Environment Agency
Pension Fund

Responsible investment policy

Introduction

We are long-term investors who aim to deliver a truly sustainable Pension Fund ensuring that it is affordable, delivers financially to meet the objectives of our scheme employers and is invested responsibly.

The Fund's fiduciary duty is to act in the best long-term interest of our members and to do so requires us to recognise that environmental, social and governance (ESG) issues can adversely impact on the Fund's financial performance and should be taken into account in the funding and investment strategies and throughout the funding and investment decision making process.

Responsible Investment Principles

Our Statement of Investment Principles (SIP) fully embeds our commitment to Responsible Investment (RI) and the balance of responsibilities in delivering a sustainable and sufficient return on all our investments.

A summary of the key Responsible Investment principles;

- Apply long-term thinking to deliver long-term sustainable returns.
- Seek sustainable returns from well governed and sustainable assets.
- Apply a robust approach to effective stewardship.
- Responsible investment is core in our skills, knowledge and advice.
- Seek to innovate, demonstrate and promote RI leadership and ESG best practice.
- Apply evidenced based decision making in the implementation of RI.
- Achieve improvements in ESG through effective partnerships that have robust oversight.
- Share ideas and best practice to achieve wider and more valuable RI and ESG outcomes.
- Be transparent and accountable in all we do and in those in which we invest.

We believe the application of these principles will enable our delivery of our commitments as a signatory to the United Nations Principles of Responsible Investment (UNPRI), best practice standards of national and global stewardship and facilitate the implementation of the Kay Principles.

We became the first Local Government Pension Scheme (LGPS) signatory of the UNPRI in July 2006. The UNPRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact. The principles reflect the view that ESG issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary duty. The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption. We complete the annual report on progress in implementing the principles and publish on our website.

We also comply with the UK Stewardship Code and other global codes. Our Stewardship Compliance Statement is available on our website. We also require all our managers to comply and apply best practice standards of global stewardship.

Implementation

We acknowledge that goals we set to demonstrate our implementation take time and perseverance. We are committed to making continual improvement to the processes that underpin the delivery and provide updates on our progress through our website, newsletters and annual reporting.

Priorities

We believe in a risk based approach to setting priorities at both a strategic and fund level. Two key priorities for the fund are reducing the impact of climate change and improving the communication of our work on responsible investment to all our stakeholders.

Climate change

In October 2015, we made the commitment to ensure that our Fund's investment portfolio and processes are compatible with keeping the global average temperature increase to remain below 2°C relative to pre-industrial levels, in-line with international government agreements.

We set out our Policy to address the impacts of climate change, in which we detail our beliefs, our goals to invest, decarbonise and engage. An extract from the policy is shown on the right.

We have a dedicated area on our website regarding climate change as well as all aspects of work to deliver a responsibly managed pension fund.

Engaging with our stakeholders

A comprehensive overview of our responsible investment approach is available on our website, with updates in our newsletter and other media. We are committed to providing regular updates on key topics, voting and engagements.

Through actively working with asset owners, fund managers, companies, academia, policy makers and others in investment industry we address a wide range of environmental, social and governance risks. We aim to be flexible and respond to opportunities and risks as they emerge but we also identify key themes or ESG risks that as a fund will be more actively involved these include;

- **Fiduciary duty** – promoting the implementation of the Law Commission recommendations.
- **Long termism** – furthering the implementation of the Kay review recommendations.
- **Sustainable capitalism** – communicating positive case studies from our portfolio.
- **Climate change** – engaging with pension funds and other stakeholders to develop and share best practice.
- **Water risk** – promote the risk identification and integration
- **Human capital** – promoting business case for diversity/ inclusion and consideration of the Living Wage.

Extract from our Policy to address the impacts of climate change

Our climate change investment beliefs

We believe that:

- Climate change presents a **systemic risk** to the ecological, societal and financial stability of every economy and country on the planet, with the potential to impact our members, employers and all our holdings in the portfolio.
- Climate change is a **long term material financial risk** for the Fund, and therefore will impact our members, employers and all our holdings in the portfolio.
- Considering the impacts of climate change is both our **legal duty**[1] and is entirely consistent with **securing the long term returns** of the Fund and is therefore acting in the best long term interests of our members.
- **Selective risk-based disinvestment** is appropriate but **engagement for change** is an essential component in order to move to a low carbon economy.

Our climate change goals to invest, decarbonise and engage

We aim by 2020 to:

- Invest 15 per cent of the fund in low carbon, energy efficient and other climate mitigation opportunities. This will contribute to our wider target to invest at least 25 per cent of the Fund in clean and sustainable companies and funds, across all asset classes.
- Decarbonise the equity portfolio, reducing our exposure to "future emissions" by 90 per cent for coal and 50 per cent for oil and gas by 2020 compared to the exposure in our underlying benchmark as at 31 March 2015. 'Future emissions' is the amount of greenhouse gases that would be emitted should these reserves be extracted and ultimately burnt, expressed in tonnes of carbon dioxide equivalent.
- Supported progress towards an orderly transition to a low carbon economy through actively working with asset owners, fund managers, companies, academia, policy makers and others in investment industry.

The full policy is available here https://www.eapf.org.uk/investments/climate-risk

Funding strategy and strategic asset allocation

We adopt a flexible approach in our investment strategy and asset allocation so that we can respond responsibly and robustly to both the changing global economic environment and impacts of climate change. Responsible investment considerations form part of the asset allocation decisions and as such form a core component of training and briefings to ensure our Pensions Committee and Investment sub-committee maintain their high level of knowledge. ESG is integrated into our decision making for all asset classes, additional guidance on ESG risks and opportunities is available on our website and reviewed regularly.

Example: Use of Index Funds
Indexed or tracker funds are an important part of our overall investment strategy. They offer highly diversified investments and low management costs. The use of pooled and indexed products can be cost- effective. However, it does reduce the range of governance tools open to us. Although we have much less control in an index fund, we are still able to exercise some measure of influence – primarily through voting and company engagement. **Hermes Equity Ownership Services (HEOS)** provide comprehensive engagement and voting service on our index funds. To provide context, they vote at over 11,000 company meetings a year. They are able to exert more influence on the companies we invest in by representing the combined assets of all their clients.

Working with our fund managers

We believe in being an active owner. We do this directly, through our managers or through specialist service providers. With respect of investments in the United Kingdom, we require our managers to have due regard to the **UK Corporate Governance Code** and, in respect of overseas investments, have due regard to relevant recognised standards. We can therefore delegate much of the day-to-day environmental, social and governance activities to our managers and overlay service provider.

The capability and performance of each manager, in this area, is a key component of our selection and retention criteria and is detailed in our investment management agreements. Together, with our managers, we identify engagement opportunities from within their portfolio. We receive regularly reports on and monitor progress throughout the year.

For our listed equity investments we aim to exercise the Fund's voting rights in all markets, where practicable. Our fund managers vote at their discretion and must confirm that they subscribe to the principles of good corporate governance and, when exercising their vote, take this into account. A detailed voting policy is available on our website.

Working with others

We work collaboratively with other funds in both the public and private sector on a wide range of responsible investment topics. A key area is working with the financial sector, particularly asset managers on supporting the development and innovation in integrating ESG into investment decision making. We actively work with and support the initiatives of other bodies with similar goals, including the **Local Authority Pension Fund Forum (LAPFF), Institutional Investors Group on Climate Change (IIGCC)** and **Carbon Disclosure Project (CDP), Carbon Tracker Initiative, ShareAction** and the **UK Sustainable Investment and Finance Association (UKSIF),**

Approved by the Pensions Committee on 23 March 2016 and will be reviewed in 2017.