Environment Agency
Pension Fund

April 2021

Using our Investments to Build a Better Future

EAPF submission to the UK Stewardship Code

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Welcome from the Chair

We know our members are passionate about sustainability. They are pleased to see that their pension is being managed with responsible investment at its core.

We know our members want us to be maximising the positive impact that we can have, no matter which part of our investment strategy it is. They want us to act with urgency and ambition.

And we know our members support our engagement approach to bring about positive change but they want proof of our influence and impact. They want clear information, communicated well, to build and maintain trust with them on the Fund's approach.

Over the last 15 years we have shown that a focus on investing responsibly can lead to better outcomes for the environment and society.

How do we know all this? Because our members told us.

In July 2020, I was personally delighted to take part in the Environment Agency Pension Fund (EAPF) Responsible Investment Community. 200 of our members took part in a series of online activities over a fortnight to tell us their views on every aspect of our Responsible Investment Strategy.

It was an energising debate where I, and my colleagues on the Pensions Committee, learned a lot about the views of our members on our investment approach. Based on the feedback we received, our members really enjoyed it too. I'm sure that it was no coincidence that 3 months later we had record attendance at our pension webinars, with over 2,100 members taking part.

And that is why I am delighted to be writing this introduction on behalf of EAPF for our UK Stewardship Code submission because the information in this report is exactly the sort of information that our members want more of. They asked for detailed information on how we invest; how we are influencing companies and the wider finance sector for the better; and most importantly, what difference we are making.

We are very proud of the achievements of our Fund. Over the last 15 years we have shown that a focus on investing responsibly can lead to better outcomes for the environment and society. And very importantly, we have shown that this delivers strong financial returns and makes the Pension Fund secure and fit for the long term.

2020 marked the first year of a decade where, alongside tackling Coronavirus, action on climate change was critical. Pension funds have real influence and we all need to do more to build a better future, in line with our fiduciary duty. In this report, we highlight where we want to do more in the future.

I hope our members enjoy reading this document. I hope it will result in ever more interesting conversations with them and ever more probing questions from them. And I hope it makes our members proud of what their pension fund stands for.

Robert Gould

Chair of the EAPF Pensions Committee

April 2021

Stewardship and what it means

Stewardship is defined as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

The term is well understood by those who work in the finance sector. In EAPF, we tend to refer to how we invest responsibly and how we engage to bring about positive change – be it with the companies we invest in or with the wider finance sector.

The UK Stewardship Code 2020 sets high stewardship standards for asset owners and asset managers, and for service providers that support them. EAPF is an asset owner. We employ asset managers to invest on our behalf in line with our investment strategy. And we employ service providers to advise the Fund or carry out some functions for us.

We have been a signatory to the former Stewardship Code for a number of years. The requirements of the new 2020 Stewardship Code however are more exacting than before. This is because it recognises that environmental, social and governance issues have significant financial implications for investors (or, to use the technical term present material risk). The more the finance sector consider these issues, the more resilient and shock-proof the wider financial market is.

To meet the new UK Stewardship Code, signatories have to be able to demonstrate that they can meet a number of **requirements**. If they cannot, they have to explain in their report why they cannot. The Financial Reporting Council will be assessing this report to decide if we have met the necessary standards to be a signatory to the Stewardship Code.

As this document is primarily aimed at our members, we have set out how we meet all the requirements of the UK Stewardship Code in line with our EAPF approach, giving information on how we invest responsibly and how we engage. To show that we are meeting all of the Code's principles, we reference at the beginning of chapters the numbered sections of the Stewardship Code covered in that chapter.

This report covers our approach from 1st January 2020 until 31st December 2020.

This report draws on many of our agreed policies, notably:

- Responsible Investment Strategy
- Policy to Address Climate Change
- Investment Strategy Statement
- Funding Strategy Statement
- A range of governance policies

The Environment Agency Pensions Committee has reviewed this document and it has been approved in line with the Scheme of Delegation, as approved by the Environment Agency Board. We will be updating this document on an annual basis.

Our Fund and how we are run

Sections 1,2,3,4,5 and 6 of the Stewardship Code

Our mission is to deliver a globally successful and truly sustainable pension fund.

We want to provide the best possible member experience.

We want our scheme to be affordable.

And we want our assets to be invested responsibly.

We believe we generate stronger financial returns by investing in companies that contribute to the long term sustainable success of the economy and society as a whole.

For us, being a responsible investor means:

- Considering a wide range of environmental, social and governance risks and opportunities.
- Acting as good owners of the companies, assets and funds in which we invest.
- Looking to work with and influence others.
- Operating in an open and transparent way.

Some facts about our Fund

We are a defined benefits pensions scheme and part of the Local Government Pension Scheme (LGPS). We are the only non-local authority administering authority in the LGPS.

As at December 2020, the Fund had £4.5 billion in assets.

We have 3 participating employers: the Environment Agency (EA), Natural Resources Wales (NRW) and Shared Services Connected Limited (SSCL), the latter joined following the outsourcing of some Environment Agency services.

We have 2 funds: the Active Fund and the Closed Fund. Broadly speaking, the Active Fund covers the pensions of current or previous employees of the EA, NRW and SSCL. The Closed Fund administers the pensions of former employees of the old water authorities before they were privatised. For the purpose of this report, we focus on the investment strategy of our Active Fund, due to its dominant size (it represents 93% of our assets and the more complex investment approach)[1].

Today, all EA employees are eligible to join the Fund, EAPF liabilities therefore potentially stretch out to 2100 and beyond. The Fund is closed to new employees of NRW and SSCL.

EAPF is part of the **Brunel Pension Partnership (Brunel)**, along with 9 other local authority funds in the South West of England. Brunel was set up following the Government's requirements to pool the management and investment of local authority pension assets.

Our membership

The special thing about our membership is that they all work or have worked to help improve the environment in the public sector. Sometimes this may be in active roles which are directly improving water, air or land and sometimes this may be through office-based supporting roles. Either way, a spirit of acting in the public good is strong for both our members and our Fund.

We have around 38,500 members.

1 The Closed Fund is guaranteed by the Government. The investment objective of the Fund is to ensure that in due course that the Fund's assets will cover its liabilities in as low a risk manner as possible. As such it is invested in index linked government bonds and cash only.

Our membership

		Contributing		Deferred		Pensioner	
		31st Dec 2020	31st Dec 2019	31st Dec 2020	31st Dec 2019	31st Dec 2020	31st Dec 2019
Active Fund	EA	10,612	10,621	7,335	7,250	6,711	6,570
	NRW	787	810	660	669	625	604
	SSCL	4	10	92	85	19	20
Closed Fund	EA	-		915	1,055	10,743	11,398

Age profile of active members at 31.12.2020		
	No.	%
Under 20	9	0.08%
20–24	256	2.24%
25–29	900	7.89%
30–34	1,194	10.47%
35–39	1,618	14.18%
40–44	1,873	16.42%
45–49	1,729	15.16%
50–54	1,713	15.02%
55–59	1,338	11.73%
60–64	611	5.36%
65–69	149	1.31%
70–74	18	0.16%
Total	**11,408**	**100.00%**

Age profile of deferred members at 31.12.2020		
	No.	%
Under 20	1	0.01%
20–24	27	0.30%
25–29	131	1.46%
30–34	531	5.91%
35–39	1,159	12.91%
40–44	1,550	17.26%
45–49	1,521	16.94%
50–54	1,777	19.79%
55–59	1,612	17.95%
60–64	525	5.85%
65–69	115	1.28%
70–74	25	0.28%
75–79	6	0.07%
Total	**8,980**	**100.00%**

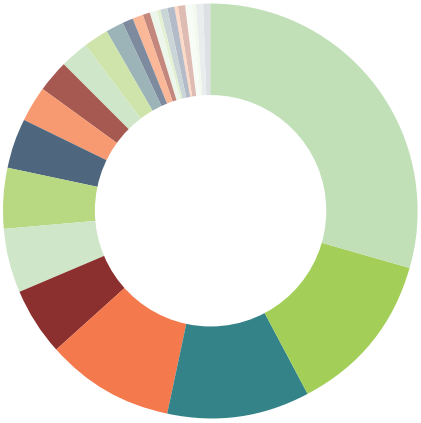
Age profile of current pensioners at 31.12.2020		
	No.	%
Child dependants	153	0.85%
Pensioners and spouses		
Under 55	121	0.67%
55–59	344	1.90%
60–64	2,201	12.17%
65–69	3,236	17.90%
70–74	3,339	18.47%
75–79	2,469	13.66%
80–84	2,244	12.41%
85–89	2,130	11.78%
90–94	1,401	7.75%
95–99	399	2.21%
100–109	42	0.23%
Total	**18,079**	**100.00%**

Age profile of suspended pensioners at 31.12.2020		
	No.	%
Child dependants	36	15.79%
Pensioners and spouses		
Under 55	5	2.19%
55–59	4	1.75%
60–64	6	2.63%
65–69	14	6.14%
70–74	17	7.46%
75–79	20	8.77%
80–84	28	12.28%
85–89	23	10.09%
90–94	39	17.11%
95–99	25	10.96%
100–109	11	4.82%
Total	**228**	**100.00%**

In terms of location, the vast majority of our pensioners live in the UK, although we have 260 pensioners living in 36 countries overseas.

Overseas pensioners in the Active Fund

- Australia **16%**
- Spain **16%**
- Canada **12%**
- Ireland **12%**
- USA **7%**
- France **5%**
- Estonia **2%**
- Germany **2%**
- Gran Canaria **2%**
- Lithuania **2%**
- Morocco **2%**
- Netherlands **2%**
- New Zealand **2%**
- Philippines **2%**
- Poland **2%**
- Singapore **2%**
- Slovakia **2%**
- South Africa **2%**
- Thailand **2%**
- Zimbabwe **2%**



Overseas pensioners in the Closed Fund

- Australia **29%**
- USA **13%**
- Canada **11%**
- Ireland **10%**
- New Zealand **5%**
- Spain **5%**
- France **5%**
- South Africa **4%**
- Thailand **3%**
- Germany **2%**
- Portugal **2%**
- Cyprus **2%**
- India **1%**
- Poland **1%**
- West Indies **1%**
- Botswana **0%**
- British West Indies **0%**
- Denmark **0%**
- Greece **0%**
- Israel **0%**
- Italy **0%**
- Limburg **0%**
- Mauritus **0%**
- Netherlands **0%**
- Norway **0%**
- Sri Lanka **0%**

Our members are the sole reason our Pension Fund exists. Everything we do as a Fund is aimed at keeping their pension secure.

