LGF Pensions Team
Ministry of Housing, Communities and Local Government
2nd Floor, Fry Building
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16 January 2025

Dear Minister

LGPS Consultation: Fit for the Future

We support the Government's need for LGPS assets to better support growth and green growth in particular.

This has been at the core of our Environment Agency Pension Fund (EAPF) investment approach for over 20 years. It has produced strong financial returns and kept our employer contributions low, allowing the Environment Agency and Natural Resources Wales to spend more money on delivering positive environmental outcomes.

Our international leadership in matching sustainability with returns was the key driver in us winning IPE European Pension Fund of the Year award in December 2024.

We currently pool the majority of our assets.

We believe that some "Fit for the Future" consultation proposals will result in us having to compromise on our responsible investment approach. We do not think this is in our members', employers', or the UK economy's best long-term interest. We welcome greater flexibility to invest across pools to overcome this.

As a national scheme, we do not have a local area. All members in our Fund have links to the environmental regulators of England and Wales or its predecessor bodies. This is why our "local investments" are in climate & nature-based solutions. Here we have built up specialist expertise and a strong reputation as a cornerstone investor, bringing in finance from all around the world.

It is these "local investments", in innovative first-time private market funds, that we are particularly concerned about. Bigger asset owners naturally seek larger investments. Our investments are of a size and risk profile which a pool will not consider but which are key to delivering novel solutions to reducing carbon emissions, enhancing nature and adapting to a changing climate.

We would like to keep the opportunity to invest directly in these “local investments”, if the opportunity is not available through the pool. We want to share our expertise to leverage and catalyse investments and place the UK at the centre of sustainability investing. We believe retaining our ability to back these innovative funds will result in more environmentally leading investible opportunities for LGPS pools (and the wider market) over the medium and longer term.

We welcome the governance proposals. An independent assessment in 2024 on how our Fund was run found our approach to be “overwhelmingly positive”. We support independent governance reviews, for pools as well as Funds.

We would welcome the opportunity to discuss further the issues we raise in our consultation response.

Regards

Robert A. Gould.

Robert Gould

Chair of EAPF Pensions Committee

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EAPF Response to Consultation Questions

Question 1: Do you agree that all pools should be required to meet the minimum standards of pooling set out above?

Somewhat Disagree.

We agree with LGPS assets supporting growth and green growth in particular. This has been at the core of our Environment Agency Pension Fund (EAPF) investment approach for over 20 years. We can demonstrate our approach produces excellent financial returns, which keeps our employer contribution low, allowing the Environment Agency & Natural Resources Wales to deliver more environmental outcomes.

We are a well-governed and high-performing Fund. In December 2024, EAPF won the IPE European Pension Fund of the Year award where we were selected ahead of hundreds of European pension funds (including LGPS pools) due to our leadership in matching sustainability with returns.

Many of our leading impact investments have been in small innovative first time funds, focused on private-market investment with strong sustainable and financial credentials. Our investment in these are of a size and risk profile which a pool will not consider. It is important that Government proposals do not stifle this investment if the UK wishes to remain at the forefront of green finance leadership for the climate and nature.

Pools need to be able to implement in full our sustainable investment approach. To do this, we recommend changes to the proposed minimum standards regarding:

- the de facto limitation placed on Funds in setting an investment strategy (should the proposals be implemented)
- the over simplistic SAA template, and
- the full delegation for implementation to the pool.

We disagree with taking principal advice on our investment strategy from the pool. We think this represents a clear conflict of interest.

We disagree with the requirement to transfer legacy illiquid investments to the management of the pool. This removes our specialist oversight of our environmental impact investments and will cost us more money.

In this response we set out proposals for how Government can address these issues and our belief that increased open competition across the pools is the best way to drive scale, consolidation and impact.

Question 2: Do you agree that the investment strategy set by the administering authority should include high-level investment objectives, and optionally, a high-level strategic asset allocation, with all implementation activity delegated to the pool?

Somewhat disagree.

We agree that Funds need to set investment objectives and a strategic asset allocation. Funds, however, need to be able to provide a far greater steer than that proposed to meet our fiduciary duty. In addition to investing in the best financial interests of our members, this includes consideration of our members' views on responsible investment.

