

Voting policy on environmental issues



The Environment Agency Active Pension Fund (EAPF) is fully committed to responsible investment. We believe well governed companies produce better and more sustainable returns than poorly governed companies.

We believe all investors should influence the Board & Directors of companies to improve their financial and environmental performance through engagement and voting at annual general meetings.

While taking into account the objectives of the Environment Agency, it is important to note that EAPF voting on resolutions must be governed by our fiduciary duty and the long term interests of the Active Fund beneficiaries.

This document details our voting guidance on specific environmental issues and how these are applied to standard resolutions such as voting on the annual report and accounts, although each vote needs to be considered on its own merits.

We delegate the majority of our voting activity to our fund managers and specialist engagement provider. We require them, in voting on our behalf, to have due regard to the UK Corporate Governance Code and in respect of overseas investments have due regard to relevant recognised international and national codes and standards. Regular contact, at senior executive level, with companies, in which the Fund's assets are invested, is an important element of both the investment process and good corporate governance and we require our managers to report regularly on their voting and engagement and the outcomes achieved.

Voting at Annual General Meetings – Standard Resolutions

Annual Report and Accounts

We will consider voting against receiving the report and accounts where we regard the level of environmental disclosure to be inadequate to evaluate the environmental risks (both operation and strategic) faced by the company, which may pose a financial risk to shareholders. In making this assessment we will have regard to (but not be bound by) standards of reporting by comparable companies either in the same sector or facing similar environmental issues.

Appointment of Chairman, CEO other directors

We believe that the Chairman, CEO and other directors own attitudes and commitment shape the culture within an organization which has impacts on the company's strategic, financial and operational performance.

We will consider voting against the appointment of Chairman, CEO and other directors where a company has a history of being involved in major environmental incidents, or a major incident in the last year, and where the corporate response to the damage caused has been viewed to be inadequate by affected parties and independent investigations.

Remuneration report and links to environmental performance

We believe that where a company has significant environmental impacts, that have financial implications, it should be reflected in remuneration packages in order to align the interests of the company employees and their shareholders.

We will consider voting against receiving the remuneration report where:

- A company has a history of major environmental incidents, or a major incident in the last year and the report proposes any increase in pay for directors employed at the time of the incident.
- A company has significant environmental impacts and the remuneration package does not contain adequate links to environmental performance and management of environmental risks. Links should be to objective measures and not to subjective assessments such as media rankings.

Specific guidelines on environmental issues

Disclosure and transparency

Policies and reporting on sustainability, climate protection, and other environmental risks

We believe policies regarding sustainability, climate change, green house gas emissions and other specific environmental financially material risks are an effective means of communicating with shareholders and the investment community as the company's commitment to managing such issues protecting it from direct and indirect financial impacts. To maintain credibility with shareholders and the investment community we believe such policies need to be backed up with quantifiable targets (where appropriate) and regular reporting, ideally in the annual report and accounts.

Specifically we support:

- Quantified environmental disclosures on all environmentally material issues in the annual report and accounts. In addition, where appropriate information on each type of fossil fuels reserves in the widely recognised reporting format.
- Mandatory reporting of quantified carbon and carbon equivalent emissions report in statutory annual report and accounts.
- Narrative disclosures pertaining to a company's climate change / environmental policy, strategy, performance against targets, complemented with more detailed disclosures via web-sites, carbon.

Specific or CSR reports

The production of sustainability reports, with key ESG performance indicators (KPIs)
For UK companies, we support the implementation of EU and UK regulations, and guidance on environmental reporting.

Energy sources and use

Fossil fuels and potential stranded assets

The future exploration for new sources of fossil fuel, whilst scientific evidence suggests that as much as 80% of the current reserves may not be realized, would appear to be inappropriate use of capital expenditure.

We support resolutions seeking explanation of the company's capital expenditure on developing carbon assets and would normally support resolutions calling for capital to be either returned to shareholders or to investigate wider diversity of fuel sources rather than invested in new carbon assets.

Energy /fuel efficiency

Traditional forms of energy are becoming increasingly expensive and alternative fuels more competitive so that the efficient use of energy can be financially beneficial to a company.
We support the requirement for companies to regularly review: energy use; energy/fuel efficiency and alternative sources of power with the view of reducing environmental impacts of energy generation and consumption.

Exploitation of 'unconventional' sources of hydrocarbons

Shale gas, oil sands (tar sands), oil shale, tight gas and coal bed methane are all defined as 'unconventional' by the IEA. Unconventional sources are typically harder to access than traditional oil and gas reserves, requiring additional preparation or treatment during the drilling phase, and potentially extra processing in the refining phase. The complexity of extraction creates additional risks and the business case for exploration can often depend on the volatility of the price of oil, regulatory (national and federal) response to climate change, carbon pricing, land remediation, clean-up costs and costs of waste and waste water disposal.

We support resolutions requiring transparency in the business cases for such exploitation of 'unconventional' sources to ensure all 'risks', strategic, financial, operational, environmental and social have been considered in order to protect long term shareholder value.

