

Investment Strategy Statement



Introduction

The Environment Agency Active Pension Fund (the Fund or 'EAPF') is a funded, defined benefit pension scheme with around 26,500 members and assets of approximately £3.8bn as at 30 September 2019. Full details of the EAPF and our activities can be found on www.eapf.org.uk.

This Investment Strategy Statement (ISS) sets out the principles and strategy that govern our process for investing the assets of the Fund as required by Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. This Statement was approved by the Environment Agency Pensions Committee on 25th March 2020 after receiving input and advice from its investment staff, investment consultants, independent investment adviser and consulting actuary.

We will refer to this Statement when making investment decisions to ensure they are consistent with our investment principles and strategy. As set out in the regulations, the Pensions Committee will review the Statement from time to time, but at least every three years following the triennial valuation of the Fund.

The Statement should be read and will be implemented in conjunction with the Fund's Governance Policy, Funding Strategy Statement, Responsible Investment Policy and Global Stewardship Statement. These provide and state our more detailed requirements and supplementary guidance on these specific topics for our external fund managers. It is supported by the contents of our investment management agreements for each investment mandate. Details of the investment and performance objectives for each mandate are published in our Annual Report and Financial Statements.

Fund governance: Investment

Our Governance Policy sets out how the Fund is governed and the role of the Pensions Committee; Pension Board; Investment Sub-Committee; and Environment Agency officers on investment matters. The Environment Agency Board appoints the Pensions Committee and Pension Board, and delegates responsibility for compliance with legislation and best practice, overall strategic asset allocation, investment policy, budgets and the appointment of fund managers and investment advisers. The Environment Agency Board approves the Annual Report and Financial Statements of the Fund, which includes the policies under which the Fund is governed.

The Investment Sub-Committee normally consists of seven representatives of the Pensions Committee and receives input and advice from professional investment officers, specialist investment consultants, an independent investment adviser, the Fund actuary, and other professional advisers as required.

The Investment Sub-Committee has received delegated responsibility to prepare and recommend the investment strategy to the Pensions Committee and, within the context of the agreed investment strategy, to decide on the structure of mandates and their specification, to appoint fund managers, to monitor the performance of fund managers, and to terminate or alter mandates. This is done in partnership with the Brunel Pension Partnership (see later).

We have delegated day-to-day management of the Fund's assets to a number of fund managers. They have full discretion to manage their portfolios, subject to their investment management agreements with us and in compliance with the Fund's own policies including this ISS. We do not seek to direct the managers on individual investment decisions.

We have appointed a performance measurer independent of the fund managers to calculate risk and return measures for each manager and the Fund overall. We have also appointed a global custodian who is responsible for the safe-keeping of the directly-held assets of the Fund and who works in close liaison with each fund manager. State Street fulfils both of these functions.

The Fund's actuary is responsible for performing a formal valuation of the Fund every three years in order to assess the extent to which the assets cover accrued liabilities and to inform the development of an appropriate Funding Strategy Statement. The Funding Strategy takes account of, and informs the development of, our investment strategy and this ISS.

In all matters, our fiduciary obligations to Fund members are paramount, and neither the Fund's committees nor the Fund's officers would take any action which would be in conflict with these obligations. Similarly, fund managers are required to invest in the best interest of the Fund.

High Level Investment Principles

Working with our partners in the Brunel Pension Partnership, we have agreed a set of investment principles with the intention that they provide a framework for the investment strategy, operations, manager selection, monitoring and reporting. The principles are also designed to meet the Ministry for Housing, Communities and Local Government's Local Government Pension Scheme: Investment Reform Criteria and Guidance and the requirements and expectations of Financial Conduct Authority. They can be applied to all asset classes, although the detail of operation will vary by asset class.

The principles do not impose any restrictions on type, nature of companies or assets held within the portfolios. The principles do place an expectation that recognised best practice standards in governance, risk management, stewardship and value for money will be delivered.