We welcome Funds being able to set the approach to responsible investment in their investment objectives. For the EAPF, responsible investment is core to managing material financial risks and opportunities.

We have concerns, however, that the proposals will require us to compromise on responsible investment.

We are in a pool of 10 Funds. All 10 Funds set different responsible investment approaches, with our approach at one end of this spectrum.

We support pooling our assets, where pooled portfolios meet our high responsible investment objectives. Currently the majority of our assets are pooled.

We do not agree with handing over full implementation of the strategy to the pool if they cannot meet parts of our investment strategy. Our approach to impact investing in natural capital and climate solutions has been largely achieved through an off-pool private markets allocation. This is because our pool is unable to offer all the portfolios that we need to fully meet our investment strategy.

EAPF is a high-profile cornerstone investor in green, which brings in investment from around the world through asset managers working predominantly out of London. Full delegation to a pool would mean the EAPF's sustainability leadership would be lost, having broader implications for the UK.

We would like to keep the opportunity to invest directly in these investments, if the opportunity is not available through the pool. We believe retaining our ability to back these innovative funds will result in more environmentally leading investible opportunities for LGPS pools (and the wider market) over the medium and longer term.

Question 3: Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority's fiduciary duty?

Strongly disagree.

Our primary duty is to provide pensions to members of the EAPF as they fall due (including to ensure sufficient cash flow based on the specific liability structure of the Fund). This duty is not being passed to, or shared with, the pools.

The proposals set out a fundamental shift in power from Funds to pools and we believe these are contrary to a Fund's fiduciary duty.

Our concerns are:

- **The expectation that we would have to compromise on our investment strategy**

Being in a pool involves having to compromise on governance, portfolio choices and service. Fiduciary managers serving the private sector routinely provide pooled offerings but can also meet bespoke mandates for Funds.

The proposals set out for LGPS Funds will mandate those Funds to invest solely in the portfolios that one pools offers (or another Pool it selects) and to have no input on how those portfolios are constructed.

The pool does and will restrict the number of portfolios it offers, in order to achieve cost savings.

We do not believe that one pool can fully implement our specialised sustainable investment strategy approach, which we see as core to our fiduciary duty to members and stakeholders. This is not the case now and is unlikely to be the case in the near future.

We do not believe that we should have to compromise on how to manage the material financial risks and sustainable investment opportunities we set out in our Responsible Investment Strategy Statement. The EAPF committee has identified and documented their belief that climate change and nature are issues of material financial risk, so to meet our fiduciary duty we must be able to mitigate these financial risks without compromise.

- **We see no conclusive evidence that scale delivers greater returns.**

Our successful sustainability-driven investment strategy has contributed to the EAPF being fully funded for the last 8 years running. We have not seen any compelling evidence that leads us to believe that the proposals will lead to better financial or sustainable outcomes for our members or employers.

- **We will have inadequate levers to control pool direction and costs**

The proposals set out a model where the Pensions Committee retain all the responsibility for meeting Fund liabilities but have very limited powers to ensure it is delivered.

The pool would provide advice to Funds and design and select the portfolios. If these portfolios turn out to deliver sustained poor financial performance, be less ambitious in terms of climate or nature, be very costly to run and/or provide poor service, the Pensions Committee cannot choose to divest and go elsewhere. It cannot even request changes to the portfolio. Their limited powers would be to work with the other Funds and get shareholders to agree to sack the board of the pool, which in itself carries significant governance risk to the Funds.

The pools carry no financial risk. All running costs and financial liabilities are met by Funds.

One of the original drivers for pooling was fee savings. Pool running costs and the internal resource to implement and manage the pool have been significantly higher than the pool's Original Business Case.

Moreover, the new expansion of pools' roles risks giving the pool a blank cheque. The proposal that each pool builds up capacity in private markets and in providing advice will increase costs to the underlying Funds substantially. Funds will have limited powers to control this increase in costs. It is therefore not clear whether longer-term savings in costs will actually materialise.