This report is focused on our activities in relation to responsible investment and as you will read we engage a lot with our membership on this issue. More broadly, however, we want to make sure that our members get the best possible experience from their fund.

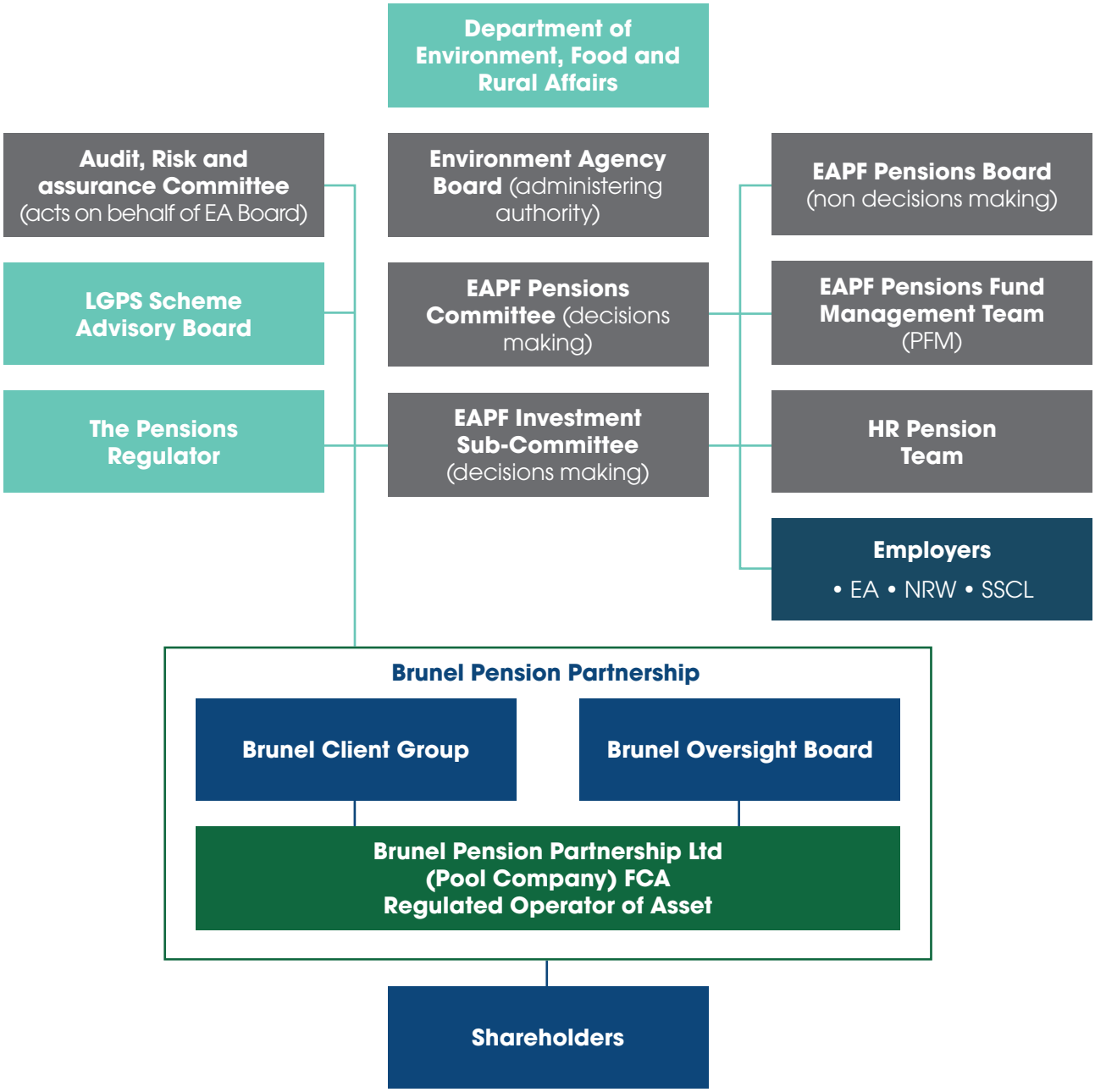
So that's why we are moving more and more of our services online, going paperless (which also helps the environment) and working with our outsourced administrator Capita to constantly improve our offering to members.

How we make decisions

As with any pension fund, there are strict rules around the governance of our Fund. We report in detail on how we meet these every year in our **Annual Report**, which is laid in Parliament. We also publish all of our governance policies **online**.

For this report, we provide a summary of how we make decisions which are relevant to how we govern our approach to stewardship.

A summary of the structure and the parties the Fund interacts with is shown here.



Environment Agency Board

The Environment Agency is led by a non-Executive Board appointed by the Secretary of State for Defra. The Board has overall responsibility for the Pension Fund but formally delegates the management and oversight of the Fund in the main to a Pensions Committee, an Investment sub Committee and a Pensions Board.

The Pensions Committee

The Pensions Committee's main aim is to consider pensions matters with a view to safeguarding the interests of all Pension Fund members.

The Pensions Committee is made up of 14 members (akin to "trustees"). There are 7 employer representatives and 7 member representatives. All of the Pensions Committee members have to be approved by the Environment Agency Board.

The employer representatives are made up of 4 non-Executive Board members of the Environment Agency (one of whom will be the Chair of the Pensions Committee), 2 Executive members of the Environment Agency and 1 representative from the other 2 employers in the Fund.

Of the member representatives, 5 represent "active members", that is those paying into the Pension Fund currently, and 2 represent retired and deferred members. All of the member representatives are now chosen by open recruitment.

In addition, the Pensions Committee may have shadow members. These are members who know that they will be joining the Committee in due course and are learning the ropes before becoming a full member. They are still allowed to join in the discussion but not vote.

Committee members have demonstrated excellent commitment over the last year and share a deep understanding of pension issues.

92%

In 2020, the attendance rate across the 7 Pensions Committee meetings was 92%.

3 years

As at December 2020, each employer representative had served on average 3 years on the Pensions Committee.

5 years

As at December 2020, each member representative had served on average 5 years on the Pensions Committee.

Photo EAPF Member Representatives

This is a photo of the EAPF active member representatives, which includes one shadow active member representative. It was taken in 2019. Due to Coronavirus, all meetings from March 2020 were held online.

The Investment sub Committee

The Investment sub Committee is a sub group of the Pensions Committee. It looks in more detail at the Fund's investment approach and recommends actions to the Pensions Committee on how to implement EAPF's Investment Strategy. This is explored in more detail in Section 4.

The Investment sub Committee is normally made up of 4 employer representatives (2 Executive and 2 non-Executive members) and 3 member representatives.

94%

In 2020, across the 4 Investment sub Committee meetings, there was a 94 % attendance rate.

90%

The Pension Board meets annually. In 2020, 90% of members attended the meeting.

The Pensions Board

The Pensions Board is a non-decision making body. It helps ensure the Fund is complying with relevant regulations and that it is being managed efficiently and effectively.

Membership of the Pensions Board is normally the members of the Pensions Committee, less the 2 Executive members of the Pensions Committee and 2 member representatives.

Audit and Risk Assurance Committee (ARAC)

The EA's Audit and Risk Assurance Committee (ARAC) has an important role in identifying, advising on and monitoring the management of significant organisational risks. We report Pension Fund matters to the ARAC at least quarterly in conjunction with the National Audit Office. The Chair of ARAC is also a Pensions Committee member and our Pensions Committee Chair also sits on ARAC.

EAPF Management Team

EAPF Management Team is made up of 10 members of staff, employed by the Environment Agency and based in Bristol.

Led by the Chief Pensions Officer, the Team serves the Pensions Committee and works on all issues of governance, finance and investment. The Team also oversees the management of the Fund administration which is outsourced to Capita.

The Team have a range of backgrounds. The majority of the team have been recruited from the Finance Sector and have long-standing pension and investment expertise. Some members of the team have been recruited internally due to their knowledge of Environment Agency finance, policy and administration.

2 members of staff lead on responsible investment issues of the team. However, all members of the team contribute to responsible investment in their respective roles, be it for example from a finance, investment or communications perspective.

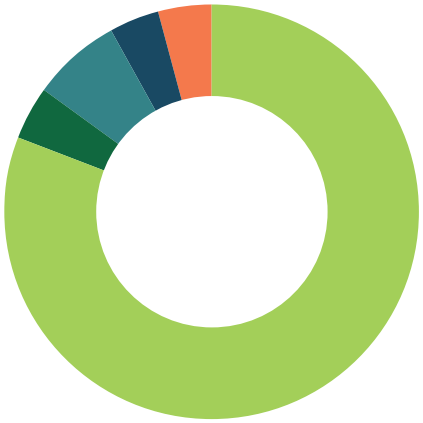
The achievement of our aims on responsible investment form a key part of the team's objectives and yearly appraisals. Our work on responsible investment also links the EA's:

- Race Action Plan
- The Coronavirus Transformation Programme, which aims to give us all greater flexibility in how we work as long as that meets our business needs.
- EA's Net Zero 2030 target

The gender and ethnic background of members of the Pensions Committee and officers, as at March 20, is shown opposite.

Gender

- Male **63%**
- Female **37%**



Ethnic group

- White – English/British **81%**
- White – Welsh **4%**
- Black or Black British – Caribbean **7%**
- White – Irish **4%**
- White – Scottish **4%**

Being a public sector fund reflects on the culture and operations of the Fund. For example:

- Along with acting in the best interest of our members, the desire to act in the wider public interest in our approach is strong.
- There are no financial incentives for those who serve on the Pensions Committee, EAPF officers, or for our members who take part in engagement events.
- We receive freedom of information requests about the Fund – last year we received 11 requests, 6 of these related to the way we invest.