Long-term investors	We are long-term investors: we implement our funds investment strategies that require productive assets that contribute to economic activity, such as equities, bonds and real assets. This may include the delegated responsibility to provide sustainable and sufficient return on their assets.
Responsible investors	We are responsible investors: we believe that in the long term we will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long term sustainable success of the global economy and society.
Best practice governance	We adopt best practice collective governance with appropriate oversight, prioritisation, delegation and decision making at the right level, and clear accountability.
Decisions informed through experts and knowledgeable officers and committee	We make informed decisions based on extensive expertise including trained and insightful operations' governance members, experienced and professional officers and high quality, knowledgeable advisors.
Evidence and research at heart of investments	We take an evidence and research based approach to investment: continually learning and reappraising from academic research, investment professionals, and our peers, and seek continual development in our understanding of investment.

Leadership and innovation	We are prepared to be innovative and demonstrate thought leadership in collective investment, within the requirement of prudence and our joint fiduciary duty.
Right risk for right return	We will seek right risk for right return. We will make our collective investments work as hard as possible to meet our funds' objectives: we will provide the right structure of sub funds and managers within asset classes. While we take account of market and economic levels in our decision making, we will avoid making decisions on purely a short term basis.
Full risk evaluation	We will be comprehensive in our consideration of our funds' risks assessed on their liabilities and contributions; consider financial and non-financial risk as appropriate; offer a pooled structure to accommodate the need to diversify risk, but also recognise the limits of that diversification – as long term investors we accept that our investment success depends substantially on the sustainable growth of the economy.
Responsible stewardship	We will enable our funds' to exercise responsible stewardship of the assets they hold, and act as a collective responsible voice in the broader investment community.
Cost effective solutions	We will seek the most cost-effective solutions to achieving our funds' objectives and implementing these principles collectively: we recognise the impact of costs on the Funds, but we are prepared to pay for active management and other services when we believe that the costs incurred are likely to be justified by the benefits. We will seek to gain leverage from our collective status within the Brunel Pension Partnership through reduction in fees and avoidance of cost through increased resilience and sharing our peoples' strengths, knowledge and expertise.
Be Transparent and accountable	We believe in the importance of being transparent and accountable, to ensure correct decisions are taken and to minimise risk. This applies both in our own operations, those we work with, and our investments.
Collaborate	We will collaborate with others whenever possible, to share ideas and best practice; to improve effectiveness and to minimise costs.

Responsible Investment

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. We seek to be a leading responsible investor.

Being responsible investors to EAPF is to;

- a) Consider a wide range of issues e.g. environmental or social impacts and what financial impact they could have both in the short and long term.
- b) Look to work with and influence others.
- c) Act as good owners of the companies, assets and funds in which we invest.
- d) Operate in an open and transparent way.

Our fiduciary duty is to act in the best long-term interests of our members. To do so properly requires us to recognise that environmental, social and governance issues can positively and negatively impact on the Fund's financial performance and that they should be taken into account in our funding and investment strategies, and throughout the funding and investment decision-making process. Full details are contained in our [Responsible Investment Policy](#), and other associated policies, notably [Responsible Investment Strategy](#) and our [Policy to Address the Impacts of Climate Change](#). Both the Brunel Pension Partnership's and the Fund's underlying investment managers are expected to comply with these policies when implementing the mandates on our behalf.

The Brunel Pension Partnership Investment Principles clearly articulate our commitment, and that of each Fund in the Partnership and its operator (Brunel Ltd), to be responsible investors and as such recognise that social, environment and corporate governance considerations are part of the process in the selection, non-selection, retention and realisation of assets. One of the potential principal benefits, outlined in the Brunel Pension Partnership business case, achieved through scale and resources arising from pooling, is the improved implementation of responsible investment and stewardship.

Every portfolio, in every asset class, under the Brunel Pension Partnership, explicitly includes responsible investment and an assessment of how social, environment and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing shareholder value in relation to each portfolio and its objectives. Brunel Pension Partnership has published a Responsible Investment Policy Statement which lays out our common approach in more detail. More information is on the [Brunel website](#).

Both our Pensions Committee and Pension Board have member representatives who actively engage with beneficiaries and other stakeholders to ensure the Fund is aware and can respond effectively to all member concerns. We also actively use our website, newsletters and member webinars to engage directly. We also respond, track and report all member and stakeholder enquires as part of standard quarterly reporting. The Fund is accredited with Customer Service Excellence which requires high standards of stakeholder engagement.

We became the first Local Government Pension Scheme (LGPS) signatory of the UNPRI in July 2006 and Brunel Ltd was the first asset pool in April 2018. 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.