Salary costs are continually increasing within pools and these proposals will significantly add to that pressure. We have seen from Canada that mega pools pay mega salaries for its executives, with salary costs alone for a pool chief executive being in excess of £2 million. As time goes on, we fear that this will be replicated in LGPS pools here. This will drive an ever-growing mismatch and distance in ethos and approach from the pools and the underlying public sector funds and members whom they are set up to serve.

The EAPF would be unable to go outside the pool to find more cost effective and better performing options, unless our pool facilitates this. We could theoretically decide to change pool but would face material exit penalties costs and other pools may well also offer limited options. This in effect would allow pools to operate as monopoly providers.

- **Pools may have different objectives to the Funds**

Pools may be more likely, or come under pressure, to prioritise political goals. Currently the outcome of such discussions with Government would go back from pools to Funds who would make the decision in line with their investment strategy. In the future, if Fund investment strategies are compromised due to the limited investment offerings of pools, underlying Funds would have no say on this even if the objective were not in line with the Fund's investment objectives.

- **Pension Funds will be less accountable to members and employers**

The EAPF places a great emphasis on engaging with our members to understand their views and to make sure that EAPF investment approach reflects their values.

Members' views and those of other stakeholders (e.g. employers and Defra) may inform our approach but the decisions on setting the right investment strategy remain with the Pensions Committee.

Under these proposals, the Fund has far fewer powers to make sure this investment strategy is implemented and that our approach reflects members' views. This reduces accountability to members and employers.

Proposed solution

We believe part of the answer is to allow Funds the flexibility to invest across pools to best meet their investment objectives. Under this approach, the Government's scale and consolidation agenda can be met and Funds are more likely to meet their fiduciary duty than being constrained to the offerings of one pool. This also aligns better with the private sector defined benefit landscape where fiduciary managers are appointed through competitive tender, removing the risk of monopolies.

Opening up investment across pools would allow all LGPS Funds to invest as a client in any pool. This would facilitate competition and offer greater portfolio choice for Funds, including for the EAPF, access to a wider range of sustainable options. Pools can then set management fees at a level that meets the running costs, reducing the financial dependence on Funds, with the open competition driving quality, performance and service standards across the pools.

Additionally, to the extent that pools do not offer investment opportunities consistent with the investment strategies of the Funds, Funds should be able to invest outside of pools.

Question 4: What are your views on the proposed template for strategic asset allocation in the investment strategy statement?

It is too high level.

We understand that the Government has intentionally made these buckets high level to facilitate scale, but they do not allow us to set and implement our investment strategy and therefore meet our fiduciary duty for the following reasons:

- **We need to be able to provide a more detailed SAA steer to meet our investment strategy**: investing into sustainable listed equities and credit, as well as private market funds that deliver environmental and social impact, are an important way for EAPF to achieve its 2045 net zero commitment and 17% target investment in climate and nature solutions. As drafted, there is no guarantee that our capital would be deployed into areas aligned with our Fund's investment strategy.

- **There is no natural capital asset class**: we have a 4% strategic asset allocation to sustainable natural capital investments that demonstrate net nature positivity and are deforestation free, as well as generating an attractive financial return. We cannot request this is delivered with such a simplistic template. Including a sustainable natural capital asset class in the proposed template aligns with the Government's aim for the UK to be a leader in green and sustainable finance, catalysing more investment for biodiversity improvements.

- **It will stifle our investment in innovative and nascent companies**: Some of EAPF's most impactful investments have come via backing innovative, first-time venture capital and growth stage funds, backing multiple UK-based start-ups and scale-ups which we believe is well-aligned with the Government's aims. Some of the highly successful private investments are of a unit size which a £50 billion pool would not consider as it would be too small. Bigger asset owners naturally seek larger investments. The template does not allow us to steer influence towards such investments to facilitate our sustainability-driven Investment Strategy.

- **The proposed asset classes are far too broad and can be mis-interpreted.** For example the proposed asset class "Fixed Income" encompasses our current allocation to multi-asset credit (a return-seeking asset) and unleveraged LDI/Government Bonds (a risk-reducing asset). They are different asset classes which meet different aims but would be lumped together under one allocation using the proposed template.