Advisers to the Pensions Committee

EAPF is supported by a core group of key advisers. They will normally be invited to all relevent Pensions Committee meetings. Our current advisers in relation to our stewardship approach are:

- Investment Advisers – Mercer
- Governance and Risk Advisers – Aon Hewitt
- Actuarial Advisers – Hymans Robertson
- Independent Investment Adviser – Investment Adviser and Trustee Services
- External Auditor – The Comptroller and Auditor General – National Audit Office
- Custodian – State Street

Training

All members of the Pensions Committee and EAPF Management Team are expected to commit to training and development to keep up to speed with pension developments.

In 2020, every Pensions Committee member had a tailored learning plan. This was based on an initial self-assessment against the required competencies upon the member joining the Committee. This self-assessment is undertaken at least every 3 years to ensure individual training plans remain up to date.

Officers also agree a training plan with their line manager, with staff encouraged to consider achieving professional qualifications.

Some training is provided jointly to all Committee members and officers. This is because it may be a priority in our business plan, a high risk to the Fund or many Committee members have recognised the need for training on that subject in their training plans.

Normally joint training is done through in-house, in-person training days or as part of a Pensions Committee meeting. Last year however we had to cancel our dedicated training day and move to shorter online training sessions.

In 2020, we had joint training on liability driven investment.

Other individualised training also moved online and in shorter format, for example the course for new starters to the LGPS moved from an in-person 3 days course to an online 3 hour course. We expect however more training opportunities to become available this year.

Managing risk

At every Pensions Committee and every Investment sub Committee, we will examine the top risks to the Fund. These are set out in a comprehensive risk register, which is reviewed at every meeting and updated by officers in between each meeting. The risk register ranks the risks, outlines the actions and timescales to deal with the risk and identifies the trend of the risk.

At some meetings, we will do a deep dive into 1 top risk. This allows an opportunity for free-thinking, to talk around the issue at length and see if there are any actions we have not yet considered.

We identify risk from issues highlighted by Pensions Committee members, officers, our advisers, Brunel Pension Partnership or from wider sources. We are also an LGPS representative on the LGPS Scheme Advisory Board on Responsible Investment and so keep aware of potential stewardship developments that may affect the Fund.

In Chapter 4, we outline the investment risks which the Fund managed last year and our action to address them.

9.5 hrs

In 2020, each Pension Committee member undertook an average of 9.5 hours of training.

15 hrs

On average, each EAPF officer undertook an average of 15 hours of training.

Covid

Covid impacted on all aspects of our Fund last year, not just investments. These are the changes we introduced to manage the impacts of Covid

- Moved all meetings online, with no meetings deferred or cancelled throughout the year. The exception to this was the training day, which was due to be held in March. Some of the planned topics were carved up into shorter webinar topics and held throughout the year
- Factored impact of Covid into our business plan, which was agreed March 2020
- Reviewed business continuity plans for our key suppliers and in relation to the Pensions Committee and officers
- Held a deep dive to review how we were managing the risks from Covid at the Pensions Committee in June 2020
- Monitored impact on our investment holdings at every Pensions Committee and Investment sub Committee meeting
- Increased focus on cyber security, including sending questionnaires to key suppliers on their cyber security provisions to understand their preparedness for such an attack
- Added the need to monitor other future infectious diseases to our risk register
- Published a new guidance on bereavement and monitored the impact of Covid on our membership and the timeliness of death payments
- Changed functionality of our member portal so that all member services could be completed online

Conflicts of interest

Managing conflicts of interest is vital to good governance in every pension fund but for EAPF it is particularly important, as sometimes the Fund could invest in a company which its employers may regulate.

In March 2020, the Fund agreed a new Conflict of Interest Policy. The policy sets out a number of steps to ensure that any perceived or actual conflict of interest is managed. Information on these steps and the changes from the previous approach are outlined below.

Step 1: Declaration of interests

Previously, only Pensions Committee Members had to make annual declarations of interest. The new policy requires all officers in the EAPF Management Team to also do this.

Another new change was that all advisers to the Committee also had to declare in advance any relevant conflicts.

27

Last year, all 27 member and officers made a declaration of interest.

19

Last year, 19 advisers attending the Committee registered their interests.

The 1 exception was a guest Legal Adviser who did not make a declaration of interest. If the relationship with this adviser continues, they will be asked to register their interests.

Step 2: Review of interests

After the annual declarations are made the Chair of the Pensions Committee and the Chief Pensions Officer meet to review all the declarations and consider if there are any potential or actual conflicts, seeking legal advice where necessary.

Last year, there were no potential or actual conflicts identified which needed managing.

Step 3: All new conflicts of interest will be declared as soon as reasonably practical

In addition to the annual declaration, members are required to declare any new interests as soon as reasonably practicable, rather than wait until the next meeting. These are then reported to the next meeting. A log is kept of all new declarations made since the annual declaration so that there is a full record.

The Chair, in consultation with the Chief Pensions Officer and other professional advice as appropriate, will decide on the correct process for managing the potential conflict of interest at the meeting, or for excluding the member from the relevant part of the meeting if it is deemed to be an (unmanageable) actual conflict of interest.

In 2020, there were 5 additional declarations of interest made during the year. None of these raised potential or actual conflicts which needed managing.

Managing any potential conflicts with our investment approach

We set out in our policy how all conflicts are managed in relation to our investments and the role of our employers. This is set out below.

- Officers responsible for the operation of the Fund are in a different section of the organisation from employees involved in regulating companies.
- The Fund does not select companies we invest in. The Fund, with the assistance of third party advisers, selects investment portfolios. The chosen asset managers then select the companies to be included in those portfolios.
- In undertaking its stewardship activities, EAPF will act in line with its Responsible Investment Strategy and its Investment Strategy. It will not be influenced by the regulatory actions of scheme employers.
- EAPF will not discuss with its appointed asset managers how individual companies are regulated by scheme employers.

Last year, there were no potential or actual conflicts of interest raised in relation to the EA's regulatory role and the EAPF investments.

Case study:

Managing conflicts of interest

The Environment Agency regulates water companies in England. Every year, it publishes detailed information online about the environmental performance of each water company, ranking the best and worst performers. This is very useful information for investors and asset managers.

Last year, the Environment Agency was behind schedule in publishing this information. One of our asset managers approached our employer seeking to know when this information would be published. It did not approach the Fund about this.

Once the information was published and in the public domain, EAPF shared a link to the information with our asset managers.

Engaging with members

Every year we engage members through our website, our member portal, newsletters, social media and a series of webinars.

In 2020, we focused on our approach to responsible investment and introduced some new elements.

Member Survey

In February 2020, we asked for members' views on responsible investment. We had a great response with over 2,600 (15% of those members whose email address we have) taking part in the survey. We were really encouraged to see that they shared our passion for investing responsibly.

We know climate change poses a financial risk to investments but so do our members. 69% of our members thought that climate change will present a financial risk to investments in their lifetime. And generally the younger they were, the greater they saw this risk to be.

88%

88% of our members thought it was important to invest in sustainable and low carbon assets.

90%

90% of our members thought it was important to influence the behaviour of the individual companies we invest in.

Members are often passionate about sustainability

Responsible Investment Community

We knew we wanted to engage a lot more with our members on this topic.

Our initial plan to hold traditional focus groups was affected by the Coronavirus outbreak. So we went digital instead and organised an online Responsible Investment Community, with 200 members taking part over 2 weeks. It was terrific for our members, our trustees and for the Fund.

This is what we learned.

Members are often passionate about sustainability and are pleased to see that their pension is being managed with responsible investment at its core. But they want, and sometimes expect, EAPF to be doing more.

Members want even more ambition and urgency in how EAPF invests and for us to be maximising the positive impact that we can have, no matter which part of our strategy it is.

Members need to be taken on a journey – we shouldn't assume that members are familiar with the myriad nuances of managing pensions, and make sure we communicate accordingly. Many weren't familiar with engagement as a way of influencing change through asset ownership, and without the right context and information members can be underwhelmed. Likewise, when we talk about having 33% of our investments as sustainable, the next question is "what about the other 67%?" Clear information, communicated authentically is vital to build and maintain trust.

The majority of members in the community supported EAPF's engagement approach, and demonstrations of the influence we have help encourage others that this is the right way. Members want proof of our influence and impact. And if it is low, well they want us to consider divesting. The issue of whether to invest in fossil fuels was contested, with a fairly even split about the merits or otherwise of still engaging with this sector. Overall however, our membership is excited and empowered by EAPF's potential to effect change and want to see it in action.

Crucially, members are genuinely interested in their pension and what we do at EAPF – when we engage with them in a meaningful way. Our existing content and communications are a strong start, but many simply don't engage regularly and are consequently not aware of all the resources and tools available. There is huge scope to create more dynamic dialogue with our members and take them on our responsible investment journey.

There was a recommendation from our market research experts to undertake further research on some of these topics with a wider selection of the membership. The Fund will keep this under review in 2021.

Changes we have made

The Responsible Investment Community has already led to some real changes in our approach.

We are writing this report in a way that is hopefully accessible to all of our members and provides the detail and data which some members called for.

Members wanted a clearer way to see the holdings in the portfolio. They told us that they could not easily find them on our website. And when they did find them, it was all pretty drab. So we tested a new user-friendly approach with them, called **Tumelo**. This went down very well and this new system should go live very soon.

92% of members who took part told us it was important that their fund had a net zero target. We started working on that last Autumn. This was agreed by Pensions Committee in March 2021. As part of this policy, if after engagement with a company we are unhappy with scale and pace of change, and believe significant climate risks remain, we agreed to support selective disinvestment. We will be discussing with the Brunel partnership how this might be implemented ahead of Brunel's climate change stocktake in 2022.

92%

92% of members told us it was important that their fund had a net zero target.

Many members said that they didn't know who the member representatives were on the Committee. So we started doing features after that on the member representatives in newsletters, including highlighting ways to contact them.

