



Spotlight

Facts and figures for Active and Closed Pension Funds



Welcome

Welcome to the 2018 edition of Spotlight, your annual publication with all the facts and figures on the Environment Agency Pension Fund.

The Fund has around **£3.7 billion of assets** across our active and closed Pension Funds. We have over 39,500 members and provide pension benefits for employees and former employees of the Environment Agency, Natural Resources Wales and Shared Services Connected Limited.

Spotlight gives you a clear view of both the Active and Closed Funds' financial performance to 31 March 2018. There's also a breakdown of the accounts so that you can see what has come in, and gone out of both Funds throughout the year, as well as updates on membership and asset allocation.

You can view our full annual report and financial statements for both funds [here](#).

We hope you find Spotlight useful and interesting. We value your feedback, or if you have any questions, please contact us using the details on the last page.

Investments

Our Investment Strategy, designed to both robustly manage risks and take positive opportunities, has delivered 9.7% investment returns over the last 5 years. Our successful financial performance is supported by our deep commitment to investing responsibly and we believe it is paramount in our ability to deliver sustainable, long term returns. We had a funding ratio of 102% at March 2018, which is amongst the best in the LGPS. Our employer contribution rates are also amongst the lowest, with our employers remaining committed to ensuring the Fund maintains its excellent position going forward.

During 2017/18, we achieved an investment return of 4.4%, outperforming our strategic benchmark by 1.9%. Our positive asset returns of £162m increased the Active Fund to £3.4 billion following strong global equity market returns, very low equity market volatility and outperformance of 'growth' over 'value' stocks. However, we have seen a reversal of these trends in the first few months of 2018.

Responsible Investment

Responsible Investment is embedded in our governance, our approach to risk and how we deliver our investment strategy on a day to day basis. We first published our [Policy to Address the Impacts of Climate Change](#) in October 2015 and updated this in 2017 to demonstrate to our members we have a credible plan to deliver strong long term financial returns as the impacts of climate change materialise. We believe financial risk and opportunities will come from both these impacts, regulation and policy, alongside increased competition from alternatives and technological innovation.

The Fund is very pleased to report that we have met our climate change goals of decarbonising our equity portfolio through reducing our exposure to 'future emissions' for coal and oil and gas **2 years ahead of target**. We have reduced both by over 90% with embedded emissions from coal reserves among active managers now reduced to zero. We have achieved this success through a number of factors linked to our overall investment strategy.

Climate related Financial Disclosures and the Transition Pathway Initiative

The Fund has continued to be active in supporting the work on Climate-related Financial Disclosure (TCFD) and we report in line with the TCFD recommendations. It is rapidly becoming an important framework through which asset owners can assess how companies are transitioning to a low-carbon economy.

The initiative is aimed at investors and assesses companies' preparedness for the transition, supporting efforts to address climate change and it also informs investor research to support company engagement.

The initiative has grown from strength to strength with support from 30 asset owners and managers with over £7 trillion assets under management.

TPI also launched its latest analysis of the world's largest and highest-emitting public companies in three sectors at the heart of climate change: coal mining, electricity and oil and gas. You can read the document [here](#). Read more on TPI [here](#).

The second anniversary of the Transition Pathway Initiative (TPI), was celebrated with the opening of the London Stock Exchange. TPI was co-founded in January 2017 by the Environment Agency Pension Fund (EAPF) and the Church of England Investing Bodies, creating an online tool to monitor how individual companies are planning to reduce their carbon emissions.

Pooling our Pension Investments

We've kept you updated in previous newsletters about the introduction of asset pooling within the LGPS which is required by Government legislation to help improve efficiency.

We continue to move forward with asset pooling as part of Brunel Pension Partnership, which will have greater scale to negotiate fee reductions or concessions with investment managers.

Brunel can also explore more direct co-investment opportunities, which can be an effective way of reducing the high costs of investing in private markets as they do not incur normal management fees.

The Brunel Pension Partnership (consisting of 10 LGPS Funds largely based in the South West) was formally created on 18 July 2017, and the EAPF is one of its founding members. This approval was made on condition that members' pensions are not put at risk, there are long term financial benefits to the Fund, and that the EAPF's approach to Responsible Investment continues.