Investment objectives

The EAPF Active Fund is an open, defined-benefit pension fund with strong employer backing, positive cash-flows and pension obligations stretching to the end of this century. In setting our investment strategy we seek to balance twin objectives: first, to achieve sufficient long-term returns for the scheme to be affordable to employers now and in the future, and second, minimising risk of having to increase the contribution rate in the future.

To achieve this, the Fund needs to invest in assets which differ from our pension liabilities. We seek to develop an investment portfolio with exposure to these return seeking assets in the most risk efficient way. We look to build a portfolio which has high probability of exceeding the asset outperformance target assumed by our actuary, while limiting the probability of the funding level falling below 90% at

the next three actuarial valuations, as this should be effective at substantially reducing the potential need to increase the contribution rate.

It is not possible to control the absolute return on investments but over the long-term the Fund believes its investment strategy should result in a high probability of achieving the objectives of its Funding Strategy Statement.

In the short-term, returns are measured against a Fund-specific benchmark and the Actuary prepares quarterly intra-valuation updates on the Fund's funding level. Further details on the expected returns from investments and how they interact with the Actuary's formal triennial valuation of the Fund's assets and liabilities are included in the Funding Strategy Statement.

Each active manager has an outperformance target against its benchmark. Over the long term the targeted outperformance is expected to lead to significantly lower contributions than would otherwise occur.

The suitability of different types of investment

The Fund may invest in any investment it considers appropriate. In selecting categories of investments to invest in, the Fund has regard, inter alia, to return potential, financial risk, liquidity, management costs and any potential environmental, social and governance risks and opportunities. When considering costs and charges, both transparency and the need to control these are important. Recurring annual costs and charges are a drag on performance. In accordance with our principles above, we seek to invest in areas contributing to long term economic activity rather than assets where returns are based on speculation or short term trading.

Assets currently held include, but are not limited to, equities (both listed and private), gilts, corporate and other bonds, private debt and real assets including property, infrastructure, forestry and agriculture assets.

Certain asset classes are not considered suitable for EAPF, particularly if they are not compatible with our investment principles. Asset classes where returns are based on short term speculation or trading, or where it is not clear how they generate an underlying return are generally not considered suitable. Other assets classes are found not to be suitable after review on the grounds of high costs, inadequate returns for the risk involved, unclear or unquantifiable risks, insufficient diversification or effective duplication of existing allocations.

The range of assets we choose to invest in are always reviewed as part of our investment strategy review process. At our latest strategy review process a number of possible new areas were considered. It was decided to further explore an allocation to liability matching assets and multi-asset credit at this time.

Social and sustainable Investments

Social investment can be defined to include a wide spectrum of investment opportunities. The EAPF definition of social investment is an investment that addresses societal challenges but generates competitive financial returns. Societal challenges include all issues commonly regarded under social, environmental or governance headings.

Our wider definition of sustainable investments includes:

- a) Social investments and those with significant revenues involved in energy efficiency, alternative energy, water and waste treatment, public transport,

- b) property, infrastructure, agriculture or forestry investments with a low carbon or strong sustainability criteria, and
- c) companies (often equities and bonds) with a progressive environmental, social or governance practices that may enhance investor value.

The Fund has set itself the target to have over 33% of the Fund invested, across all asset classes, in such opportunities. We report a breakdown of the types of investment in our annual report and financial statements.

Asset allocation

The strategic asset allocation of the Fund is the principal way we achieve a diversity of assets of different types. It is set after considering the results of our funding strategy modelling and our asset allocation and risk modelling. This considers various asset allocation mixes, return objectives and risk levels. Having too modest a return target will reduce short term risks but will increase the likelihood that longer term returns are insufficient, resulting in contribution increases and undermining the affordability of members' benefits. Too high a return target, while it may increase average long term returns and the potential for contribution reductions, will increase overall risk resulting in a wider range of outcomes, including a higher risk of deficits and the need to increase contributions. Clearly, for a particular level of return, we seek to minimise the level of risk taking through efficient diversification and appropriate allocation. It is this analysis that determines the overall appetite for risk in the Fund. Should the analysis fail to find a satisfactory balance of risk and return, with too high a risk of contribution instability or falling funding levels, then the funding strategy may need to be revisited.

