



Spotlight

Facts and figures for Active and Closed Pension Funds



Welcome

Welcome to the 2021 edition of Spotlight, your annual publication with all the facts and figures on the Environment Agency Pension Fund (EAPF).

2020/21 has been another challenging and yet highly successful year for the EAPF. Covid 19 has led to making changes in our ways of working, some of which have led to efficiencies in our processes and so we'll continue with these changes for the foreseeable future.

We have over £4.5 billion of assets across both our Active and Closed Pension Funds. We have over 38,200 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 2021. 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 on our website at www.eapf.org.uk

We hope you find Spotlight useful and interesting. We value your feedback, so if you have any comments to make or questions to ask, 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 9.5% average annual investment returns over the last 5 years for the Active Fund and 6.4% for the Closed Fund. 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 set long term strategies to manage our investment and funding risks.

Our last formal triennial valuation of the Active Fund at 31 March 2019 reflected a funding ratio of 106%, which remains amongst the best across the LGPS. Despite the wider market turmoil, our funding ratio at 31 March 2021 was around 111%, reflecting the success of our long term strategies, particularly recognising that Responsible Investment funds have outperformed during the market turmoil which have helped protect our Fund value.

Our latest formal triennial valuation of the Closed Fund at 31 March 2019 reflected a funding level of 51% (2016: 31%). The estimated funding level as at 31 March 2021 is 57% (2020: 57%).

As part of the 2019 valuation process we agreed the Active Fund employer contribution rates which remain amongst the lowest across the LGPS. Our employers remain committed to protecting members' pensions and ensuring the Fund maintains its excellent funding position going forwards.

Responsible Investment

Responsible investment remains at the very core of the EAPF. We've been calculating the carbon footprint of our assets since 2008 and have reduced our carbon footprint in active equities by 80% (compared to a 57% benchmark) while continuing to generate strong financial returns.

We were delighted to be chosen for a 2nd consecutive year by the United Nations Principle for Responsible Investment as a 'Global Leader in Responsible Investment' – along with 35 other Funds internationally. We were among 4 UK funds to have received this recognition in 2 consecutive years.

Sustainable investment

The Fund has a strong ambition to keep innovating and driving change. To help us do this, we have set a number of targets¹.

Target: We aim to always have at least 33% of our investments in sustainable assets.

Result: In 2020/21, 18% of our investments were in sustainable assets.

Target: By 2025 17% of our investments will directly tackle climate change

Result: In 2020/21 9% of our assets helped limit climate change.

Target: we will decarbonise our equity portfolio, reducing our exposure to future emissions by 95% for coal and 90% for oil and gas by 2025 compared to the exposure in our underlying benchmark as at 31 March 2015.

Result: In 2020/21 we reduced our exposure to future emissions by 99% for coal and 98% for oil and gas compared to 2015.

Investing to build a better future

Our Responsible Investment Strategy agreed in October 2019 included a commitment to engage more with our members and get their views on our Responsible Investment approach.

After surveying our members in February 2020, we were encouraged by a very positive response;

- 88% of members think it's important to invest in sustainable and low carbon assets
- 90% of members think it's important to influence the behaviour of the individual companies we invest in

We delved deeper in our follow up online focus groups in July 2020 and the response was amazing. One finding was 92% members who joined our focus group wanted a 'Net Zero' target. Over 9 months we analysed the investment and climate data and in March 2021, the Pensions Committee agreed a target of getting to net zero by 2045. **You'll find more details in our Policy to Address Climate Change.**

As well as our members wanting it, this commitment is part of the Fund's long-running efforts to significantly reduce the emissions from the companies in our investment portfolio. Our ambitious decarbonisation target is backed by modelling using data from the Intergovernmental Panel on Climate Change (IPCC), with interim targets to ensure we are on track. We can show that our portfolio is already 5 years ahead of schedule to achieve the emissions required for a 1.5 degree world. **See our Decarbonisation target summary for more details.**

¹ In 20/21 we tightened the definition of what we classify as a sustainable asset. In previous years, we had included all investments held in our active sustainable listed and private equity mandates. This was because of the high environmental, social and governance criteria required by our asset managers in these mandates. If we were to include those this year, the figure would be 36% (last year it was 31%). However as stated in our Responsible Investment Strategy and Climate Change Policy, we would like to start reporting based primarily on FTSE classifications and so have refined our definition in advance of UK and/or EU taxonomies being in place. **For a full explanation of our definition, please see our Annual Report.**

The net zero target is just one of our approaches to tackling climate change, other elements include ensuring our investments are resilient to a changing climate and ensuring our investments protect and enhance biodiversity. The reason why we place such importance on tackling climate change is that we believe it presents a material financial risk to the Fund – that there are significant financial risks if we ignore it. Climate change, however, also presents investment opportunities, and this long-standing approach to address both risks and opportunities is key to us fulfilling our fiduciary duty.