As for communications, we learned members wanted us to use a wide range of tools to highlight pension issues. When it came to our annual series of webinars in the Autumn, we worked hard to draw as much attention to these as possible through email campaigns, Pensions Awareness Week, a newsletter and internal communications channels. We also introduced an online booking platform which helped make booking on to the webinars really easy for members.

The 2020 webinars saw the highest number of attendees to our webinars to date, over double the previous years and representing 21% of our active members.

Diversity

In planning the Responsible Investment Community, we knew we wanted to focus in particular on members from the BAME community and those under 40. This is because they are from 2 groups of people that are currently under-represented on our Pensions Committee.

We did some comms with the BAME Network beforehand to highlight the event and we were delighted to see the representation from BAME members was twice as high as in the Environment Agency as a whole. For those members who joined from these 2 groups, we invited them to join 1:1 zoom interviews to discuss their views further.

What we found was that broadly speaking, whatever the age, demographic or ethnic background, members broadly had the same views on responsible investment.

Diversity remains something we want to explore in more detail however. We had known from the series of webinars in 2019 that 1 member felt unable to join the Pension Fund on faith grounds.

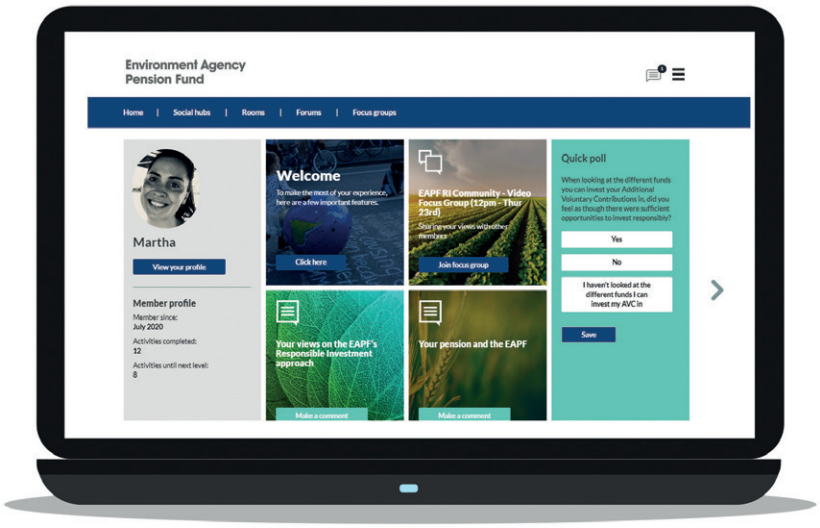
In 2020, we worked on another engagement exercise with our colleagues in the BAME community. We wanted to understand how widespread the sentiment was that cultural, faith or other may be preventing the BAME community from joining the Pension Fund.

We do have some preliminary findings, which is that financial consideration may be the principal reason why a member, including members from the BAME community, may not join the Fund. We want to understand more though and we will be making this a priority for our engagement work in 2021.

The other thing we would like to improve on is data about our membership. We have a high participation rate in the Fund (97%) but no statistics on how diverse our membership is. This is also something that would like to address in the next year.

Finally, we are discussing with our internal BAME network a possible link up with a wider **diversity project** in the finance sector which we support. This is something we hope to progress in 2021 too.

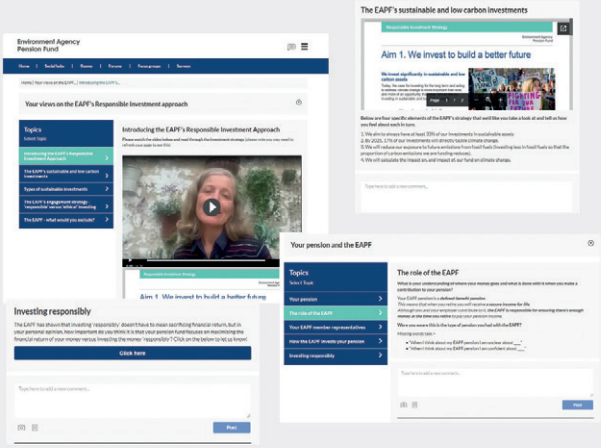
Members enjoyed an innovative engagement experience and thanked the EAPF for involving them.



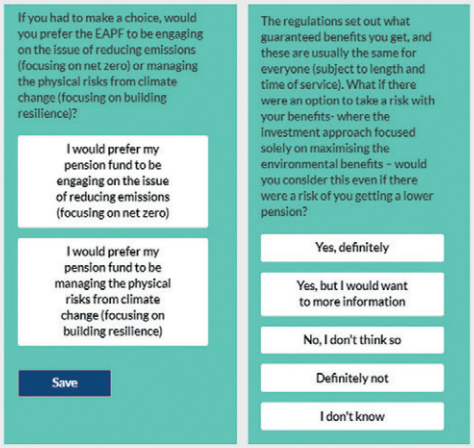
"So far this has been a very positive experience. The layout, format, activities all have engaged me and I want to contribute much further. Well done."

Members were given a range of tasks to complete in the Responsible Investment Community

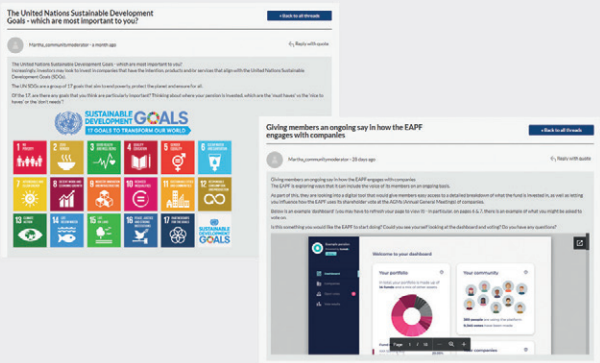
Discussion rooms



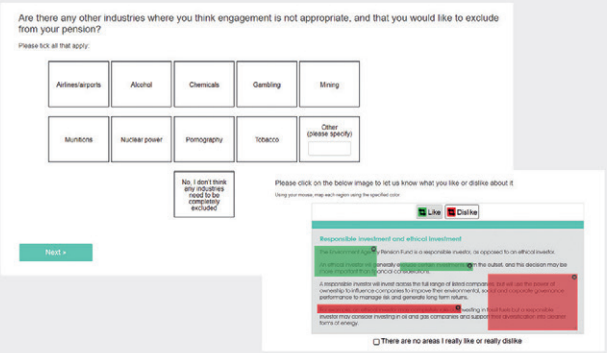
Quick polls



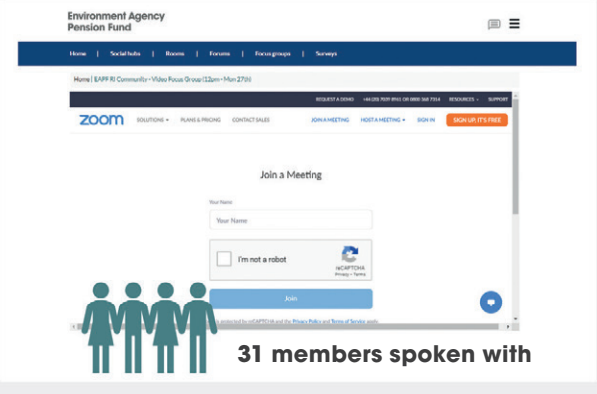
Forums



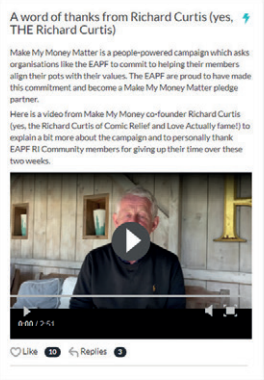
Short survey (incl. highlighter tool)



Video focus groups and 1-2-1 conversations



Social Hub



Greening our supply chain

The Fund also seeks to influence its supply chain.

Last year we put a binding carbon reduction clause into the contract for our new fund administrator. We've set out how those bidding for the contract need to measure their carbon and the percentage amount this must be reduced by each year – recognising that each organisation will start from a different point on its carbon reduction journey.

If the supplier does well and beats the targets, they are rewarded financially – with at least half of this amount expected to be spent on green or diversity projects.

How we know that we are well run

As a Fund, we do a number of things to allow us to assess the effectiveness of our governance. Below we set out some examples of these which are relevant to our responsible investment approach and management of investment risks.

We are subjected to an annual external audit by the National Audit Office (NAO). The latest year-end cycle highlighted performance concerns of our fund administrator. Action has been taken to address these issues and improvement plans put in place for continued improvement. There were no issues raised over the management of our portfolio of investments. Our Annual Report and Financial Statements received an unqualified audit opinion by the NAO representing a "True and Fair" view.

We are also subject to an internal audit. As a result of our 2019 internal audit on compliance and risk the Pension Fund achieved 92% compliance with the internal auditors concluding

"effective controls are in place for identifying, assessing and mitigating key risks."

In 2020, a further internal audit review of pensions was carried out to evidence the progress made on the 2019 management actions, which evaluated the Fund's compliance with The Pensions Regulator (TPR) Code 14 and risk management arrangements. As a result of the work performed, 5 management actions were agreed relating to learning and development, conflicts of interest, policies, assurance on controls operated by third parties, and risk management. Based upon testing performed, a substantial assurance rating was given, confirming that 4 actions had been fully addressed and 1 action substantially addressed with alternative mitigations.

We report annually to the Environment Agency Board and quarterly to its Audit and Risk Committee – last year the reports focused on the implementation of LGPS pooling. In turn, EA Board members will also report to Defra on relevant pension issues. We also report to the NRW Board.

We ask our Governance Adviser to undertake a review of our governance every 2 or 3 years. This is done either through a confidential questionnaire of all Pensions Committee members, senior officers and advisers or an independent review by the adviser against its own good governance framework. The last review took place in 2019 and the next 1 will be this year. In 2019, the adviser concluded that

"the effectiveness of the EAPF governance arrangements is of an extremely high standard."

When contracts are due for renewal we are mindful to ensure that we are employing the best advisers at a reasonable rate. We do this through the LGPS Framework Contract and in agreement with Defra Commercial Services. Last year, relevant awards included Actuarial, Governance and Investment Management Advisers. Due to Covid these were 1 year direct awards. We also procured the help of a specialist market research company, The Wisdom Council, for our member engagement work.

