Sustainable investing pioneers

Judge's comment: *"The fund has integrated the consideration of environmental, social and governance issues throughout its funding and investment decision-making process"*

This year marks the tenth anniversary of the approach of the Environment Agency Pension Fund (EAPF) to integrating responsible investment into its decision making. This was reinforced in July 2006 when the scheme became a signatory of the United Nations Principles for Responsible Investment (UNPRI).

The Environment Agency integrates the management of ESG issues across its strategy, incorporating asset allocation, mandate design, risk management, fund manager appointment and monitoring, collaborative engagement and transparent reporting.

More recent ESG developments include a £250m (€317m) allocation in April 2013 to real assets covering real estate, infrastructure, forestry and agricultural land. The mandate places a high priority on long-term responsible investments that meet the scheme'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.

Next comes the issue of integrating ESG into emerging markets investments. Recognising the potential of emerging markets in maximising returns, EAPF realised that this would also increase its ESG risk profile. In designing the investment mandate for emerging markets, the fund stresses it was critical to find a manager with strong ESG credentials to manage these risks effectively. The quality of ESG integration therefore formed 25% of the selection criteria for the manager selection for this mandate.

EAPF also now requires that an annual survey of the underlying funds in which it invests, developed with its private equity manager, is conducted to measure them against a wide range of governance, social and environmental criteria. All funds are required to sign up to the programme. The average ESG score for 2013 is 72.4%, despite an increase in the thresholds for each criteria, making it harder to score well and allowing for better differentiation in performance.

Environment Agency PF
UK

AT A GLANCE

- Integrated ESG management across strategy
- Bespoke emerging market mandate to increase ESG exposure
- Annual ESG survey of private equity investments

SHORTLISTED

AG2R LA MONDIALE *France*
Fjärde AP-fonden (AP4) *Sweden*
IRCANTEC *France*

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)

Judge's comment: *"PFZW has adopted a high public profile on ESG issues. It uses its influence to persuade companies to operate more responsibly"*

With €151.5bn under management, Pensioenfonds Zorg en Welzijn (PFZW), the Dutch pension fund for the care and welfare sector, is the second largest pension fund in the Netherlands. Traditionally, its members and employers in the care and welfare sector have a higher than average social involvement in issues such as health, peace and security, employment rights, human rights and the environment.

Member involvement in these issues has therefore been translated into an explicit and extensive approach to socially responsible investment management. For seven years in a row, PFZW has been the Netherlands' uncontested front-runner in this area, as demonstrated by the annual independent benchmark of the Association of Investors for Sustainable Development (VBDO).

PFZW invests responsibly in the conviction that, in the long term, socially responsible investments will be financially rewarding. A sustainable and stable economy is essential if sufficient returns are to be generated in the future. Moreover, PFZW believes that organisations which treat their environment and those living in it responsibly will have the greatest chance of long-term survival. This should ultimately translate into good returns, which PFZW's own history demonstrates. Since 1971, the average annual return has been 8.2%, with the last 10 years showing an average annual return of 7.4%. The return over the first six months of 2014 was 9%.

Rather than merely excluding companies that do not meet its ESG criteria, PFZW uses its influence as a large asset owner to persuade investee companies to invest more responsibly. If this fails, the fund is prepared to divest holdings. One key exclusion very recently has been Walmart. Although one of the largest holdings in its portfolio, the firm has failed to satisfy PFZW's ESG requirements.

PZFW
Netherlands

AT A GLANCE

- Long history and performance related to ESG criteria
- Member involvement and a leader in the Netherlands
- Extensive engagement and exclusion policy

PENSIOENFONDS ZORG & WELZIJN

Pensioenfonds Zorg en Welzijn (PZFW) — As at 31 December 2013

Country: Netherlands	**Financial data**	**Members**
Founded: 1969	Funding level: 109%	Active: 1,219,800
Type: Industry-wide defined benefit pension fund	Market value, €m: 137,334	Retirees: 357,800
	Performance: 3.7% (one year); 8.5% (three years); 11.1% (five years); 7.4% (10 years)	Deferred: 954,700

JUDGED BY Jane Goodland · Gerard Moore · Raj Thamotheram