Nuclear power

We neither advocate nor object to energy generation from nuclear power, but believe in the application of stringent safeguards, including board level oversight and an effective working relationship with the national regulator.

We will support the application of stringent safeguards, including board level oversight and an effective working relationship with national regulators, but will abstain from resolutions that merely require the closure of a power station where insufficient evidence provided to support the proponents that there is a risk to shareholder return.

Raw materials and waste

Material use and product design

As a long term investor we support enlightened business leadership and we look to Board's and company directors to develop and or maintain a high level of environmental leadership in respect of the products and services they market to maintain or increase their market share and financial returns.

We support resolutions requiring the regular review of business policies and procedures in relation to the environmental costs relating to raw material use, production, transportation, usage and disposal (i.e. all aspect of a product's lifecycle) that will protect and enhance long term shareholder value.

Timber procurement

There are a number of timber certification schemes in operation globally. As certification is an active, on-going process, and a supplier can lose their certification at any time if they fail an audit / inspection or are suspected of misconduct, this may have significant financial impacts.

We support the requirement for companies to review timber procurement policy, its supply chain, particularly with respect to a suppliers' certification status, particularly where the implementation of a company's timber policy has been called into question. Depending on the company, its policies and risks in this area we may choose to vote against or abstain if the wording of the resolution imposes requirements, beyond that detailed above.



The use and management of chemicals

The use of harmful chemicals in manufacturing, products and their disposal incurs reputational risk, costs, regulatory restrictions and supplier and public scrutiny.

We support resolutions requiring companies to regularly review the use of harmful chemicals used in their manufacturing process, products and disposal with the view of phased elimination where practical alternatives are available.

GMO's

The EAPF has no view on whether GM technology is a good or bad thing per se. We believe that a precautionary approach should be taken, as enshrined in existing legislation.

We support the requirement for further investigative reports into the regulatory, reputational, environmental and health risks of using GMOs, where the company has not clearly demonstrated a commitment to this area and to the review of GMO policies and procedures where a company failed to adequately co-operated with the regulator or has breached any regulatory requirement.

We may chose to abstain or vote against resolutions requiring the removal or cessation of use of GMO products, ingredients or seeds where the company has co-operated with the regulator or not breached any regulatory requirement or resolutions requiring GMO labeling, as it is anticipated that companies would merely label products with 'may contain GMO's' which would be of little use to the consumer.

Waste & recycling

Waste from extraction and processing of raw materials, waste from manufacturing and products use and their disposal incurs increasing costs, regulatory restrictions and supplier and public scrutiny.

We support the regular management review and reporting of all waste streams and the requirement to explore means to reduce, re-use and recycle where practicable to encourage greater resource efficiency.



Security relating to nuclear power & waste / chemical Storage

Security relating to nuclear power, waste and chemical storage incurs costs, regulatory restrictions and supplier and public scrutiny.

We support the corporate review of its procedures regarding security, particularly if an incident or regulatory breaches have occurred. However the EAPF believes it is the role of nuclear regulators (rather than shareholders) to ensure themselves as to the efficacy of the procedures, practices and any corrective actions.

We do not support the disclosure of a company's security procedures and practices as we believe this is not in the interests of the shareholders or general public as it may be counter productive in providing information to those who would use it for illegal purposes or to affect national security.

Operations

Environmental impact of operations in sensitive areas - drilling/ mining/ construction including building in flood plains.

Regulatory control, insurance and potential cost of clean-up and restoration in environmental sensitive areas increases the financial risks of operating in these areas.

We support production of reports to fully examine the environmental and community impact of drilling, mining and extracting materials from sensitive areas. Also construction in sensitive areas e.g. floods plains which can lead to increased insurance risks and costs. These reports are essential to minimise environmental damage, maintain good community relations and manage the risks to the reputation and shareholder value of the company.

Bio-diversity

The Economics of Ecosystems and Biodiversity (TEEB) programme aims to highlight economic dimensions of biodiversity and ecosystem services – the benefits they deliver, the costs of their loss and degradation, and ultimately their financial value to human well-being. TEEB shows us the incredible costs of losing biodiversity worldwide. For example, it has been demonstrated that safeguarding the biodiversity of the rivers decreases the cost of water treatment.

We support resolutions protecting the bio-diversity and/or the protection of the natural and farmed habitat.

Access to water/ water rights/ right to water

The demand for water is expected to outstrip supply by 40% by 2030. The Water Disclosure project proposes that half the companies consider water as a current or very imminent business risk with 40% of the companies stating that it was already impacting on the company, causing disruption through drought, flooding or water quality.

We support the production of reports to fully examine the environmental and community impact of water extraction, use, the right to water and water quality.



The EAPF believes these reports to be essential to minimise environmental damage, maintain good community relations and manage the risks to the reputation and financial value of the company.

Agreed by the Environment Agency Pension Committee - Investment Sub-Group 03 March 2014