Cooling off

Judge's comment: *"Excellent approach and long track record that touches every part of its investment and ownership activity across all asset classes. Good to see quantitative targets by a specified date"*

Climate change is a key material risk for the UK's €3bn Environment Agency Pension Fund (EAPF) and to ensure it manages it optimally it has developed a comprehensive and robust strategy to minimise the long-term impact on its overall portfolio.

EAPF has been working to reduce climate risk in the management of its fund for over a decade and its commitment to reducing its carbon footprint is embedded in all its investment policies and strategies and is included in asset allocation; mandate design; overall risk management; fund manager appointment and monitoring; and collaborative engagement and transparent reporting. Winning this inaugural climate risk related management award is testament to this comprehensive approach.

In 2010, EAPF partnered with other asset owners globally, as part of a consultant-led research programme considering the implications of climate change scenarios on strategic asset allocation. EAPF then integrated the findings into its own review of its strategic asset allocation to assist the development of a robust portfolio, where the investment strategy is positioned to reduce risk and maximise investment opportunities presented by climate change. In 2014, a similar exercise is fully integrating climate risk into the scheme's asset liability modelling.

The fund had set itself a target to have 25% of its assets invested in the sustainable and green economy by 2015, contributing positively to tackling climate risk. Progress is exemplary: by the end of March 2014, 24% of the fund's assets, some £558m, was invested according to this target, of which 13% is specifically invested in companies with revenues of over 20% derived from energy efficiency, alternative energy, water and waste treatment, and public transport together with property and infrastructure funds displaying low carbon and or strong sustainability criteria.

The first significant step in achieving this goal was a £250m (€316m) investment in real estate, infrastructure, forestry and agricultural land, which took place in April 2013. The mandate places a high priority on long-term responsible investments that meet the EAPF's financial targets, with a preference to invest positively in real assets such as energy-efficient buildings, renewable energy projects, public transport, water treatment facilities, eco-friendly farming and sustainable forestry.

In late 2013, in response to new research, EAPF commissioned a detailed study to provide it with information regarding the exposure of its Active Fund to reserves held by globally listed companies that include carbon embedded within fossil fuels. This was both to highlight the potential risk of specific holdings being exposed to stranded assets and to identify priority areas for the fund to take action to reduce its overall level of exposure to climate change risk.

The report highlighted the considerable progress the Environment Agency had made in addressing climate risk, though policies, engagement and annual carbon footprinting. Its carbon footprint for 2014 for active equities was 22% more carbon efficient than the MSCI All Country World index and its bond portfolio was even better at 40% less than the benchmark.

However there is always more to do and the Environment Agency has set itself goals to further reduce its carbon footprint. These include:

- Working with its actuary to ensure climate risk is more explicit in its funding strategy statement
- Engaging with other institutional investors to promote the consideration of carbon risks and opportunities.
- Investigating the use of carbon tilted index funds
- Signing and supporting the launch of the Global Investor Statement on Climate Change
- Challenging the use of fossil fuel companies' capital expenditure
- Engaging and promoting the requirement for corporate disclosure for each type of fossil fuel reserve in the widely-recognised 1P, 2P and 3P formats
- Engaging with companies with both direct exposure to fossil fuels or where fossil fuel is key to the supply.

Environment Agency Pension Fund
UK

AT A GLANCE

- **Comprehensive and inclusive carbon related risk criteria in investment strategy**
- **Targeted 25% coverage at overall portfolio level by 2015 to reduce carbon footprint**
- **Extensive climate-related risk engagement and promotion policy**

SHORTLISTED

Fjärde AP-fonden (AP4) *Sweden*
PensionDanmark *Denmark*

JUDGED BY

- **Howard Covington**
- **Jane Goodland**
- **Raj Thamotheram**

Environment Agency Pension Fund

Environment Agency Pension Fund — As at 31 December 2013

Country: UK	**Financial data**
Founded: 1989	Funding level: 90%
Type: Public sector defined benefit fund	Market value, €m: 3,057
	Performance: 3.9% (one year)