In setting the strategic asset allocation we seek a long-term rate of return sufficient to meet our investment objectives. Based on our funding strategy and long term investment analysis we estimate an appropriate overall expected return of +3.1% over the expected return on gilts will be sufficient on the balance of probabilities, but also consider the possible range of return outcomes and in particular the likelihood of lower returns. We also consider the challenges presented by volatile market conditions, changes to the benefit structure of the LGPS, the demographics of the Fund, and possible transfers out; all of which potentially impact on the most suitable investments and the appropriate allocation to them.

At the highest level our asset allocation splits the investment portfolio into three broad areas: equities, bonds, and diversifying growth assets. Equities and bonds are traditional asset classes. Equities provide good long terms returns but have significant risks. Bonds are typically lower risk, and indeed are more closely correlated with our liabilities, but returns are low. Diversifying growth assets covers a range of assets that we consider to offer attractive returns on a risk adjusted basis. It is split into 3 areas: real assets: (property, infrastructure, and agriculture); illiquid credit/private debt (direct lending to companies and investments); and growth fixed income (bond investments offering higher returns but lower correlation to conventional fixed income).

We have adopted a strategic asset allocation (SAA) benchmark. The framework is intended to provide a degree of high level risk control, ensuring asset allocation remains broadly appropriate and diverse, while being flexible enough to enable the Fund to respond to changes in funding levels, market conditions and other factors.

The SAA benchmark is set, with input from the Fund's advisers, after considering current funding level, the return requirements and acceptable risk of the Fund, as well as market conditions and valuations. The Investment Sub-Committee sets this benchmark and it is reviewed at least annually by the Pensions Committee. The target is typically expected to be achieved in around 3 years as the allocations to illiquid allocations are built up over time. We have updated the target this year. The actual asset allocation may also vary because of movements in markets and the availability of suitable investment opportunities.

The strategic asset allocation (SAA) benchmark is laid out below.

Asset Class	Strategic Asset Allocation %	Framework Range %
Equities (Public & Private)	40.5	-
Public Equities	36.5	± 5.0%
Diversifying Growth assets	25.0	-
Real assets including:	12.0	-
Property	5.0	
Infrastructure	5.0	
Farmland and Timberland	2.0	
Illiquid Credit / Private Debt	5.0	
Growth Fixed Income / Multi Asset Credit ("MAC")	8.0	-
		-
Fixed income assets	33.5	±5.0%
Fixed / Interest Linked Gilts (LDI)	11.5	-
Corporate bonds	22.0	
Cash	1.0	
Total Defensive Assets	34.5	

The asset allocation results in a significant weight being given to equities, which we consider appropriate given the long term nature of our liabilities profile and our investment objectives, but this is spread across a range of managers with different approaches and styles (see below). As our funding level permits we are also gradually reducing the allocation to equities to reduce our overall investment risks, although we expect to retain a significant equity allocation.

Allocations to certain areas (real assets; illiquid credit/private debt; private equity/specialist opportunities) are illiquid and the actual level of investment will depend on the rate of drawdown once investments are identified, any changes in value and the pace at which capital is returned. They may therefore vary significantly from target levels. In particular, should the above ranges be exceeded as a result of market movements, while new investments will not be made, there will be no immediate requirement to reduce exposure through forced sales.

We regularly review the balance between exposure to growth assets (equities and diversifying growth assets) and lower risk assets (fixed income and cash), and if they vary by more than a certain amount from the benchmark asset allocation, we will rebalance the portfolio back towards the benchmark asset allocation as much as practical.

EAPF uses this SAA benchmark for investment performance purposes....

The Fund's SAA is publicly disclosed within the Fund's Annual Report and Financial Statements.

Managers and Mandates

Within each asset class the Fund seeks to have a well-diversified portfolio. This is achieved by ensuring each investment manager holds an appropriate spread of investments and, within certain asset classes, working with a range of managers to ensure a diversity of styles and expertise.

We have a specialist fund manager structure with managers appointed with a mandate to manage assets in a specific area. This enables us to access managers with particular expertise and skills. Each mandate has a detailed specification, including a mandate-specific benchmark, performance target and risk controls.

Subject to compliance with both this Investment Strategy Statement and associated policies, and the terms of their Investment Management Agreements, which includes the requirement to maintain a diversified portfolio, all the managers have full discretion over the choice of individual investments.

