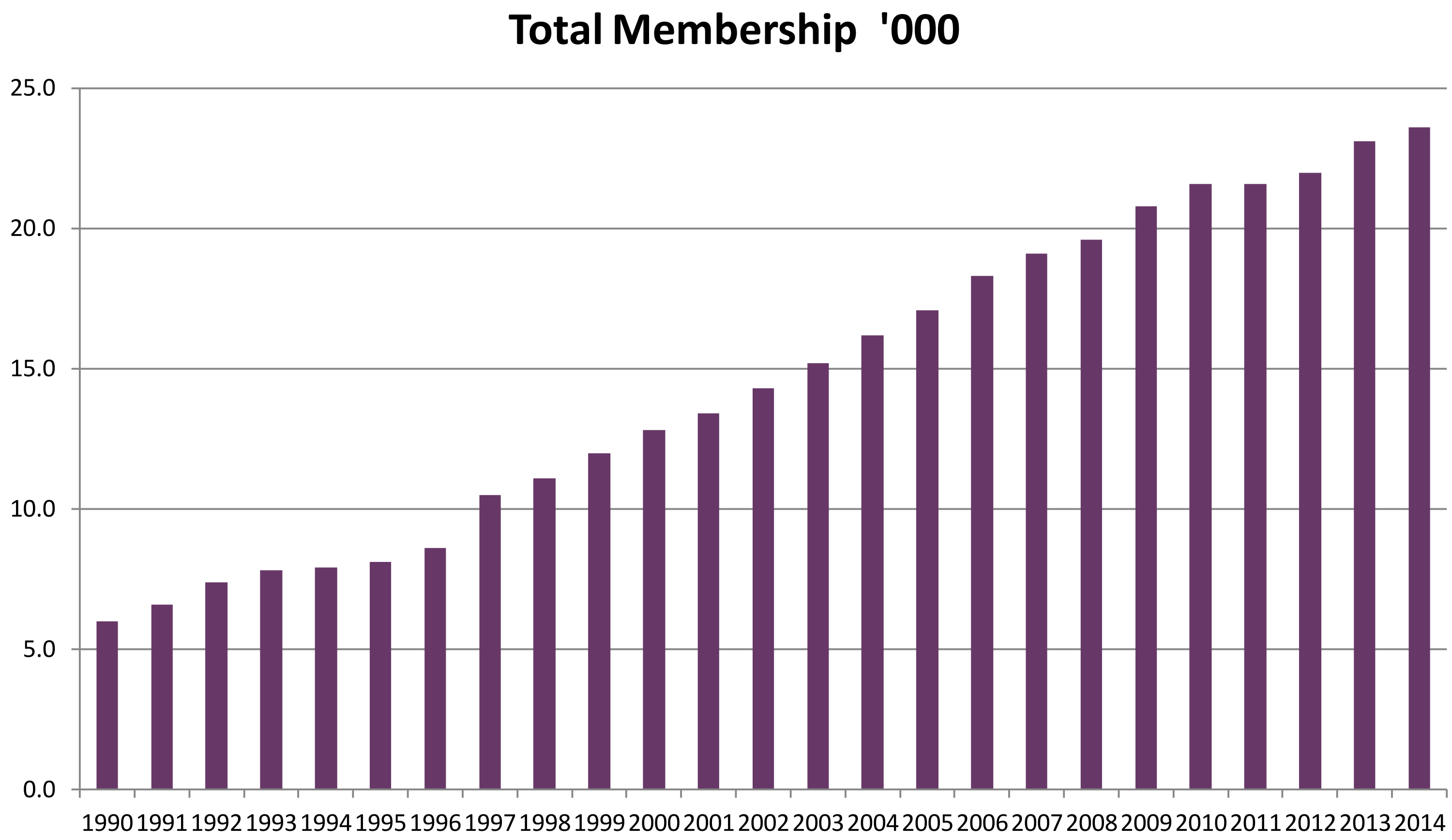
No. of employees	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total	**9,073**	**9,707**	**10,296**	**10,476**	**10,824**	**11,087**	**11,714**	**12,261**	**12,577**	**12,700**	**12,142**	**12,600**	**12,849**	**12,054**	**11,363**	**12,252**	**11,913**

