Environment Agency
Pension Fund

August 2016

Asset Pooling

Questions and Answers

Introduction

The Government announced in its 2015 Summer Budget that they will work with the Local Government Pension Scheme (LGPS) to reform how LGPS investments are managed.

The Environment Agency Pension Fund (EAPF) is part of the LGPS, and is one of 91 LGPS funds in England and Wales who are part of this broader government initiative.

We are currently exploring the potential pooling of the EAPF's assets with nine other LGPS funds, and this is called the Brunel Pension Partnership. The aim is to reduce the costs of running pension funds, improve performance, and create greater capacity for them to invest in infrastructure. The proposal is still in development.

The EAPF has a legal duty to act in the best interests of its members, and our top priority is to ensure that the pensions of our staff, past, present and future are secure and well managed.

The following questions and answers aim to explain what would happen if the decision was to pool EAPF assets within the prospective LGPS investment pool of Brunel Pension Partnership:

Q) What is asset pooling?

A) The Chancellor announced in his summer 2015 budget his wish to see the existing 91 Local Government Pension Funds pool their assets together into half a dozen investment pools. This was followed through with the consultation on the draft Investment Regulation 2016 reforms launched in November 2015. These pools are expected to have assets over £25 billion. This step aims to save millions of pounds every year in costs and fees, and the new pools should further develop expertise to invest in infrastructure.

We are working with a group of 9 other funds exploring the best way of pooling assets whilst maintaining overall investment performance. The group have formed a pool which is called Project Brunel, which could form a potential 'Brunel Pension Partnership'.

The EAPF through its Pensions Committee and the Environment Agency Board will make the ultimate decision on pooling based on a full business case. It is anticipated that this full business case will be ready by autumn 2016 and a decision should be made by the end of 2016.

Q) Why did the EAPF decide to look to pool assets within the Brunel Pension Partnership?

A) The EAPF had an existing collaboration with 7 of the south west funds. We were meeting regularly to share good practice and to seek ways to work together to save money. We had already saved money, for example, through developing procurement frameworks for pension advisors. It was a natural starting point to look to these funds with regard asset pooling.

We looked at the other developing pools and assessed that the funds within the south west were the most likeminded culturally as a whole, similar in size, had investment strategies that had significant crossover on outcome drivers, could achieve appropriate savings and worked well geographically. We felt that the EAPF's voice would be best heard within this group.

Q) Could the pooling of assets affect the solvency of our pension fund?

A) The EAPF would still control its own money; any future investments would continue to be considered through the EAPF's investment strategy; and there would be safeguards to ensure that the money was invested responsibly.

We will not be forced into any asset allocation that is not suitable for our Fund, and the Fund has a fiduciary duty to its members.

Q) Is our pension Fund being used to cover shortfalls with other pension schemes?

A) The proposed pooling across the LGPS is in relation to investment of assets only. It is not a pooling of liabilities, and we will not, at any point, be expected to cover the liability risks of other funds. The pooling of assets is not for this purpose. The purpose is to provide the opportunity of reducing investment fees by increasing assets under management with good performing fund managers.

Q) What Funds make up Project Brunel and what is the value of all their assets?

A) Project Brunel has the following LGPS funds – EAPF and 9 local authority funds: Avon, Buckinghamshire, Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Somerset and Wiltshire. There are £23.2 billion assets between these funds.

Q) In understanding that the EAPF has excellent credentials from an environmental perspective. Would this be retained in any proposed changes, and do the other Funds apply the same criteria?

A) The EAPF is an award winning Fund which has been recognised over many years for its responsible investment work, and is currently ranked as the best Fund globally for managing climate risk (ranked #1 AODP survey of top 500 funds).

Brunel Pension Partnership project includes responsible investment (RI) as part of its cultural vision and will have a written RI policy which takes into account the financial impact of RI and other market related risks. Investment principles have been developed to guide the project, including responsible stewardship which covers environmental, social and corporate governance (ESG) impacts. Our commitment to this approach will not change.

In addition, we are helping to develop best practice in this area of work across all pools as part of a cross pool collaboration on responsible investment.

Q) I recognise the value of infrastructure investment, but not all infrastructure is good for the environment. Is there a conflict of interest between our organisational goals and some infrastructure investment?

A) We will not be forced into any asset allocation that is not suitable for our Fund. Our investment strategy is not set upon the organisational goals of any of its employers, but does take into account the financial risk of environmental, social and governance impacts. The Fund is aligned with the strategic goals of Defra, the Environment Agency and Natural Resources Wales.

There is an opportunity that by pooling our assets and looking to invest together with other Funds (whilst retaining ownership of our assets), we can make savings in reduction of fees and get improved access to infrastructure investments that provide the returns we seek, and follow our existing guidelines on sustainable investment. This is an area that can benefit from large scale investment, and this kind of collaboration can provide opportunity that we cannot achieve as a single Fund.

Q) Is my pension protected?

A) Yes, you are a member of a defined benefit pension scheme which promises to pay out an income based on your earnings and the number of years you have been in the EAPF up to the point of retirement. As a member of a public sector pension scheme, your scheme is underwritten by the government, and your benefits guaranteed. These pooling proposals do not affect your pension benefits.

Q) How are members views represented?

A) The governance of the Pension Fund will remain as it is now, with our Pensions Committee. The Committee has 14 members, 7 of which are member representatives. This governance has been in place for many years, and has ensured the strong performance of the Fund, and that it fulfils its fiduciary duty to its members.

We have ensured that the consultation details and our response to it are made available to all our members through our website at **EAPF**.

Q) How are you communicating to members on pooling?

A) The EAPF is communicating with member using existing employer channels for contributing members. The whole membership will also receive regular updates through our newsletter and on our website - **EAPF**.

The Brunel Project has also launched a website - **Project Brunel website.** This site was launched specifically to address the need to communicate consistently and regularly to the wider audience, and to respond to the interest in asset pooling that we know exists across the 10 Funds and the LGPS as a whole.

Later this year we will provide an update to staff through our Contributing member webinars, and a specific Investment webinar to engage on this subject. The Investment webinar will be in the first week of November.

Q) What happens next?

A) In line with business case development, we provided a strategic response to the government consultation in February, and a further submission to government in July in the form of an Outline Business Case. The project has to complete a Full Business Case in the autumn with a decision by each of the 10 Funds by December 2016. If the decision is to proceed, we expect the Brunel Pension Partnership to be in a position to start to pool its assets by 1 April 2018.

Q) How much will be saved through pooling?

A) This step will save millions of pounds every year in costs and fees. The group of 10 Funds have 75 fund managers, with 150 different investment mandates, and there is an opportunity to reduce this to 22 investment portfolios, with savings of £16 million pa, and a potential increase in savings to £70 million over time.

Q) Will leaving the European Union have an impact on pooling?

A) We have received advice from the Local Government Association (LGA), following discussion within government that Brexit has not changed the intentions laid out it the draft Investment Regulations 2016 reforms and that prospective pools are to continue to develop and scrutinise the business case for pooling, within challenging timescales.