The Fund uses a combination of passive (indexed), and active approaches to investment management, based on consideration of availability, cost, flexibility and return potential. Passive approaches aim to deliver the return of the underlying market index and consequently contain a very large number of holdings. We consider the case for integrating responsible investment within our passive investments, particularly where suitable indices exist. Within global equities, a significant allocation has also been made to both a quantitative fund seeking sustainable exposure to the value factor, and to mandates managed using quantitative low volatility approaches. These aim to provide improved risk/return characteristics over conventional passive approaches. We have also introduced a buy-and-maintain approach, in corporate bonds, which has a quasi-passive approach to investing but does not seek to follow a benchmark index. This is useful particularly where benchmarks are deficient from the Fund's perspective.

The remainder of the Fund is managed on an active basis, using investment managers to select the investments they consider to have the best return potential. This portion of the Fund is spread across global equities, corporate bonds, property/real assets, and private equity. The decision to appoint active managers is only made after careful consideration of the likely costs, the likelihood that the manager will be able to add value after fees, the impact on risk, and the ability of the manager to implement the responsible investment strategy. Once appointed, managers are carefully scrutinised for value for money, and any reasonable opportunities to reduce costs will be pursued.

In keeping with our investment principles, we focus on developing successful long term partnerships with our managers. We have developed a detailed approach to investing long term, including establishing "covenants" with our managers to outline what is expected of each other. In assessing managers, we focus on long-term performance potential including aspects such as idea generation and team stability, rather than short term performance. Where managers are underperforming we seek to work with them to address any issues and improve performance.

Risk

We take the management of risk in our investments very seriously. We maintain a detailed risk register of all the investment-related risks that could affect the Fund, which monitors their severity and the implementation of mitigating actions.

To achieve the required returns, the Fund needs to invest in assets involving a degree of risk and so although we seek to manage our investment risk we cannot eliminate it. The most fundamental risk is that the Fund's assets produce lower long-term returns than those assumed by the Fund's actuary, leading to a significant deterioration in the Fund's funding position.

This risk of deteriorating Fund asset values cannot be entirely avoided (for instance if all major investment markets were to decline in unison) but it can be mitigated by ensuring that the assets of the Fund are invested across a number of different asset classes and markets. Diversifying assets across different asset classes is widely recognised as being an effective way of mitigating the risk of reductions in the value of the Fund's assets.

Different types of investment have different risk characteristics and return potential. For example, historically the returns from equities have been higher than from bonds but they are more risky, particularly short term. In setting the investment strategy we consider the expected risks and returns from various asset classes and the correlation between these returns to develop a strategy with an adequate expected return with an acceptable level of risk. Detailed modelling analyses the expected results of different strategies (in terms of funding levels and contributions) over a range of possible long term market outcomes to determine the preferred strategy. This strategy is then reflected in the Fund's strategic benchmark.

A separate investment risk is the risk of underperforming the Fund's strategic benchmark. This relative risk is less significant than the strategic risk above, but we still seek to manage it. It can arise either because asset allocation has deviated from the strategic benchmark allocation or because our fund managers are underperforming. We monitor the actual asset allocation continually and take action if required. Individual managers may, particularly over the short term (a year or less), underperform their benchmark but over the long term we expect them to add value. For the Fund as a whole, the range of managers reduces the risk of significant underperformance.

The Fund believes 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. As such, 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. Our Policy to Address the Impact of Climate Change and the dedicated area of our website provide further details with regard to how we take the climate related financial risks into account.

The Fund is aware of the nature of its liabilities, and considers how closely its different assets match its liabilities. With increasing funding levels and following the last triennial valuation, we are considering the case for liability-driven investments, including explicit liability hedging.

The Fund reviews the potential for active hedging of any aspects of risks (e.g. currency risk). At present the Fund only hedges a small proportion of its listed equity currency risk relating to its low volatility equity allocation. However, any currency risk in overseas fixed interest exposure would normally be hedged, and we have introduced currency hedging for lower risk assets such as private debt and overseas infrastructure. We continue to monitor the case for hedging currency and other risks more widely.

There are also a variety of other risks to be considered, for example operational risks of loss arising from default by brokers, banks or custodians. Here, the Fund is careful only to deal with reputable service providers to minimise counterparty risks.