Question 5a: Do you agree that the pool should provide investment advice on the investment strategies of its partner AAs?

Strongly disagree

We see this as clear conflict of interest with advice potentially limited to investments that pools can offer. Funds need advice from an independent source who makes the recommended allocation based solely on the Fund's funding and investment strategy.

If Funds are required to take advice on investment strategy from pools and then the pools implement those strategies, it presents a risk that pool advisers have another interest in recommending a portfolio and investment options will become more limited. It places far too much power in the hands of the pool in shaping and implementing the Fund's investment strategy when they do not hold the financial liability, and we do not think it represents good governance of our members' long-term interest.

Question 5b: Do you see that further advice or input would be necessary to be able to consider advice provided by the pool – if so, what form do you envisage this taking?

Yes.

In the interests of good governance, we would continue to procure independent investment advice. We would continue do this through the LGPS procurement framework to ensure value for money.

Question 6: Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?

Somewhat disagree

We are in an FCA-registered pool. We have no comment on other pools.

As a group of administering authorities partnering to establish a pool, we had agreed it did not provide value for money for the pool to do internal investment and EAPF remain of that view.

We understand however the benefit in pools being able to establish and internally manage Alternative Investment Funds to encourage investment into certain projects, such as those that will be partially funded by the National Wealth Fund. We are supportive of this for the EAPF if such projects are in line with our investment objectives.

As set out in Q5, we do not think it appropriate for the pools to provide administering authorities with investment advice.

Question 7: Do you agree that administering authorities should be required to transfer all listed assets into pooled vehicles managed by their pool company?

Somewhat disagree

We would be supportive of this proposal if we had the confidence that the pools are able to fully implement our specialised sustainable investment approach.

Our investment strategy seeks sustainability in all listed equity portfolios (currently 41% of our total portfolio and £2 billion AUM).   We manage this currently by investing most of our listed equity investments in the pool and a minority off-pool.

Whilst our pool offers sustainable equity funds which we invest in, our investments off-pool also use other specialist sustainability investment managers to provide the diversification required to meet our investment strategy. Taken together, this makes the EAPF significantly better aligned to meet our net zero target and climate solutions targets. An example of this is that off-pool, we work with an investment manager to invest with a value-style tilt which meets our climate and nature requirements. This is not a common offering in the industry and to date, no other Fund in our pool seeks this exposure.

We are in the process of reviewing our Strategic Asset Allocation, as part of our triennial evaluation and will comply or explain our off-pool listed equity holdings in March 24.

Question 8: Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?

Strongly disagree

This does not represent value for money.

We will incur significant costs both one-off legal costs and ongoing management fees (including for the pool to manage these in addition to the current underlying asset managers).

In 2019, the EAPF explored the feasibility of the pool taking on the management of our off-pool private market investments. The idea was rejected by our Committee due to several reasons, but primarily cost. The management fees quoted by the pool were far more expensive than it costs the EAPF to manage in-house. These investments are managed by a lean, but expert team internally, and therefore we see no value in transferring these holdings.

Our impact private equity funds are specialist and require additional due diligence expertise beyond that required for non-impact funds.

We suggest that the EAPF is allowed to manage these pre-existing investments (largely private equity and natural capital funds with specific life spans) through run-off.

We think it is a better use of future resource for the pools to focus on new private market investments.

Question 9: What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds and when could this be delivered?

Our pool would need to hire in additional resource to ensure adequate capacity. Private equity is a competitive market and additional staff will likely derive a premium in terms of salary and package, for a service we are running at present in-house.

Retention of staff in this area has been difficult at times for the pool. If we cannot invest outside the pool, this could impact on our ability to deploy capital in the future.

Our impact private equity funds are specialist and require additional due diligence expertise beyond that required for non-impact funds. In the area of nature-based investing, we would need the pool to develop the expertise to meet the standards we are seeking to achieve the very highest environmental outcome.

Question 10: Do you have views on the indicative timeline for implementation, with pools adopting the proposed characteristics and pooling being complete by March 2026?