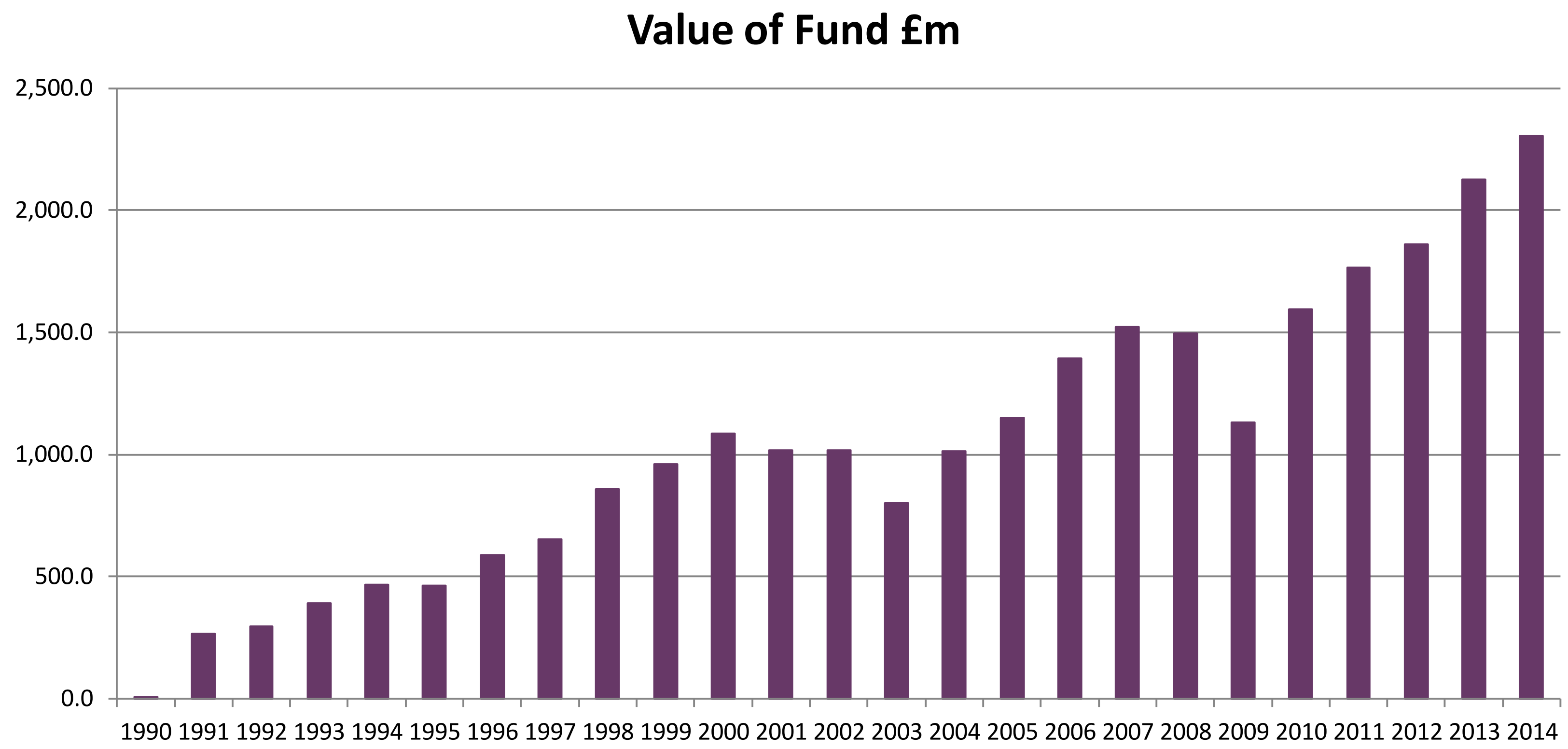


Time series of Environment Agency employees and members of the Active Pension Fund.
25,000
20,000
15,000
10,000
5,000
0
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
Members of the Active Fund
Employees

Financial summary (£m)	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Contributions, transfer values received and investment income less investment expenses	36	46	92	47	59	58	54	62	68	78	79	88	101	108	116	133	111	98	126
Benefits and other payments	(13)	(12)	(14)	(16)	(20)	(22)	(23)	(26)	(29)	(28)	(36)	(37)	(51)	(51)	(57)	(64)	(71)	(64)	(75)
Excess	23	34	78	31	39	36	31	36	39	50	43	51	50	57	59	69	40	34	51
Change in market value of investments	87	34	124	39	113	(105)	(34)	(254)	171	83	235	78	(80)	(421)	404	101	56	231	137
Net increase/ (decrease) in Fund value	110	68	202	70	152	(69)	(3)	(218)	210	133	278	129	(30)	(364)	463	170	96	265	188
Market value of Fund	**574**	**642**	**844**	**914**	**1,066**	**997**	**994**	**776**	**986**	**1,119**	**1,397**	**1,526**	**1,496**	**1,132**	**1,595**	**1,765**	**1,861**	**2,126**	**2,314**

Fund membership and value of the Fund




Value of Fund £m
2,500.0
2,000.0
1,500.0
1,000.0
500.0
0.0
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014

Enquiries

Any enquiries regarding this Report should be addressed to:

Head of Pension Fund Management
Environment Agency
Horizon House
Deanery Road
BRISTOL
BS1 5AH
Tel: 0117 934 4600
Email : info@eapf.org.uk

Enquiries concerning the Environment Agency Pension Scheme or entitlement to benefits should be addressed to:

Environment Agency Pensions Team
Capita
2 Cutlers Gate
SHEFFIELD
S4 7TL

Tel: 0800 121 6593
Email: info@eapf.org.uk

The Annual Report and Financial Statements are also available at:

www.eapf.org.uk

www.gov.uk/government/publications

The Environment Agency Active Pension Fund is registered with the Pension Schemes Registry No. 10079069

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