

Stewardship code compliance statement



Environment Agency Active Pension Fund (EAPF) is fully committed to responsible investment. We believe there is a considerable body of evidence that well governed companies produce better and more sustainable returns than poorly governed companies. We also think investors, including pension fund managers and shareholders, could influence the Board/Directors of underperforming companies to improve the management and financial performance of those companies.

Being a responsible owner

Our **Responsible Investment Policy** set outs the areas of engagement that, as a Fund, we have selected to have particular focus. These include promoting ESG as part of delivering and fiduciary duty, sustainable capitalism, water risk, climate risk and human capital management.

To complement and support the implementation of our themes, we work with our managers, specialist engagement provider **Hermes EOS** and other service providers. We are also members of the **Local Authority Pension Fund Forum (LAPFF)**.

All the assets of the pension fund are selected by external fund managers. This means that it is our external fund managers who make the detailed decisions about which companies we invest in. This is important in avoiding conflicts of interest for our employers, but also gives us the flexibility to select the best managers for each set of assets. The skills needed to decide environmental and other issues vary from one asset class to another. We place a high importance, and spend significant time and energy, in selecting good quality managers who deliver financially and can manage the wide variety of risks that come with making investments.

Compliance with global best practice

We are global investors and apply our principles of good stewardship globally, whilst recognizing the need for local market considerations in its application. Reflecting on this, we have summarised our compliance with the various codes and principles relating to good stewardship. There are now so many codes that we no longer map each one but base our statement on the requirements principally outlined in the UK code but supplemented by additional requirements outlined in the codes of Japan and Canada (CCGG).

Policy Commitment	Our Fund fully follows this principle:	And in practice:
<p>1. Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.</p>	<p>Our Stewardship responsibilities extend over all the assets held by the Fund with our approach and principal relationships outlined above.</p> <p>The EAPF has a comprehensive suite of published policy documents which define how we discharge our Stewardship responsibilities, including but not limited to our Investment Strategy Statement, Responsible Investment Policy and our Voting guidelines.</p> <p>Roles and responsibilities with respect to the discharge of Stewardship activities are set out in our Responsible Investment Policy.</p>	<p>Our website provides comprehensive information on our policy commitments and evidence of implementation of our stewardship responsibilities.</p> <p>We have a dedicated resource to oversee Stewardship, voting activity is monitored throughout the proxy period and a dedicated area of our website on our Stewardship activities is updated regularly.</p> <p>All new Investment Management Agreements (IMAs) include requirements to observe the FRC's UK Corporate Governance Code and UK Stewardship Code.</p> <p>We do not undertake any stock lending on directly held stocks.</p>

Conflict of Interest	Our Fund fully follows this principle:	And in practice:
<p>2. Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.</p>	<p>We have a comprehensive Conflicts of Interest Policy which is available on our website.</p> <p>A public register of Pension Committee members' declaration of interests is also maintained and audited annually.</p>	<p>Declaration of conflict of interests is a standing agenda item at the start of all Pensions Committee and Investment Sub Committee meetings.</p> <p>The need to avoid conflicts of interest is also highlighted in our Investment management agreements (IMAs) and contracts with external parties.</p> <p>Our external fund managers make the detailed decisions about which companies we invest in (please see above).</p>
Corporate engagement	Our Fund fully follows this principle:	And in practice:
<p>3. Institutional investors should monitor their investee companies.</p> <p>Orientation to sustainable growth.</p>	<p>As investors we own a portion of the companies we invest in. We can use our rights as owners to encourage companies to act more responsibly and improve their practices.</p> <p>We monitor all managers and focus on the following areas:</p> <ul style="list-style-type: none"> • Philosophy (investment, corporate culture) • Policies (commitment, framework) • People (numbers, retention, cognitive diversity) • Processes (investment, reporting, stewardship) • Participation (thought leadership) • Partnership (working together) <p>Our primary engagement work is undertaken by our managers our specialist engagement provider.</p> <p>In addition to the requirement for all our managers to consider how environmental, social and governance factors might impact companies sustainability, we have a target to maintain our investment of 25% of the Funds assets in clean and sustainable companies by 2020.</p>	<p>Monitoring of specific investee companies is detailed in our quarterly reports and discussed at each fund manager review meeting.</p> <p>Each quarter we publish a report on our website on the engagement and voting activity undertaken by Hermes EOS.</p> <p>We will participate in engagement activities directly as part of support of LAPFF. We publish the quarterly LAPFF engagement report.</p> <p>Responsible Investment activity is presented as part of our reports to our quarterly Investment Group and summarised in Pensions Committee reports.</p>