Once a year in Committee, when we are discussing our budget for the year ahead, we ask our advisers to leave the room. This allows a free discussion about the value they are bringing to the Fund and for people to raise any concerns. We do not put in place key performance indicators for advisers, like we do for our fund administrator. This is because, unlike the fund administrator they do not work arm's length from the Fund and they do not have any contact with our membership. They work directly through officers on Fund issues and officers can raise any concerns over their performance with the Chief Pensions Officer. There were no issues of concern raised last year in relation to any of our advisers on stewardship issues.

Every year EAPF Management Team seek accreditation to the Customer Service Excellence standard, to ensure that the service we are providing to our members and Pension Committee members remains a high standard. As part of this, the Chair of the Pensions Committee and key suppliers were interviewed. In 2020, we again achieved the standard, with an increased number of "compliance plus" scores. The report concluded that "the Pension Fund enjoys favourable comparisons with other funds with regard to the timeliness and quality of service".

Finally we sometimes benchmark ourselves against other funds, by occasionally applying for awards. In December 2020, we won 'The Best Pension Fund in the United Kingdom' Award at the IPE Awards 2020. IPE is Europe's premier Pensions website. The judges commented:

"This fund should be applauded, with strong performance figures backed by a proactive, efficient and innovative response to the pandemic, whilst keeping focus on environment, social and governance issues and the views of its members."

How we invest responsibly

Sections 4,7 and 8 of the Stewardship Code

Our investment beliefs

These are our high-level investment principles

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.

We believe that environmental, social and governance issues, and in particular climate change, can positively and negatively impact on the Fund's financial performance.

We believe we need to take these into account in our funding and investment strategies and our decision-making process to act in the best long-term interests of our members.

There are a number of ways that we ensure that environmental, social and governance issues are integrated into our investments. This is done primarily at 2 levels:

At a strategic level – what we do as a Fund to set out the right high-level approach.

At an operational level – what our asset managers do in choosing the right investments for us in line with our investment strategy.

What we do at a strategic level

Our high-level approach to responsible investment

These are the things we do at a strategic level to ensure that our investments integrate environmental, social and governance issues.

- Put responsible investment at the core of our whole fund approach. It will form part of every Pensions Committee and every Investment sub Committee.
- Put environmental, social and governance issues at the heart of our investment approach and our Strategic Asset Allocation.
- Consider the impact of climate change on our Strategic Asset Allocation. Every 3 years, as part of our triennial valuation, we model the impact of climate change on our new Strategic Asset Allocation. We also require our Actuary to model the impact of climate change on our long-term liabilities. We undertake our next triennial valuation in 2022.
- Monitor material risk to our investments (See page 22) but also identify opportunities this may present for investment.
- Set targets in relation to these risks and opportunities. We have set the following targets:
  - To always have at least 33% of our investments in sustainable assets.
  - By 2025, 17% of our investment will directly tackle climate change by helping to reduce emissions or build resilience.
  - We will decarbonise our equity portfolio, reducing our exposure to future emissions by 95% for coal and 90% for oil and gas by 2025 compared to the exposure in our underlying benchmark as at 31 March 2015.
- Appoint asset managers who can deliver our responsible investment aims and monitor them closely. The Fund has a long tradition of innovating to find the right opportunities across all asset classes. With the introduction of LGPS pooling, the selection of asset managers has moved across to Brunel, but managers are selected to meet the specifications and requirements that we agree with our partner funds, including responsible investment criteria. We monitor governance arrangements at Brunel, take part in its decision making and agree when to transfer assets. Last year we did not transfer any assets to Brunel nor chose any other new asset managers.

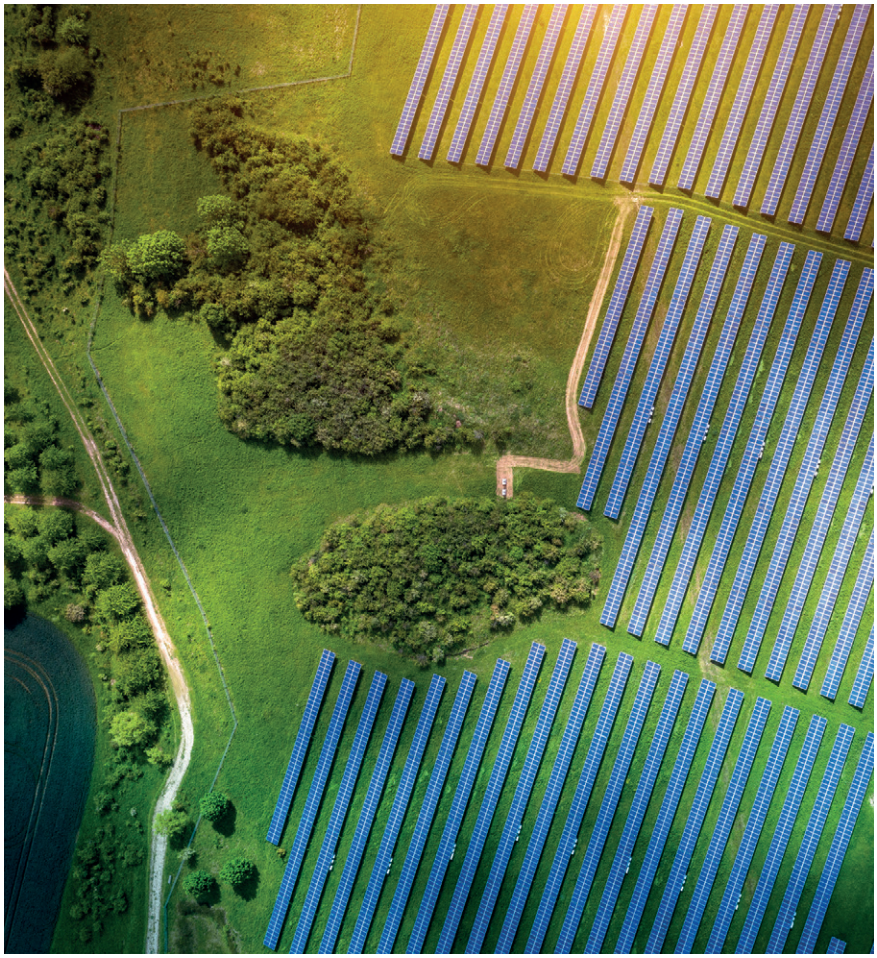
Case study:

Our Targeted Opportunities Portfolio

In 2014 we started to develop our Targeted Opportunities Portfolio (TOP) to increase our allocation to sustainable private markets. TOP enables the Fund to invest directly in a few outstanding opportunities, which have strong financial and sustainability credentials. It offers us a broader scope than traditional private equity.

Traditionally, there has been less integration of, and engagement on, environmental and social issues in private markets. We have tried to change that with our TOP Portfolio and this report includes some examples of where TOP is doing this.

As of 31 December 2020 the Fund had £95m invested in TOP (2% of our total fund). We will work with Brunel to agree how best to manage this innovative portfolio and the rest of our private market allocations through the pooling arrangements.



– Monitor every quarter the financial performance of all our asset managers and their performance on responsible investment.

One of the ways we do this is by using **Mercer's ESG ratings**. Mercer derives its ESG ratings from assessment criteria that vary according to asset class and are relative to what Mercer believes is "best practice" ESG integration. The approach asset managers adopt to stewardship is part of the factors assessed in Mercer's ESG ratings framework, thereby impacting their overall ESG rating. ESG1 is the highest rating, with ESG4 the lowest.

These ratings provide an independent overview on responsible investment of all of our managers.

For those assets which have transferred to Brunel, we also use reporting from Brunel. This includes a detailed breakdown of stewardship activity updates, portfolio narrative and metrics including risks for each portfolio.

We report in our annual report the percentage return we derive from each asset manager and their performance relative to the chosen benchmark.

Allocating our Strategic Asset Allocation

- Listed Equity **42%**
- Government Bonds **14%**
- Corporate Bonds **18%**
- Global Absolute Return **7%**
- Real Assets **10%**
- Private Equity **2%**
- Private Debt **4%**
- Cash **2%**

As at December 2020, this is how our money was allocated across the different asset classes and across different geographic markets.

Significant weight is given to equities (and in particular sustainable equities), which we consider appropriate given the long term nature of our liabilities profile and our investment objectives, but this is spread across a diverse range of managers with different approaches and styles.

Given our healthy funding level, we're gradually reducing the allocation to equities and moving into liability-driven investments and multi-asset credit as part of our de-risking strategy.

Certain asset classes are not considered suitable for our Fund, particularly if they are not compatible with being responsible, long-term, evidence-based and innovative investors. For example, where returns are based on short-term speculation or trading, or where it is not clear how they generate an underlying return.

We review the Strategic Asset Allocation every 3 years in line with our triennial valuations. We also monitor this regularly, with interim annual reviews to consider the potential for lower returns, changes in market conditions, amendments to the benefit structure of the scheme, the demographics of the Fund, and possible bulk transfers out; all of which potentially impact on the funding level, and consequently the most suitable investments and the appropriate allocation to them.

Monitoring financially material risk

The Investment sub Committee has responsibility for implementing the Investment Strategy. As part of this it will monitor performance of the investments and manage investment risk.

Below are the financially material risks that dominated the Investment sub Committee discussions last year and how we managed them.

Climate Change – The Fund has a series of regular and ongoing initiatives to tackle climate change risk. This includes policies, targets and modelling.

The Fund has had a policy to address financial risks from climate change since 2015. In 2020, we started discussions on how to further reduce transition risk and mitigate physical risk in our portfolio. This included setting a net zero target for the Fund and discussion around the implication for our investment strategy. The new policy was approved in March 2021.

The new climate policy includes consideration of risk of biodiversity loss. We will be looking to focus more on biodiversity over the next year and consider the potential for nature-based solutions. We will aim to report in line with the future Task Force on Nature Related Financial Disclosures.