You can read the full results of our Responsible Investment survey on our website.

Investing in climate resilient solutions

The EAPF investing in climate resilient solutions Impax Asset Management is one of our longstanding sustainable equity managers. Through them we have invested in a number of companies which help build resilience to weather-related events and longer-term shifts in climate patterns.

Generac Holdings Inc. is a leading designer and manufacturer of standby and portable generators for the residential, commercial and industrial markets. It has a special focus on natural gas as a power source, displacing higher carbon intensity fossil fuel run power generation. There are an increasing number of power disruptions globally due to severe weather events including hurricanes and climate exacerbated wildfires, as well as under-investment in some grid infrastructure. Generac is therefore well positioned to benefit as a provider of uninterruptible power sources.

Another example is Advanced Drainage Systems. They manufacture water drainage structures and supplies. The company provides subsurface storm water management drainage structures that support the capture, storage and drainage of flood waters.



Active Fund investment performance

For the 2020/21 financial year the Fund achieved an impressive net return of +18.2%, exceeding its benchmark (after fees) by 1.4%. Over five years the Fund has returned 9.5%, which is 0.4% p.a. above its benchmark, an excellent result for the Fund.

Financial Performance to 31 March 2021	2021 %
1 year	
Fund performance	+18.2
Benchmark performance	+16.8
Active Fund relative performance	+1.4
5 year	
Fund performance	+9.5
Benchmark performance	+9.1
Active Fund relative performance	+0.4

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 2020/21.

Geographical distribution	2021	
	£m	% of total equity
North America	1,330.7	73.0
Europe (excluding UK)	249.0	13.7
United Kingdom	94.5	5.2
Japan	70.6	3.9
Asia Pacific (excluding Japan)	56.7	3.1
Emerging Markets and other areas	21.1	1.1
Total	1,822.6	100.0

Active Fund top equity holdings

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



Top 20 companies

Baxter International Inc
Equifax Inc
CISCO Systems Inc
Schwab (Charles) Corp
Alphabet Inc CL C
Becton Dickinson and Co
Henry Schein Inc
Amazon.com Inc
Dentsply Sirona Inc
Cognizant Tech Solutions A
Gartner Inc
Analog Devices Inc
Jones Lang LaSalle Inc
Cooper COS Inc/The
CBRE Group Inc A
TE Connectivity LTD
Siemens Healthineers AG
Palo Alto Networks Inc
Sensata Technologies Holding
Unilever Plc

Active Fund accounts for the year ending 31 March 2021

Fund account	2021 £000
Contributions and transfers	
Contributions	131,546
Transfer values received	5,989
	137,535
Benefits and other payments	
Benefits payable	(92,784)
Payments to and on account of leavers	(2,751)
	(95,535)
Net additions from dealings with members	42,000
Management expenses	(24,306)
Return on investments	
Investment income	50,248
Taxes on income	(155)
Change in market value of investments	615,796
Net returns on investments	665,889
Net increase in the Fund during the year	683,583
Opening net assets of the Fund at 1 April	3,604,589
Net assets of the Fund at 31 March	4,288,172

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 2021

Fund account	2021 £000
Income	
Grant-In-Aid	51,565
Benefits and other payments	
Benefits payable	(48,846)
Payments to and on account of leavers	(55)
	(48,901)
Net additions from dealings with members	2,664
Management expenses	(787)
Return on investments	
Investment income	1,426
Change in market value of investments	515
Net returns on investments	1,941
Net increase in the Fund during the year	3,818
Opening net assets of the Fund at 1 April	306,597
Net assets of the Fund at 31 March	310,415

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.

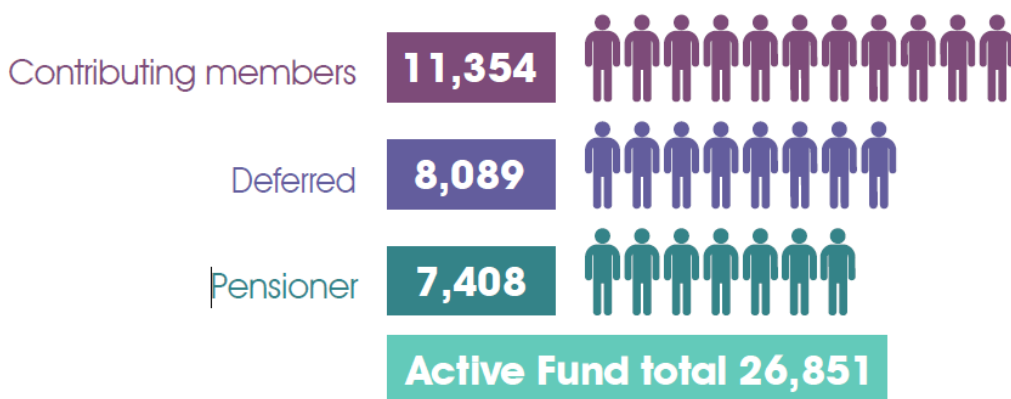
Over the year grant-in-aid received amounted to £51.6 million (£55.8 million for 2018/19) and were used to meet the Fund's obligations to meet pensions and other liabilities.