Enhancing value & integration	Our Fund fully follows this principle:	And in practice:
<p>4. Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.</p> <p>Common understanding to solve problems.</p> <p>Incorporating corporate governance and sustainability considerations</p>	<p>Our Responsible Investment Policy details our engagement policies.</p> <p>We have specific objectives and targets in relation to engagement. These are specifically focused on climate change, water risk, fiduciary duty as well specific occupations e.g. investment consultants, actuaries, etc.</p> <p>We review each fund manager’s policies on engagement and escalation prior to appointment and, during our regular review meetings, we review their engagement activity and support the planned escalation of activity.</p>	<p>Our primary corporate engagement approach relating to climate change is based on the analysis from the Transition Pathway Initiative (TPI). Escalation is incorporated in the analysis. <u>EAPF policy clearly states that insufficient progress can lead to disinvestment, we believe this to be the ultimate intervention.</u></p> <p>A public report on engagement activity undertaken on our behalf by Hermes EOS (external engagement provider) is available on our website.</p> <p>We identify engagement plans with each active equity manager on an annual basis.</p> <p>We analyse our own portfolio looking at ESG risks to shareholder value and work with our fund managers to address those issues in their activities.</p>
Working with others	Our Fund fully follows this principle:	And in practice:
<p>5. Institutional investors should be willing to act collectively with other investors where appropriate.</p>	<p>As investors, we own a portion of the companies we invest in. We can use our rights as owners to encourage companies to act more responsibly and improve their practices. Acting collectively with other asset owners increases the effectiveness of the engagement.</p> <p>We actively work with other pension funds, asset managers and other organisations to promote responsible investment. These include, but are not limited to, the UNPRI, IIGCC, PLSA and UKSIF.</p>	<p>All our managers work collaboratively with other parties. Collaborative engagements, research and advocacy work is detailed in our quarterly and Annual Report and Financial Statements to our Investment Group, Pensions Committee and beneficiaries.</p> <p>See the end of the statement for contact details for collaborative engagements.</p>
<p>Monitoring and engaging with regulators and policy makers</p> <p>(Canadian - CCGG code)</p>	<p>Our direct engagement is focused on working with regulators, other institutional investors and services providers to the financial industry.</p>	<p>Engagement activity with regulators includes responding to public consultations both individually and collectively through industry groups as well as support of public advocacy events.</p> <p>Responses to consultations are published on our website.</p>

Voting	Our Fund fully follows this principle:	And in practice:
<p>6. Institutional investors should have a clear policy on voting and disclosure of voting activity.</p> <p>The policy should be designed to contribute to sustainable growth on investee companies.</p>	<p>The Fund believes that voting is integral part of the responsible investment and stewardship process and as such is delegated to managers to vote on all the Fund's shares at their discretion.</p> <p>All our equity manager have voting polices and most are publicly available. Similarly, our larger managers publish voting records on their website and others on request.</p> <p>For our index tracking funds, the voting us undertaken by Hermes EOS.</p> <p>We detail on what basis our votes are cast and the guidelines we direct our managers to use in our Responsible Investment Policy.</p> <p>We publish specific guidelines on our Voting on Environmental Issues.</p>	<p>We demand high standards in stewardship from our managers and their approach and associated policies are evaluated as part of the manager selection process.</p> <p>Voting reports are included in quarterly reports and voting execution is evaluated as part of on-going manager's monitoring.</p> <p>For environmental issues we have written specific guidance and reserve the right to direct the voting in accordance with these guidelines.</p> <p>We actively work with our overlay provider to provide input and advice on matters relating to environmental issues and other issues if our expertise can assist.</p> <p>A full voting report and statistics are available on our website. This updated no less than every 6 months.</p>
Reporting	Our Fund fully follows this principle:	And in practice:
<p>7. Institutional investors should report periodically on their stewardship and voting activities.</p> <p>This report should include voting and be shared with clients and beneficiaries.</p>	<p>We include a comprehensive annual review of our activities in our Annual Report and Financial Statements and member communications.</p> <p>We are committed to being open and transparent and use a variety of media to communicate with our stakeholders.</p> <p>The EAPF team are accredited to Customer Service Excellence in which our work on responsible investment and stewardship is has been commended.</p>	<p>Our website provides comprehensive information on our policy commitments and evidence of implementation of our stewardship responsibilities. Public Engagement Reports are updated quarterly on our website. www.eapf.org.uk</p> <p>We require all our managers to provide us with annual assurance on internal controls and compliance through international standard or a UK framework such as AAF01/06.</p>
Skills and knowledge	Our Fund fully follows this principle:	And in practice:
<p>8. To contribute positively, Institutional investors should have in-depth knowledge of the investee companies and their business environment with the skills and resources needed.</p> <p>(Japan SC principle 7)</p>	<p>We believe in being an active owner. We do this directly, through our managers or through specialist service providers.</p> <p>We have dedicated resource for Responsible Investment strategy, policy and oversight. In-depth knowledge of investee companies is delegated to the mangers that select and monitor the companies on a day-to-day basis.</p>	<p>The capability and performance of each manager, in assessing environmental, social and governance factors of investee companies and their business environment, is a key component of our selection and retention criteria.</p> <p>Monitoring of fund manager performance is reviewed and reported regularly to Investment Sub-committee and forms part of formal annual review of each manager.</p>

If you have any feedback and enquires about our approach to stewardship, please contact Martin Parsons by email EAPFInvestment@environment-agency.gov.uk

Approved by the Pensions Committee on 28 September 2017 and will be reviewed in 2018.