If you'd like to find out more on asset pooling and Brunel, you can find information on their website at www.brunelpensionpartnership.org



Active Fund investment performance

For the 2017/18 financial year the Fund had a successful year, achieving an absolute return of 4.4% and outperforming its benchmark (after fees) by 1.9%. Over three years the Fund has returned 8.5%, 1.1% above its benchmark, which is a very strong result.

Financial Performance to 31 March 2018	2018 %
1 year	
Fund performance	+4.4
Benchmark performance	+2.5
Active Fund relative performance	+1.9
3 year	
Fund performance	+8.5
Benchmark performance	+7.4
Active Fund relative performance	+1.1

Active Fund geographic performance

The Fund works within regulatory parameters for the types of asset classes it can invest in and limits the amounts of these investments. The investment strategy of the Fund works at maximising returns, within an acceptable level of risk, by diversifying its investments throughout world markets.

Our Fund managers invest in shares in a number of countries and the table below shows the geographical distribution of quoted and pooled equity investments for 2017/18.

Geographical distribution	2018	
	£m	% of total equity
North America	771.4	51.1
Emerging Markets and other areas	292.9	19.4
Europe (excluding UK)	218.1	14.4
Asia Pacific (excluding Japan)	78.4	5.2
Japan	77.3	5.1
United Kingdom	72.8	4.8
Total	1,510.9	100.0

Active Fund top equity holdings

The top 20 companies in the entire fund. Each holding represents less than 1% of the Fund.



Top 20 companies
Taiwan Semiconductor Manufacturing Co Ltd
Henry Schein
Unilever
Jones Lang LaSalle Inc
Acuity Brands Inc
Thermo Fisher Scientific Inc
CSL Limited
Sensata Technologies Holding NV
Cooper Cos
Dentsply Sirona Inc
Microsoft Corp
Schwab Charles Corp
Infosys Ltd
JD com
Cerner Corp
Automatic Data Processing
Aptiv PLC
Credicorp Ltd
Ingersoll-Rand PLC
Hargreaves Landsdown

Active Fund accounts for the year ending 31 March 2018

Fund account	2018 £000
Contributions and transfers	
Contributions	92,495
Transfer values received	3,664
	96,159
Benefits and other payments	
Benefits payable	(84,719)
Payments to and on account of leavers	(3,277)
	(87,996)
Net additions from dealings with members	8,163
Management expenses	(26,284)
Return on investments	
Investment income	52,810
Taxes on income	(1,349)
Change in market value of investments	110,844
Net returns on investments	162,305
Net increase in the Fund during the year	144,184
Opening net assets of the Fund at 1 April	3,274,173
Net assets of the Fund at 31 March	3,418,357

The Active Fund is open to all members of the Environment Agency and to those employees of Natural Resources Wales and Shared Services Connected Limited who transferred from the Environment Agency.

The EAPF accounts provide information about the financial position and performance of the Fund and are prepared on a market value basis.

Closed Fund accounts for the year ending 31 March 2018

Fund account	2018 £000
Income	
Grant-In-Aid	63,353
	63,353
Benefits and other payments	
Benefits payable	(59,944)
Payments to and on account of leavers	(299)
	(60,243)
Net increase from dealings with pensioners and deferred members	3,110
Management expenses	(993)
Return on investments	
Investment income	1,592
Change in market value of investments	82
Net returns on investments	1,674
Net increase in the Fund during the year	3,791
Opening net assets of the Fund at 1 April	272,514
Net assets of the Fund at 31 March	276,305

The Closed Fund exists solely for the purpose of paying the benefits of a group of former employees of the water industry in England and Wales who did not transfer to one of the privatised water companies' schemes in 1989.

A detailed Memorandum of Understanding exists between the Accounting Officers in Defra and the Environment Agency that provides grant-in-aid to pay benefits and the running costs of the Fund.