New pool services

We think it will be incredibly challenging for the pool to meet all the new requirements by March 26. This will require setting up multiple new policies and processes, with restricted time to do the proper due diligence and put the right governance in place. The proposed tight timings are likely to increase implementation costs.

Listed Markets

We believe Funds transferring public market investment to pools is achievable by March 2026. However, we would only be supportive of this proposal if we had the confidence that the pools are able to implement our specialised sustainable investment approach.

Private Markets

We have the following concerns on the indicative timelines:

- **Lack of internal expertise & ability to retain:** It is unclear if our pool will build sufficient resource/capability in-house to take on the management of our deep green private market investments, especially in the area of nature-based investing. Demand for human resource from private markets managers who may pay more means retention could be an issue.
- **Private market alignment:** For our more innovative and sustainability driven private markets investments, the Fund has seats on various Limited Partner Advisory Committees (LPAC) to ensure ongoing investment alignment of a private markets fund with our investment objectives. It is unclear whether our existing LPAC seats will be universally allowed to transfer to the pool, if they are not then this transfer will produce a reduction in influence over the direction of these holdings.

EAPF has different tax exemptions from other LGPS funds in international markets. These require specific considerations and protections in investment contracts. If not managed correctly, this could have material financial risks for both the EAPF and the wider pool partnership. This is a complex legal issue and one we would not wish to fully hand over to a pool until we have gained full re-assurance that this is being managed correctly.

If Government mandates the transfer of legacy assets, it is important that our private market legacy investments are evaluated in-turn and not rushed through to ensure risks are mitigated, and ongoing costs represent value for money.

Question 11: What scope is there to increase collaboration between pools, including the sharing of specialisms or specific local expertise? Are there any barriers to such collaboration?

We support collaboration across pools and Funds. We support the Centre-of-Excellence model, especially if this leads to creation of innovative portfolios that we can invest in via a pool.

As set out in Q3, we want to be able to invest in different pools simultaneously to assist with fiduciary duty, as we believe competition is a necessity to deliver long-term quality management, performance, and innovation. There are governance barriers to overcome to facilitate this in relation to how pools are set up.

We note a potential barrier in relation to the Teckel exemptions which are readily used where a publicly owned entity provides services back to its public sector shareholder. These structures would need to be carefully considered where more than 20% of the services being delivered were to clients who are not also shareholders. Consideration may therefore need to be given to the procurement law framework.

Our current priority is to continue to build our Natural Capital allocation. We have significant track record and expertise in Natural Capital investing, which, as an early investor to this new asset class, we have accessed through off-pool investments. We welcome the opportunity to collaborate with pools and leverage the EAPF's expertise to catalyse LGPS investment into Natural Capital, avoid greenwashing and deliver sustainable returns. We have concerns that it could be easily mismanaged without specialist expertise in this area.

We welcome the opportunity to share best practice on sustainability. We see substantial opportunities for our in-house expertise to be leveraged to create compelling, world-class sustainable portfolios that catalyse investments across all pools, placing the UK at the centre of sustainability investing.

Question 12: What potential is there for collaboration between partner funds in the same pool on issues such as administration and training? Are there other areas where greater collaboration could be beneficial?

We have been collaborating with the other partner funds in the pool on administration for longer than the pool has been in existence.

We outsource our administration to a third party provider, through the LGPS Procurement Framework. We do not see any efficiency or cost savings in Government mandating mergers for administration.

Question 13: What are your views on the appropriate definition of 'local investment' for reporting purposes?

The EAPF serves national bodies in England and Wales. We do not have a local area.

We think that the meaning of "local investment" should be wider than merely geographic location and should instead encompass investments that are of particular importance or value to a Fund and its membership (although always subject to a Fund's overarching fiduciary duties).

We define our local investment as being in high-impact, innovative climate & nature funds. We have been investing in in this field since 2014, investing through private markets in companies with strong financial and sustainable credentials. Some of these are in the UK. Some are overseas, given climate and nature needs both local and international solutions.

These investments to date have had to be off-pool, as in our experience they are not of interest to the pools as they are often first funds with relatively smaller ticket sizes or are particularly innovative and niche.