As well as understanding how climate change policy impacts on the Fund, we have agreed to undertake an analysis of what contribution the Fund is making to climate change. We will look to undertake a temperature analysis of this over the next year.

In recognition of our need, and the wider investor need, to understand the climate risk in investment holdings in the transition to a lower carbon society, we co-founded the **Transition Pathway Initiative** with the Church of England in 2017. This has continued to grow in size, status and influence. To date, 101 investors globally have pledge support for this initiative, jointly representing over $25 trillion combined Assets Under Management and Advice.

Over the last year the Investment sub Committee has been considering how the Transition Pathway Initiative should develop and what our future role should be. This will continue to be a focus for the Committee in 2021.

Finally, prior to the publication of the annual report, the Investment sub Committee monitors the Fund's progress in meeting its decarbonisation targets and targets for investing in sustainable assets. They also note our progress in reducing our carbon footprint and the reporting of climate risk in our annual report, in line with the Task Force on Climate-Related Financial Disclosures (TCFD).

COVID – Covid caused great market disruption, with a resultant fluctuation in our funding level throughout the year. This was monitored at every meeting. As long-term investors, we decided not to change our Strategic Asset Allocation.

LGPS pooling – throughout the year, we monitored the development of Brunel and considered how and when assets would be transitioned in line with our investment strategy.

Brexit – the Investment sub Committee has been monitoring the potential impact of Brexit for 3 years. Possible changes in interest rates, inflation, currency exchange and market fluctuations were monitored closely. Brexit had a direct impact on the timing of a hedging decision but overall no change was made to our Strategic Asset Allocation during the Brexit transition period.

Our Investment strategy and the returns it needs to deliver

The focus of this report is how we invest responsibly. We never lose sight that we have a legal responsibility to pay members' pensions over the very long term.

Our funding aims are therefore:

- to achieve sufficient long-term returns for the Fund to be affordable for our employers now and in the future
- to minimise the risk of having to increase employer contribution rates in the future.

We want to build an investment portfolio, based on our investment principles, which has a high probability of exceeding the asset outperformance target assumed by our Actuary. We want to limit the probability of the funding level falling below 90% at any of the next three actuarial valuations (currently expected to be in 2022, 2025 and 2028).

We estimate an appropriate overall return of +3.1%, over the expected return on gilts, will be sufficient to meet our long-term needs.

The Fund's Actuary is responsible for performing a formal valuation of the Fund every 3 years in order to assess the extent to which our investment assets cover accrued liabilities and to inform the development of an appropriate funding strategy. This strategy takes account of and informs our approach on investment, responsible investment and our approach to managing the risk from climate change.

Case study:

Integrating Sustainability into Real Estate

Asset Class: **Real Assets**

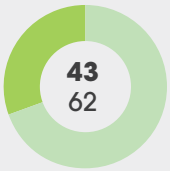
Geography: **Global**

Asset manager: **Townsend**

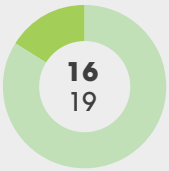
Townsend has been using Global Real Estate Sustainability Benchmark (GRESB) to benchmark the underlying funds' approaches to sustainability since 2012.

The EAPF portfolio scored 77/100 in the 2020 GRESB assessment, retaining its three green star GRESB rating. This was a one point improvement on the 2019 score of 76/100.

The two highest scoring funds within the EAPF portfolio were the Threadneedle Carbon Neutral Real Estate Fund and Goodman European Partnership, scoring 90 and 88 respectively. Seven out of the 14 funds in the EAPF portfolio to submit data achieved a GRESB four green star rating or above.



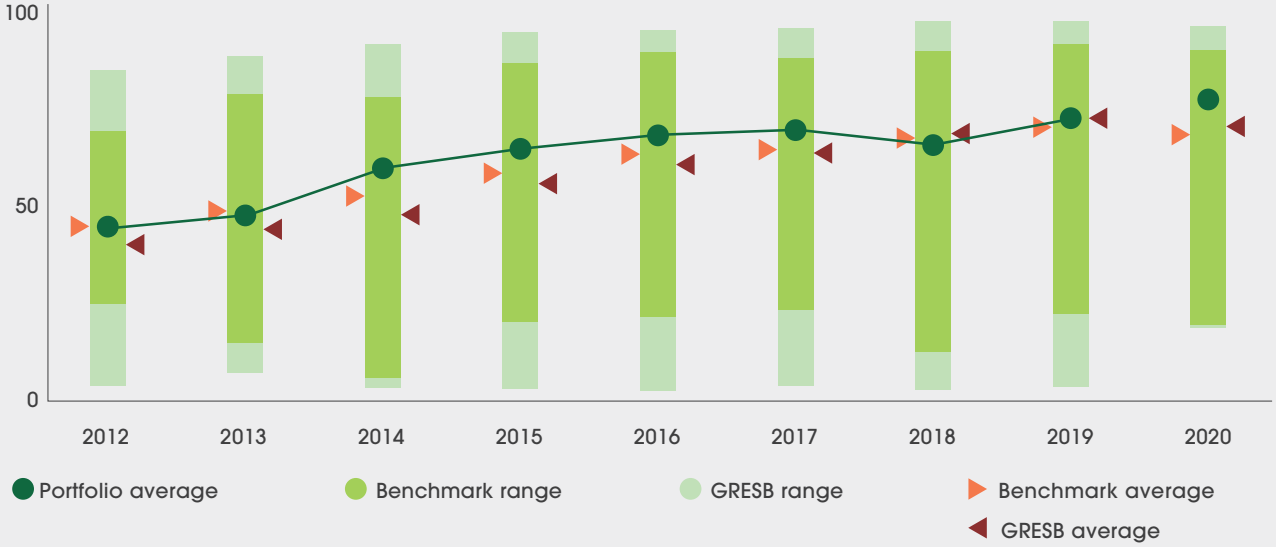
Environmental
GRESB average **38**
Benchmark average **34**



Social
GRESB average **15**
Benchmark average **16**

Governance
GRESB average **17**
Benchmark average **18**

Overall score



Keeping our assets safe

We have been using State Street Bank & Trust Company (State Street) as the Pension Fund's Custodian since 1 April 2018. State Street are independent to the asset managers. They hold our assets in safe custody and undertake a number of roles to do this. They settle all investment transactions, collect dividend income and interest, provide data for corporate actions, liaise closely with the asset managers and report on all activity during the period.

State Street is a strong company that is rated by Standard and Poor's as 'A' for long term/senior debt and 'A-1' for short term/deposits. The Fund's assets are not held in the name of State Street and so are segregated from those of State Street Bank & Trust Company, safeguarding them in the event of company failure. Where appropriate, cash held by the Fund at State Street in Sterling, Euros and United States Dollars are invested in State Street Liquidity Funds, which would not be affected in the event of a failure by State Street. The State Street Liquidity Funds are rated 'Aaa' by Moody's and are invested in short term money instruments to preserve capital and liquidity.

Only small amounts of cash are left on deposit at State Street. Regular service reviews are held with State Street to monitor service commitments, plus custodial monitoring is reported to Officers by an independent organisation. Other procedures and controls are reviewed by an independent reporting accountant via the Service Organisation Control (SOC1) Report.

What we do and what Brunel does

The EAPF remains responsible for deciding our investment strategy. We still decide which asset classes we invest in and the size of the allocation to each asset class within it.

Historically, we would also chose asset managers within each asset class, who would manage these assets. With the introduction of LGPS pooling, Brunel will manage these assets for the Environment Agency and 9 other local authority funds.

We are a shareholder in, and client of Brunel. We are in the process of transferring the management of our assets to Brunel. As at December 2020, the value of the assets transitioned to Brunel stood at £620m which is 15% of the Fund.

These are in 2 equity portfolios managed by Brunel: passive Low Carbon, and Low Volatility.

For the rest of this report, we refer to "transitioned" for those assets which are being managed by Brunel, and "legacy" for those assets which we still manage and have yet to be transitioned.

What happens at an operational level

We have 15 asset managers, who manage the assets on our behalf.

In this section, we show how we ensure as far as possible, that the asset managers we employ take into account environmental, social and governance issues when they chose companies for our portfolios on our behalf.

There are a number of ways these assets can be managed.

The asset managers may manage these assets directly and have a direct link with the companies in their portfolio. Sometimes, our asset managers may oversee portfolios where there are underlying managers who have a direct link to the company.

Our holdings may be in segregated accounts, which means that they are held directly in the name of the Environment Agency Pension Fund. Sometimes our holdings are in pooled funds, where the holdings are held collectively with other unit holders, in the name of the managed fund.

We may invest in portfolios where the asset manager picks specific companies for the portfolio in line with the stated aim of the portfolio: 'active funds'. Sometimes we may invest in index funds, where the portfolio replicates a benchmark index, and there is no choice in which companies are held or in what proportion: 'passive' or 'tracker' funds. Our only passive equity portfolio replicates an index created to provide diversified exposure to global equities, but

with a much reduced carbon footprint – the MSCI World Low Carbon Target Index. In this latter class, the asset manager has limited or no control over the holdings. If companies need to be excluded, e.g tobacco or alcohol, an index that explicitly excludes these in the index rules needs to be chosen to follow. For an active mandate, we expect the asset manager to make the call about what should or shouldn't be in our portfolio, cognisant of our responsible investment approach. 85% of our listed equities are in active funds.

