

Environment Agency Pension Fund Announcement

Policy to Address the Impacts of Climate Change

Download Policy [here](#)

As part of **Good Money Week**, we are publishing our **Policy to Address the Impacts of Climate Change** 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 the physical impacts, regulation and policy alongside increased competition from alternatives and technological innovation.

We have set ourselves a global leading objective..... **to ensure that our Fund's investment portfolio and processes are compatible with keeping the global average temperature increase to remain below 2°C relative to pre-industrial levels, in-line with international government agreements.**

This not a knee-jerk reaction, but a culmination of over a decade's worth of work by the Fund to consider these issues as part of the investment strategy. We are building on our successes, the growing evidence and availability of tools to allow us to better evaluate the risks and opportunities to the Fund. We are also heartened by the increasing number of businesses and those in the financial community who are supportive in looking at climate change resilience.

The objective is grounded in the wider policy framework and allows the Fund to explore a range of investment solutions. We aim to deliver the objective will be through the combination of positive investment in the low carbon economy, continued decarbonisation and engagement.

We have set ourselves three targets for 2020

- **Invest 15 per cent** of the fund in **low carbon, energy efficient** and other climate mitigation opportunities.
- Decarbonise the equity portfolio, reducing our exposure to "future emissions"* by **90 per cent for coal and 50 per cent for oil and gas by 2020** compared to the exposure in our underlying benchmark as at 31 March 2015.
- **Supported progress** towards an orderly transition to a low carbon economy through actively working with asset owners, fund managers, companies, academia, policy makers and others in the investment industry.

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

Background:

We have had a comprehensive approach to climate risk for over a decade – please see www.eapf.org.uk/investments/climate-risk.

We were the first pension Fund in the world to comprehensively evaluate our exposure to fossil fuels in 2013, complementing the carbon foot printing work that we have undertaken annually since 2008.

Our managers integrate climate risk into their stock selection and engagement plans leading the way to **reducing our fund's carbon footprint by 44% since 2008**, and, where we remain as shareholders we will continue to encourage companies to reduce carbon risks and thereby help address climate change more widely.

Our current exposure to fossil fuels is roughly 2.5 per cent of the fund (by value), for we which have a structured engagement programme to work with these companies to move to a low carbon economy. We actively contribute to climate mitigation through our investments in clean and sustainable companies, which in aggregate represents 26.3 per cent of the fund.

Our targets set for 2020 will combine a positive investment programme, changes to the investment strategy and a comprehensive engagement programme that will look to specific objectives and key performance indicators, with carbon intensive companies in their portfolios. We will set investment case review dates for specific companies and where insufficient progress has been made by the underlying company we will consider selective disinvestment.

Our strategy to reduce climate risk demonstrates our commitment to report on progress in our Annual Report and Financial Statements, <https://www.eapf.org.uk/en/annual-reports-and-accounts>. Some of our main achievements include;

- We have moved our index global equities (which invest broadly in most global companies) to a new fund, to be run against the new MSCI Low Carbon Target World Index. The amount involved is around £280m, over 10% of the Fund
- We have repeated our analysis of fossil fuel exposure and will publish an updated report that this year
- We have succeeded in meeting our target to invest 25% of the fund – actually 26.3%, in clean and sustainable companies by 2015 (breakdown on page 23 of the Annual report and Financial Statements)

In 2014 we were one of 16 global investor partners, together with IFCi, DECCii and a panel of 13 advisers who supported our investment consultants, Mercer, in their groundbreaking study looking at **Investing in a Time of Climate change**ⁱⁱⁱ. Our policy commitments and future strategy are informed by this work, together with other publicly available research. We have published our tailored report from Mercer which looks at the fund's resilience to potential climate change scenarios.

The Environment Agency Pension Fund is recognised as a global leader in implementation of responsible and sustainable investment. We ranked top in the UK by the Asset Owner Disclosure Project (for Climate risk management and reporting). In November 2014 we won the inaugural award for our approach to Climate Related Risk Management at the Investment and Pensions Europe Awards.

Date: 19 October 2015

Environment Agency
Pension Fund

We would be pleased to discuss with other institutional investors our approach to addressing the impacts of climate change. Please contact Faith Ward, Chief Responsible Investment & Risk Officer at faith.ward@environment-agency.gov.uk or Mark Mansley, Chief Investment Officer at mark.mansley@environment-agency.gov.uk

Important notice

This update contains information on certain decisions made by the Environment Agency Pension Fund (EAPF) and the rationale for those decisions, in the interests of transparency and public debate. It is neither an offer to buy or sell any securities or funds, nor is it investment advice, and should not be treated as such. Investors should seek their own professional advice before making any investment decisions. The value of any investments mentioned may go up or down and past performance is not a guide to future performance. The EAPF accepts no responsibility for any use made of this document.

ⁱ International Finance Corporation

ⁱⁱ Department of Energy & Climate Change

ⁱⁱⁱ <http://www.mercer.com/content/mercerglobal/all/en/insights/focus/invest-in-climate-change-study-2015.html>.