We have concerns at handing over this particular portfolio to the pool, as this would be more expensive to do than in-house and the pool would not have access to the scientific and technical knowledge that we hold in the Environment Agency.

Where these investment funds develop into offerings which pools may invest in (for example have a more developed proof-of-concept or are at a larger size) we are happy to invest in them through the pool, if in line with our investment strategy.

Question 14: Do you agree that administering authorities should work with their Combined Authority, Mayoral Combined Authority, Combined County Authority, Corporate Joint Committee or with local authorities in areas where these do not exist, to identify suitable local investment opportunities, and to have regard to local growth plans and local growth priorities in setting their investment strategy? How would you envisage your pool would seek to achieve this?

Strongly disagree.

We do not view this is appropriate for the EAPF to do as a pension scheme representing national bodies.

We also do not think it appropriate for the EAPF or our pool to talk to our employer bodies directly about potential environmental investments (being our "local" investments) to manage potential conflicts of interest.

We have been able to make multiple successful investments in Natural Capital, Climate Solutions, and Impact Investing (including many domiciled in UK) without interacting with our Fund employers or local authorities.

Question 15: Do you agree that administering authorities should set out their objectives on local investment, including a target range in their investment strategy statement?

Strongly agree.

We think it entirely appropriate for the EAPF to set targets for investments in climate and nature solutions, which we define in Q13 as our "local" investment. We have set these already (17% AUM in climate solutions, 4% in sustainable natural capital).

Question 16: Do you agree that pools should be required to develop the capability to carry out due diligence on local investment opportunities and to manage such investments?

Strongly disagree.

EAPF has stronger due diligence capabilities in relation to our "local" investment opportunities than which is currently available in the pool. These are investments in first time and/or innovative funds in Natural Capital and Climate Solutions (adaptation and mitigation) and our in-house expertise includes specialist scientific input.

We would welcome the opportunity to collaborate cross-pool to establish Centres of Excellence in these areas, leveraging the deep expertise the EAPF possesses.

Question 17: Do you agree that administering authorities should report on their local investments and their impact in their annual reports? What should be included in this reporting?

Strongly agree.

EAPF already does this in relation to our "local" investments in climate solutions and nature.

Question 18: Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?

Strongly agree.

The EAPF implements these already.

Question 19: Do you agree that administering authorities should be required to prepare and publish a governance and training strategy, including a conflict of interest policy?

Strongly agree.

The EAPF already publishes a governance, training and conflict of interest policy.

Question 20: Do you agree with the proposals regarding the appointment of a senior LGPS officer?

Strongly agree.

The EAPF has a Chief Pensions Officer who will fulfil this role.

Question 21: Do you agree that administering authorities should be required to prepare and publish an administration strategy?

Strongly agree.

The EAPF already publishes an administration strategy.

Question 22: Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published?

Strongly agree.

We welcome improved readability of annual reports.

Question 23: Do you agree with the proposals regarding biennial independent governance reviews?

Somewhat agree.

We support independent governance reviews. If introduced, we believe these should be applied to pools as well as Funds.

The EAPF voluntarily subjects itself to an independent governance review every two or three years.

Our last review was undertaken by Aon and concluded in December 2024 that our approach to governance was “overwhelmingly positive” with exemplary commitment and engagement from Pension Committee members and high standards of support from officers and advisers.

The recommendations from our independent governance advisers are assessed by the Pensions Committee and inform the EAPF business plan.

If Government were to introduce reviews for pools and Funds, we would recommend that these take place every three years. We would further recommend that the reviewers have a very strong knowledge of the LGPS and an appreciation of EAPF’s distinct role as the only central government administering authority.

23b What are your views on the format and assessment criteria?

The independent governance review which EAPF was recently subjected to included:

- Governance and our compliance against the TPR General Code and SAB Good Governance.
- A high-level review of EAPF strategies and policies.
- Business planning effectiveness, performance measurement and risk management.
- Decision making structure & levels of knowledge and skills and behaviours required for effective governance.

Question 24: Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?

Strongly agree.

EAPF pension committee members already have individualised training plans, as set out in our Knowledge and Skills policy.