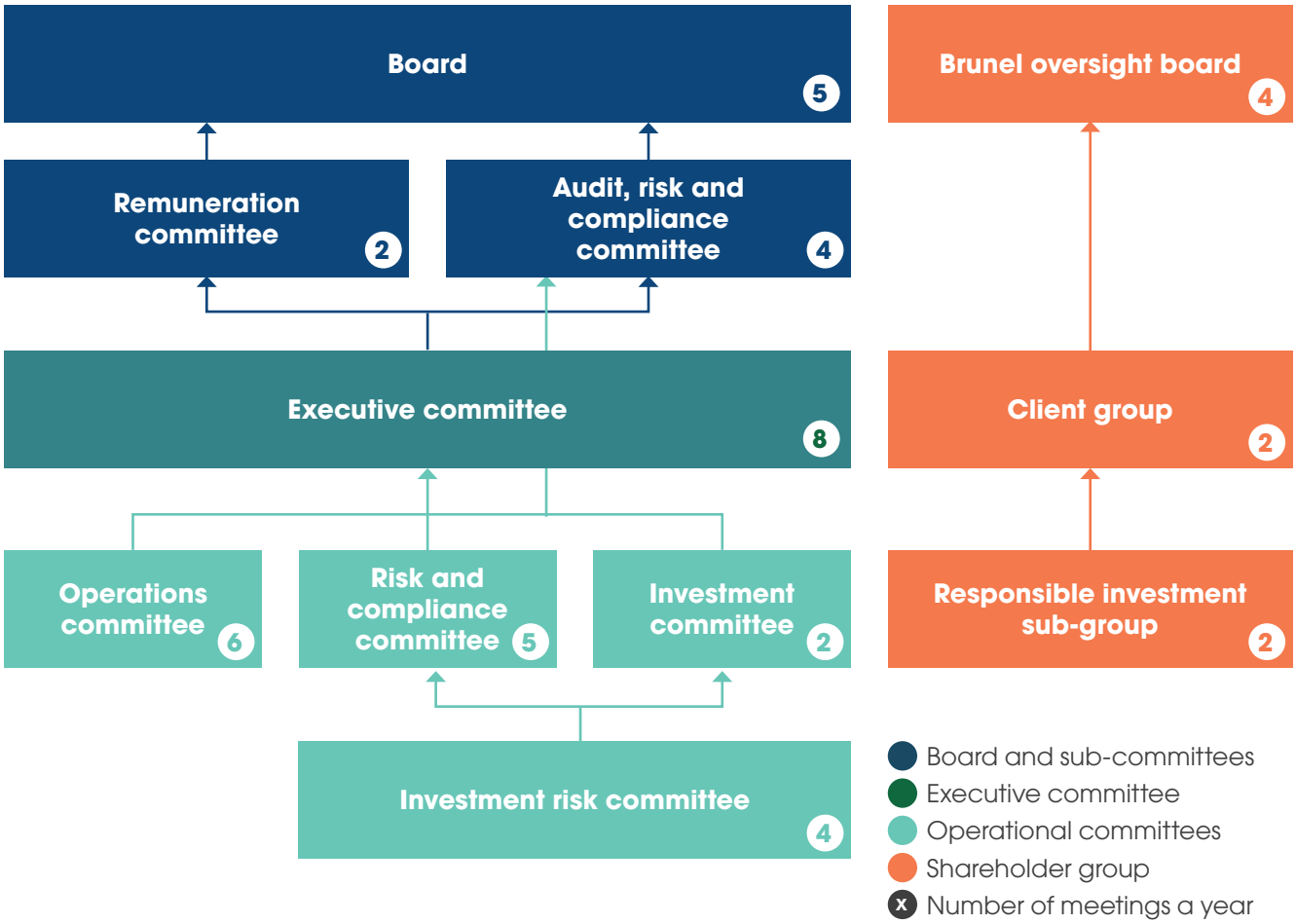
We consider all these issues to balance risk and return, whilst meeting our high level investment strategy. The strategy remains focused on seeking to generate maximum value from our assets with an appropriate level of risk, ensuring environmental, social and governance considerations, including climate change, are fully integrated, and furthering our commitment to responsible investment.

We use multiple levers to achieve this: active mandates, specialist benchmarks, detailed risk analysis, and a fully diversified range of assets across global markets. We have appointed an independent performance measurer who reports quarterly on the returns of our investment managers against agreed benchmarks. The reporting allows comparison for each quarter, annually, every 3, 5 and 10 years, plus from inception per manager and at whole fund level.

Transitioned assets

Governance of Brunel is of the utmost importance to us moving forward to ensure that our assets are invested well and our needs, and those of our members, are protected.

Brunel's governance framework



We have ensured that we are represented well in the Brunel governance framework through the following ways:

- On the Brunel Board through the externally-recruited shareholder NED.
- On the Brunel Oversight Board, which is chaired by the Chair of the Environment Agency Pensions Committee.
- On the Client Group, which the Environment Agency Pension Fund's Chief Investment Officer attends. This group meets at least monthly, providing oversight to Brunel's activities, and communicating the requirements and priorities of the partner funds. It can raise any emerging concerns or needs.
- On the Responsible Investment sub Group, which is chaired by EAPF's Chief Investment Officer. Our Head of Responsible Investment and Governance also attends this group. This group also meets monthly and has detailed discussion on responsible investment issues. This provides an opportunity to:
  - Raise stewardship interests
  - Share best practice with Brunel and amongst partner funds
  - Provide insights on concerns, issues, and member perspectives
  - Shape priorities of Brunel and their engagement provider
  - Review reporting outputs
  - Knowledge share and receive a deeper dive into topics of interest
  - Access expertise
  - Consult on policy design and development

Brunel arranges client workshops where a deeper awareness or education on a particular topic is useful. In 2020, workshop topics included the requirements of the new UK Stewardship Code, and sustainability-based investment outcomes and benchmarks.

Sometimes we invite the Brunel team to attend our Pensions Committee or Investment sub Committee. Last year they attended 2 meetings.

Brunel shares our very strong commitment to responsible investment. We provide input into their key policies, including Brunel's **Responsible Investment Policy, Climate Change Policy and Stewardship Policy.** Policies are designed for the long term (5 year +) but are reviewed annually.

The Brunel Board regularly scrutinises their Responsible Investment Strategy which is overseen operationally by the Executive Committee. Operational accountability on a day-to-day basis is held by the Chief Responsible Investment Officer, who is supported by a dedicated Stewardship Manager to ensure high levels of coordination and implementation.

Brunel's approach to managing conflict of interest in relation to stewardship approach is on their **website**.

Further detail on the governance structure in place with Brunel can be found in Brunel's **Annual Report and Financial Statements**.

Staff

There are 49 employees in Brunel, some of which have come from the member funds. Staff do not receive bonus pay. Their **profiles** are available on their website. Responsible investment is a component of staff's annual objectives which informs annual appraisals.

Risk management

Brunel expects its managers to clearly demonstrate how environmental, social and governance risks and opportunities are embedded into their investment process and their wider evaluation of risk and return.

To address climate risk, the partnership published its **Climate Change Policy** in January 2020. This policy challenges the asset management industry with a five-point plan "to build a financial system which is fit for a carbon-zero future".

To best identify and respond to market-wide and systemic risks, Brunel engages with wide range of stakeholders, including government authorities, trade bodies, unions, investors, and NGOs. Brunel consultation responses are published on their website: **Policy advocacy**.

Case study:

Integrating Water risk into investments

Asset Class: **Listed Equities – Low Volatility**

Location: **Global**

Asset Manager: **Robeco**

Water intensity can pose financially material risks to a company in three ways primarily: physically, socially and from a regulatory standpoint. Contribution to biodiversity loss and climate change, changes in regulation and fines for poor practices, and negative impacts on local communities are all examples of such risks. Bringing down the water footprint of investment portfolios helps to mitigate these potential financial risks.

Robeco's environmental, social and governance (ESG) integration ensures they avoid the risk of being overexposed to less sustainable companies while maintaining exposure to the top-ranked stocks. Robeco's research demonstrated a 20% water, waste and carbon footprint reduction is possible, while preserving portfolio characteristics, such as exposure to the factors which drive their investment performance. For each attractive stock that does not score well on sustainability characteristics, there appear to be sufficient sustainable alternatives to achieve a comparable exposure to low-volatility, income and sentiment factors.

Over the course of the past two years, the water intensity of the portfolio has been lowered by over 20%. Currently the Robeco portfolio achieves a 38% reduction water intensity versus the MSCI World Index.

Case study:

Integrating Environmental and Social issues into Private Markets

Asset Class: **Private Debt (TOP Portfolio)**

Location: **Global**

The investment manager declined a deal based on environmental grounds when they were presented with an opportunity to finance an oil and gas company specializing in the construction and operations of coal seam gas wells. The industry has received considerable opposition concerning the potential environmental impacts when such companies do not follow proper codes of practices. These environmental concerns coupled with the investment manager's general aversion to direct oil and gas industry exposure led them to not pursue the opportunity further.

The investment manager turned down a deal for social reasons when they were offered an opportunity to invest in a sports apparel company. Given historical examples of textile companies with international operations exploiting workers, the investment manager focused initial due diligence efforts to understand the company's policies and track record with respect to working conditions. The investment manager found poor working standards in the country in which the company operated and high turnover rates (77% annually), led to the conclusion that the quality of work-life balance and living wage conditions of workers were unacceptable.

Portfolios

Brunel have been in the process of rolling out the 25 foundational investment portfolios to their clients. These are designed to meet the requirements in our Investment Strategy and that of the other 9 funds.

For each portfolio, Brunel will undertake a number of steps:

- Understanding the investment requirements of the funds to determine the portfolio specification.
- Review of market, i.e the range of managers and strategies available, costs etc.
- Design the tender process and agree the selection criteria.
- Assessment of managers (see below).
- Selection of managers.

Client Group will be kept fully informed of each step in the process and we have an opportunity to feed in our views at several stages in the process. We will be asked to formally agree the portfolio specification at the start of the process, and the proposed portfolio at the end of the process once the combination of managers selected to manage the portfolio are determined.

For each portfolio, clients will be asked upfront if they are interested in investing in the portfolio. If so, they will be asked to agree a provisional commitment, which allows Brunel to understand the potential size of the portfolio and the number of asset managers they may need.

Once the asset managers have been chosen, the respective clients formally agree to transition their assets into the portfolio. For EAPF, this will require a decision from the Investment sub Committee to make both the provisional and final commitment. The Investment sub Committee will be briefed throughout the development of the portfolio by officers and advisers. When taking the final decision, members to the Committee will receive professional advice on the suitability of the allocation to ensure it is in line with our responsible investment approach.

Selection of managers

Integrating Responsible Investment into manager selection is a core part of Brunel's work. Mandate design and a risk appraisal process prior to launching a search for a manager is therefore critical in ensuring that Brunel focuses on the right things.