Fund Membership

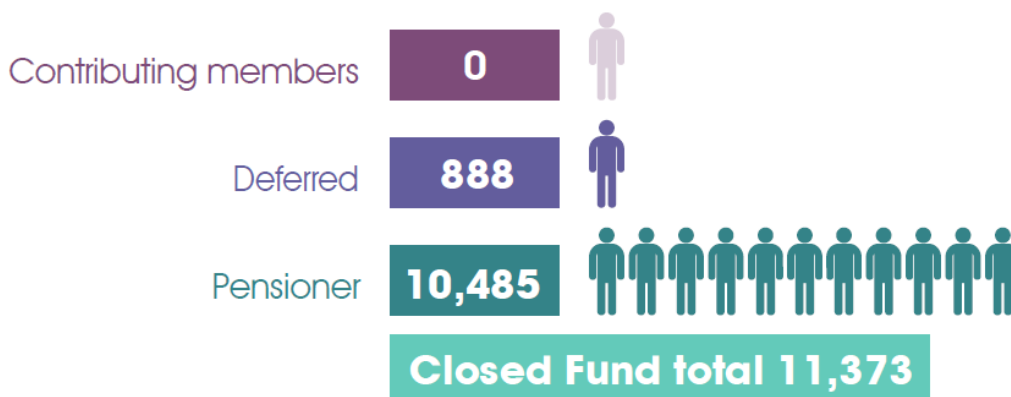
Active Fund at 31 March 2021

Over the year, the total membership of the Active Fund increased by 126 to 26,851 members.



Closed Fund at 31 March 2021

The Closed Fund saw the total number of current pensioners and deferred members fall by 806 to 11,373 during the year.



Member engagement

The Fund continues to work hard to develop and create a service that meets the needs and expectations of our members.

The COVID-19 pandemic brought about some changes to how we transact with our members. We can now approve various tasks digitally making the process easier and quicker in many cases. We're looking to further develop how we transact digitally and have started with improvements to our website. The next phase is developing our online portal to make some transactions even simpler for members.

Our active members are now receiving their annual pension statements through the online portal, and deferred members have received their last printed statement in June 2021. We'll be reporting on the reduction to our carbon footprint by eliminating printing and posting requirements in support of achieving our Net Zero goals.

This year, we've already started working on further developments within the online portal. EAPF Online is currently being migrated from its existing technology solution to a new platform built for future functionality. This means we'll be able to continuously develop the portal so that more types of member transactions can be completed online. The migration will retain all existing functions while enhancing the user experience and accessibility.

In June, we also launched our new public website at www.eapf.org.uk

By listening to member feedback, we made a number of improvements such as:

- New Resources hub hosting all publications, videos, newsletters, and presentations in one place
- New video content for new starters
- Improved pension content using plain English throughout
- Improved accessibility in line with government regulations
- New refreshed design and imagery
- Improved navigation to enhance user experience
- Better use of overall space bringing attention to key information

To promote our new website, we also sent out our Resources email campaign which was segmented to active, deferred and pensioner members in June. By creating 3 different versions of our email campaign, it allowed us to tailor content to each member type and highlighted the relevant content available to that member segment.

Our next steps for the public website will be to:

- Survey our members and gather feedback on our new website
- Monitor use of the new website
- Review the journeys our members take
- Perform an accessibility audit to identify where further improvement is needed

Commendations

In addition to being recognised as a Global Leader on responsible investment for the 2nd consecutive year, the Environment Agency Pension Fund (EAPF) was awarded Best Pension Fund in the United Kingdom by Investments and Pensions Europe (IPE).

Judges commented:

"This fund should be applauded, with strong performance figures backed by a proactive, efficient and innovative response to the pandemic, whilst keeping focus on environment, social and governance issues and the views of its members."

The EAPF also received an award for the Best Approach to Sustainable Investments from the Local Authorities Pension Fund (LAPF).

The EAPF was also recognised for its Customer Service Excellence (CSE). To achieve this, evidence was submitted through a desktop review across 57 elements, followed up by a visit to the EA offices. The audit consisted of an interview with all staff, the Chair of the Pensions Committee and two key delivery partners.

The EAPF achieved a 'Compliance Plus' scoring across 7 areas, including commitment to delivering excellent services, staff empowerment and customer insight.

Contact details

If you have any questions regarding your pension entitlement you can contact our pension administrator, Capita, by:



Using the '**Contact the EAPF**' button on the website at **www.eapf.org.uk**



Emailing **info@eapf.org.uk**



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