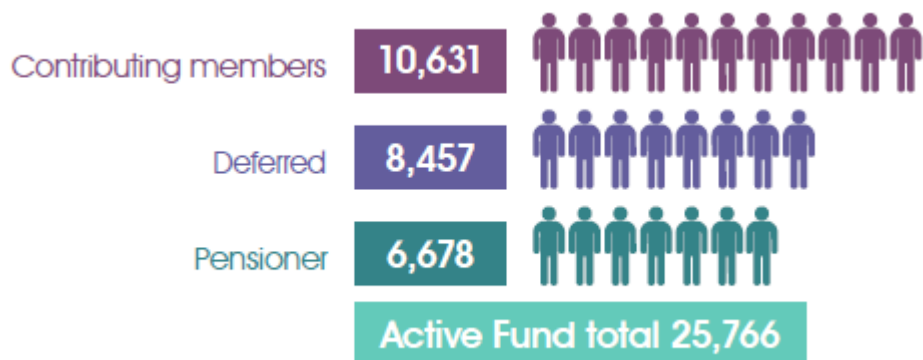
Over the year grant-in-aid received amounted to £63.3 million (£66.8 million for 2016/17) and were used to meet the Fund's obligations to meet pensions and other liabilities.



Fund Membership

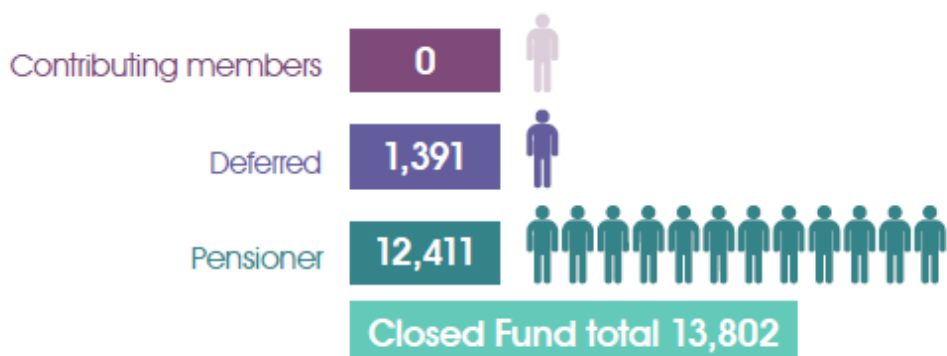
Active Fund at 31 March 2018

Over the year, the total membership of the Active Fund increased by 803 to 25,766 members.



Closed Fund at 31 March 2018

The Closed Fund saw the total number of current pensioners and deferred members fall to 13,802 during the year.



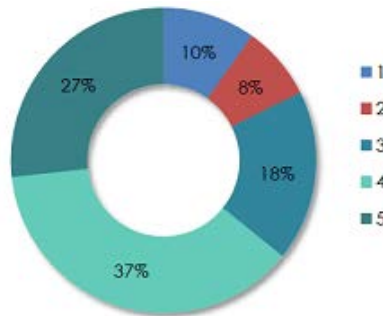
Member engagement

The Fund continues to develop and enhance its communication program which started with the introduction of an easily recognisable brand and writing style. This was aligned to a totally restructured website maximising the use of helpful tools for users. These include calculators, flowcharts and audio and visual presentations) to help enhance our members experience and encourage regular use.

Following the introduction of our electronic newsletters (to contributing members) in April 2017, we wanted to hear from our members on whether they liked this approach and it was very popular, and the results are shown below.

Our members scored us on a scale of 1 to 5 (with 1 being completely dissatisfied and 5 being completely satisfied).

How happy were you with the new digital format?



How informative did you find the news articles?



2017/18 sees us continue in this vein as we continue to roll out our digital programme. We analyse our pension data which helps us target better, more relevant messaging to different segments of our membership. We monitor your feedback carefully, and will continue to collate responses to enable us to focus our messaging.

Awards

The EAPF continued to receive recognition within the Pensions Industry by winning the 'Best Pension Scheme Communications' award from Pension Age magazine. The EAPF was chosen from some stiff competition, with Judges' recognising the dedication shown, the broad range of communication options it offers, and the use of innovative tools.

The Fund was ranked at number 2 in the World Index as part of the Global Climate 500 report, and has maintained this AAA rating for 4 years in a row.

The EAPF was also recognised for providing leadership in Environmental Social Governance (ESG) concerns, both for the LGPS, and for the wider investment community.

This recognition was in the form of 'Best approach to Responsible Investment' at the LGC awards, 'Best implementation of ESG' by Institutional Investor and 'Best Responsible Investment' by the LAPF. All of which helps to consolidate the Fund's standing and leadership in this area.



Contact details

-  Using the '**Contact the EAPF**' button on the website at www.eapf.org.uk
-  Emailing info@eapf.org.uk
-  Calling **0800 121 6593**
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