Liquidity and the realisation of investments

The majority of the Fund's investments will be made in bonds and stocks that are listed on recognised Stock Exchanges and may be realised quickly if required. Our corporate bond holdings are generally reasonably liquid, but may be harder to realise in certain market conditions. However, given the strong positive cash inflows of the Fund, and the long term nature of the Fund, we are satisfied that a significantly greater proportion of the Fund is held in liquid assets than is likely to be needed to meet any expected or unexpected demands for cash.

The materially illiquid assets within the Fund are those held in private equities, real assets and private debt. These are normally held through pooled funds. As a long term investor, we regard it as entirely appropriate to hold such illiquid assets. In particular as we expect such funds to benefit from an enhanced return due to an "illiquidity premium" which compensates for the long term nature of these investments. Furthermore, all funds we invest in will have a long term strategy for the realisation of their investments, through sales, repayments or income. We do not expect to exceed a 25% allocation to illiquid assets in aggregate at present.

Stewardship and the exercise of our rights as owners

The EAPF is a signatory of the UK Stewardship Code and our Stewardship Code Compliance Statement evidences our compliance with both the UK Code and other global best principles of good stewardship. We are preparing for the requirements of the 2020 UK Stewardship Code and will report against it in due course.

Engagement

Our Responsible Investment Strategy set outs the areas of engagement that, as a Fund, we have selected to have a particular focus on. These are climate change, using resources sustainably and water.

Where appropriate and in line with our Investment Strategy and Responsible Investment Strategy, we support engagement initiatives which will deliver real benefits for the EAPF. We set out details of these in our annual report.

We work with our managers and others in the Finance industry to help bring build a better future. We are members of the Local Authority Pension Fund Forum (LAPFF) and work closely with the IIGCC (institutional Investors Group on Climate Change), UKSIF (UK Sustainable Investment and Finance Association), and the CDP (Carbon Disclosure Project). We also share our understanding and experience through speaking at investment industry events and publishing articles on-line.

The Fund co-founded the Transition Pathway Initiative (TPI). An asset owner-led initiative, supported by asset managers and owners with over \$15 trillion assets under management and advice. The initiative assesses how companies are preparing for the transition to a low-carbon economy.

The Fund is working with the IIGCC Change to help investors understand how to align their portfolios with a 2 degrees world and also, separately, to develop understanding within the investor community of the physical risks from climate change.

EAPF is pledged to the UN initiative on Ocean plastics #CleanSeas. Our action on plastics is one way that we align with 'A Green Future'. Defra recently published 'A Green Future: Our 25 Year Plan to Improve the Environment'. In so far as practicable, EAPF plans to align its investment and engagement activities with the Green Future Plan. We are also involved in an investor-led initiative to reduce plastic pellets from being released to the environment.

The Fund is a member of the 30% Club Investor group, which promotes gender diversity on the boards and executive committees of UK listed companies, and promotes wider diversity and inclusion in the companies in which we invest.

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.

Voting

The Fund believes that voting is integral part of the responsible investment and stewardship process. Voting is delegated to managers to vote on all the Fund's shares. All managers, be they chosen by the Brunel pool, or are our legacy managers, are encouraged to follow the approach set out in [Brunel's Responsible Stewardship policy statement](#). We demand high standards in stewardship from all managers who act on our behalf. We monitor the voting reports of all managers on a quarterly basis

Stock lending

The Fund does not engage in stock lending through active equities, but we do so in some passive or quantitatively managed pooled portfolios through our participation in the Brunel Pension Partnership Ltd. Where stock lending is taking place within pooled funds we seek to arrange where practical to have the ability to recall stocks so that we can vote. As described in the previous section, for environmental

issues we have written specific guidance and reserve the right to direct the voting in accordance with these guidelines. Brunel Pension Partnership details its approach to stock lending in its Responsible Investment Stewardship Policy.

Stewardship in pooling

We will continue to be an active owner in our own right. Further, as part of the Brunel Pension Partnership, we are exploring opportunities to enhance our stewardship activities across the partnership. The Brunel Pension Partnership has published its Responsible Investment Stewardship Policy which outlines its approach and priorities. The policy reflects the priorities of its underlying clients, and we were active in contributing to the policy.