Question 25: Do you agree with the proposal to require AAs to set out in their governance and training strategy how they will ensure that the new requirements on knowledge and understanding are met?

Strongly agree.

EAPF already meets this requirement.

Question 26: What are your views on whether to require administering authorities to appoint an independent person as adviser or member of the pension committee, or other ways to achieve the aim?

Strongly agree.

We have always had an independent advisor and have found their challenge and independent view helpful in decision-making. They are not part of the Pensions Committee (the Pensions Committee is made up of EA Board members, employer executive managers and member representatives).

Question 27: Do you agree that pool company boards should include one or two shareholder representatives?

Strongly agree.

We think there should be 2 shareholder representatives, which should be sourced and selected by the underlying Funds.

We do not think shareholder representatives necessarily need to come from underlying Funds.

In line with good corporate governance, we do not think there should be any pool executives on the Board.

Question 28: What are your views on the best way to ensure that members' views and interests are taken into account by the pools?

The EAPF supports strong member representation.

Member representatives make up half of our pensions committee and we have found this has led to robust decision-making, with the member experience at the heart of our approach.

We propose two member representatives, chosen by underlying Fund member representatives, should attend Board governance meetings in a non-voting capacity.

Question 29: Do you agree that pools should report consistently and with greater transparency including on performance and costs?

Strongly agree.

Pools must report publicly.

This allows Funds to decide on which pools offer the best investment options and value for money.

It also allows members to know they are being best served by a particular pool.

Question 29b What metrics do you think would be beneficial to include in this reporting?

We would welcome public disclosure across the pools on:

- The aim and strategy of portfolios within each asset class. Pools need to work with Funds to develop ways that this can be done in a way to ensure fair apples-to-apples comparison between pools.
- Gross and net return, with performance by portfolio over multiple time periods (1 year, 3 years, 5 years, 10 years, and since inception). All performance data should be benchmarked in a way that allows fair comparison across pools, recognising for example sustainability tilts.
- Fees including, management fees by asset class, admin fees, pool overheads and operational costs.
- Salaries/packages of pool employees above £150,000. We propose this level as this is the level within treasury guidance that requires the approval of the Chief Secretary to the Treasury (CST) for any remuneration at or above this level. We are not proposing that pools have to seek CST guidance, but we are concerned about the already-spiralling pay packages being awarded within pools. Given these are jobs managing public sector pensions, which used to be managed in house, we need transparency on this issue to understand whether they offer value of money, provide clarity for our members and to oversee pool budgets.
- Climate and nature data, in line with TCFD and TNFD reporting
- Impact metrics by asset class and verified by a third party
- EDI metrics
- Geographic breakdown of holdings

Question 30: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

Yes. There are groups with protected characteristics who would be disadvantaged by the proposals.

Every member in our Fund has links to the Environment Agency, Natural Resources Wales and/or its predecessor bodies.

We believe a significant number of EAPF members hold protected characteristics in relation to their environmental beliefs and lifestyles and would not support any significant change which would dilute the EAPF's specialist sustainable investment strategy.

We hold this belief based on regular interactions with our members about our investment approach at webinars and focus groups and in correspondence from members.

Depending on their cogency, seriousness, and importance, those member beliefs would potentially amount to a protected characteristic of philosophical belief. If, as a result of changes to our investment strategy and decisions arising out of the proposed changes (either mandated or resulting from limitations in investment options), members felt unable to continue with membership of EAPF by reason of their protected philosophical beliefs or that their protected philosophical beliefs had been compromised, then they would clearly have been adversely affected.

In addition, employees of the employer bodies who, as a result of any dilution to the EAPF's specialist sustainable investment strategy (arising out of the proposed changes), consider that they are unable to join or continue with membership of EAPF by reason of a protected philosophical belief or who feel that membership compromises their beliefs, may argue that, unless the Environment Agency provides them with access to an equivalent scheme with equivalent benefits which does not compromise their protected beliefs (which would clearly involve significant set-up and other costs), they are being treated less favourably by reason of their protected philosophical belief, which could give rise to claims for compensation under the Equality Act 2010.