Implementation: Approach to Asset Pooling

We have worked with nine other Administering Authorities to implement the UK Government's requirement to pool the management and investment of our assets with other LGPS Funds, and have established the Brunel Pension Partnership and its operator, Brunel Pension Partnership Ltd. (Brunel Ltd). Brunel Ltd was launched on 18 July 2017 as a new company wholly owned by the ten Administering Authorities (including the EAPF) and obtained authorisation from the Financial Conduct Authority (FCA) in March 2018 to act as an investment manager and an investment advisor.

The arrangements for asset pooling for the Brunel Pension Partnership pool have been formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. Importantly, Brunel Ltd has met the Government's requirement for the pool to become operational from April 2018 and the transition of assets to start.

Investment assets are in the process of being transitioned across from our existing investment managers to the portfolios managed by Brunel by 2020, in accordance with a timetable that has been agreed across the partnership. To date passive Low Carbon and Low Volatility equity mandates have been transitioned to Brunel Ltd.

Until such time as transitions take place, we will continue to maintain the relationship with our current investment managers and oversee their investment performance, working in partnership with Brunel Ltd where appropriate.

The EAPF, through the Pensions Committee, retains the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by Brunel Ltd. We are also able to suggest new portfolios to Brunel Ltd and engage with Brunel Ltd on the structure and nature of existing portfolios.

Brunel Ltd is responsible for implementing the detailed Strategic Asset Allocations of its ten Client Funds by providing and implementing a suitable range of outcome focused investment "portfolios". In particular, it researches and selects the professional external investment managers responsible for making the day to day investment decisions at the portfolios. In some cases, a portfolio has a single external manager who provides the fund structure for a portfolio. In other cases, Brunel Ltd will allocate to a number of different externally managed funds. For active equities Brunel Ltd has sponsored the creation of an authorised contractual scheme (ACS), in conjunction with an external fund operator, as this structure in these markets offers significant cost and tax benefits. Brunel Ltd is the investment manager of the ACS and as above will delegate to its chosen sub managers.

The EAPF is a client of Brunel Ltd and as a client has the right to expect certain standards and quality of service. A detailed service agreement has been agreed which sets out the duties and responsibilities of Brunel Ltd, and our rights as a client. It includes a duty of care of Brunel Ltd to act in its clients' interests.

The governance of the Brunel Pension Partnership is of utmost important to us to ensure our assets are invested well and our needs and those of our beneficiaries are met. Governance controls exist at several levels within the partnership.

- As shareholders in Brunel Ltd we entered into a shareholder agreement with the company and the other shareholders. This gives us considerable control over Brunel Ltd – several matters, including significant changes to the operating model, are reserved matters requiring the consent of all shareholders.
- An Oversight Board, made up of representatives from each of the Administering Authorities and two Fund member representatives, has been established. Acting for the Administering Authorities, it has a primary monitoring and oversight function. Meeting quarterly, it can request papers from Brunel Ltd or interrogate its management. However, it cannot take decisions requiring shareholder approval, which will be remitted back to each Administering Authority individually.
- The Oversight Board is supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities, but also drawing on finance and legal officers from time to time. It will have a leading role in reviewing the implementation of pooling by Brunel Ltd, and provide a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.
- A separate level of governance is provided by the Board of Directors at Brunel Ltd, which are appointed by ourselves and the other shareholders. It comprises four highly experienced and independent non-executive directors, chaired by Denise Le Gal and four executive directors.
- Finally, as an authorised firm, Brunel Ltd has to meet the extensive requirements of the Financial Conduct Authority, with cover areas such as training and competency, policy and process documents, and internal controls.

Following the completion of the transition plan outlined above, it is envisaged that all of our assets will be invested through Brunel Ltd. However, the Fund has certain commitments to long term illiquid investment funds which will take longer to transition across to the new portfolios to be set up by Brunel Ltd. These assets are expected to be managed in partnership with Brunel Ltd until such time as they are liquidated, and capital is returned.

Statement of compliance with the Myners Principles

We fully comply with Lord Myners' six principles codifying a model of best practice in pension fund governance, investment decision-making and disclosure. Evidence is contained within the documents referenced in our Annual Report and Financial Statements and on our website www.eapf.org.uk.

Approved by the Pensions Committee on 25th March 2020.