The asset class, geography and risk objectives will have a bearing on which Responsible Investment and ESG risks will be most relevant to focus on when making an appointment, thus Brunel's manager selection criteria are determined for each search.

Brunel has a track record of action evidenced by work such as the Brunel Asset Management Accord designed to capture not only their expectations of managers, but also the spirit of what they can expect from Brunel. The accord supports long-term sustainable finance and specially calls on managers work collaboratively with Brunel on thought leadership and integration or ESG issues.

The examples on the below some of the key issues Brunel addresses when they appoint managers.

Philosophy	Policies	People
Board-level leadership	Commitment	Diversity and Inclusion
Corporate culture	Policy framework	Human Capital
Investment	Pricing and transparency	Numbers and retention

Processes	Participation	Partnership
Investment	Thought-leadership	In it together
Reporting	Innovation	Culture fit
Stewardship	Contribution to investment industry	

More information about the selection and monitoring of managers on **brunelpensionpartnership.org**

Monitoring Managers

Once selected, managers are assessed on a quarterly basis and a rating given. This includes their approach to stewardship.

Brunel ensures that products are tracking guidelines, benchmarks and risk parameters. They receive quarterly performance reports for each portfolio which includes stewardship activity updates, portfolio narrative and metrics including risks.

They review portfolios on an annual basis to ensure that products remain fit for purpose and are still aligned to client's strategic objectives. We feed into this review and receive a report for assurance purposes.

Should we require any changes or an additional portfolio to implement our investment strategy, clients can request exploring the development of new products and amendment to existing Portfolios.

Further detail is included in Brunel's **Responsible Investment Policy**.

Last year Brunel was awarded Environmental Finance's Pension Fund of the Year award. This was in recognition of the successful efforts of ten committed institutions to take strong and effective leadership on responsible investment.

Legacy assets

We still have 13 managers who manage our legacy assets. These are across every asset class and tend to be long-standing relationships.

To ensure that our legacy asset managers are performing in line with our responsible investment expectations, we do the following:

- Set out in our Investment Management Agreements our expectations in relation to performance, benchmarks, outperformance targets and our responsible investment aims for the portfolio. Generally, we expect our asset managers to be signatories to the United Nations Principles for Responsible Investment.
- Meet at least once every year in person to discuss their performance, returns, notable issues and consider responsible investment themes we wish to explore. Last year we focused on how they were managing the physical risks from climate change and gender diversity within their organisation.
- We have successfully used insights from Mercer ESG ratings to engage with managers to help them improve their approach. This in turn has played an important role in their Mercer ESG ratings improving.
- Meet as necessary on an ad hoc basis to maintain dialogue with all managers throughout the year. This is both for any issues which arise but also to explore positive steps, which has led to close collaboration on many occasions.

Case study:

From Strategic Asset Allocation to a Brunel portfolio

As part of our review of our Strategic Asset Allocation in 2019, we identified that our healthy funding level meant we could derisk our portfolio. As part of the Investment Strategy Review and our new Responsible Investment Strategy in 2019, the Fund agreed to move into a new asset class for us – multi-asset credit. These are investments in a broad range of credit asset classes, for example corporate bonds and bank loans.

Our aim was for these investments to be as sustainable as possible – although we knew that at the time such offerings in this asset class were limited. We started to talk with Brunel and fixed income managers to understand the potential in this area. Brunel started work in 2020 to develop a portfolio which offers a best-in-class offering. This will go live for clients in 2021.

Last year, there was one issue we raised with an asset manager.

We had received correspondence in relation to a holding in Brazil. The correspondent had claimed that farms in which our asset manager was invested had been responsible for deliberately clearing forests in a particular area. We investigated this with our asset manager, who provided us with significant evidence, including satellite monitoring, which showed us their farms were not linked to this claim.

How we know we are investing responsibly

Our Fund has been largely fully funded over the last few years.

At 30 December 2020 we were 107% funded, meaning our assets were greater than our liabilities.

In the absence of a common classification system, we have worked with our existing asset managers and investment consultants to define what is defined as a sustainable assets. In summary, this includes those assets in energy efficiency, alternative energy, water and waste treatment, public transport, property, infrastructure, agriculture or forestry investments with a low carbon or strong sustainability criteria, and companies with progressive environmental, social or governance practices.

31%

By 2020, 31% of our investment were in sustainable assets.

9%

By 2020, 9% of our assets directly tackled climate change by helping to reduce emissions or build resilience.

By 2020, 9% of our assets directly tackled climate change by helping to reduce emissions or build resilience. These could be for example invested in renewable energy, energy efficiency products or providing services to help with weather-related events.

The pie chart below shows the spread of these sustainable assets.

Low carbon and sustainable investments (£m)

- Sustainable equities and bonds **523**
- Energy efficiency (low carbon **244**
- Property – sustainable **136**
- Renewable and Alternative Energy (low carbon) **83**
- Food, Agriculture and Forestry **66**
- Pollution control **57**
- Diversified Environmental **30**
- Water Infrastructure and Technologist **29**
- Waste Management and Technologies **25**
- Environmental Support Services **3**

Please note that a holding will appear under a FTSE classification only where a match is possible and therefore the 'Property – sustainable' and 'Sustainable equities and bonds' consists of holdings which we consider sustainable but do not sit naturally in any of the aforementioned FTSE classifications.

Case study:

Supporting companies in our portfolio through Covid-19

Asset Class: **Sustainable Listed Equities**

Fund Manager: **Generation**

Geography: **Global**

Generation wrote to all 72 companies held in their Global and Asia Equity strategies (which include all of the holdings in EAPF's portfolio with this asset manager) in April 2020 once the extraordinary scale of the disruption caused by the COVID-19 pandemic became clear. They stressed their desire to be as supportive as possible of their companies through the crisis and offered three observations on the response that they felt would serve companies and their stakeholders the best.

First, they stated that the welfare of employees should be front and centre, noting that, where companies needed to make cuts in pay or staff numbers, it was important that the senior executives should take the largest cuts in total compensation.

Second, they urged companies to focus on the long-term strength and position of their businesses, and encouraged them to prioritise capital allocation that would produce results in 2021 and perhaps several years later, not to optimise for 2020 earnings per share.

Third, they asked companies to push ahead with climate action, pointing to the uncomfortable parallels between the pandemic and climate change – given that, for decades, experts had warned of the consequences of climate change, with far too little action taken. Generation urged all of their companies to set a Science Based Target (SBT), i.e. an emissions reduction target aligned with the goals of the Paris Agreement.

Outcome

Generation said "The Covid-19 engagement programme was an unusual one in that we were seeking to set a tone for companies' responses to the pandemic, and be clear about our expectations as shareholders, rather than seek specific changes. Generally responses to the letter affirmed our confidence in our alignment with company management and its quality."

Last year, we reduced our exposure to future emissions by 99% for coal and 98% for oil and gas compared to 2015. This puts us ahead of our target for 2025.

We conduct value for money assessments every year to ensure our investment management expenses are well managed and appropriately deployed. Since inception most EAPF mandates have delivered value for money. This is due to the majority of our mandates outperforming their respective benchmarks on a net of fees basis. In line with evolving industry best practice, we plan to formally expand the concept of value beyond performance to include other important aspects of service such as quality of reporting and engagement.

In 2020, we were chosen as a global leader on responsible investment by the UNPRI due to our work on climate reporting.

Last year we also won Best approach to Sustainable Investment' at the LAPF awards. LAPF Investments is the magazine for local authority pension investment specialists.

LAPF
INVESTMENTS
AWARDS

★ ★ ★ ★ ★

2020

How EAPF seeks to influence companies through its investments

Sections 8, 9, 10, 11 and 12 of the Stewardship Code

Once we are invested in companies, this offers us opportunities to influence the corporate behaviour of those companies. The amount of influence we may have depends on a number of factors:

- Which asset class we hold the company in – being a shareholder of a publicly listed company means you have the right to vote at their annual general meeting
- Whether the holding is in a segregated mandate or a pooled mandate – a segregated mandate allows you to bring forward shareholder resolutions
- The percentage of holding within a particular company – the larger the holding of a group of investors combined usually the greater the influence
- The country the investment is held in – for example shareholders may have greater rights and influence in European and North American companies than in emerging markets.
- Information you know about that company's behaviour – publicly listed companies have to release an annual company report – they are likely to disclose more than private companies. Some companies report their climate risk and opportunities in line with the Task Force for Climate Disclosure, and/or report to platforms such as CDP. The more an investor understands about the environmental, social and governance risks and opportunities the greater the opportunity to react.
- The number of other shareholders who hold the same view as ourselves
- The number of backers a company has – some of our private market (unlisted publicly) companies are small, start-up companies and may be more receptive to advice than larger, more established international companies.
- Government regulation and/or public sentiment – for example, environmental issues are likely to get more attention now than before Greta Thunberg started campaigning on climate change.

2,300

We invest in approximately 2,300 companies.

Our priorities for engagement

Based on risk to the Fund, and our Fund's focus on environmental issues, we have agreed the following priority areas for our engagement activity:

- Climate Change
- Using resources sustainably, with a particular emphasis on reducing plastics in the environment
- Water – managing water quantity and water quality

The ways we engage with companies

We invest in approximately 2,300 companies: approximately 1,500 equity holdings, around 700 corporate bond issues, and over 100 companies invested in through private market vehicles.

We are unable to engage with these companies directly, apart from in very limited circumstances. In 2019, the Fund agreed to attend a number of AGMs to ask questions directly of companies about their approach to managing the physical risks from climate change.

In 2020, with Covid and the move to online AGMs, we did not have the resources to continue this AGM campaign. This may be something we consider again next year.

We get involved in some wider campaigns that may involve some companies in our holdings – this is set out in Chapter 6. For the rest of this chapter however we set out how we engage with companies through asset managers.

Through Brunel

Being part of a pool, means that many of our stewardship responsibilities for transitioned assets are managed by Brunel.

Brunel will liaise with its asset managers, understand areas of risks and escalate these if needed. In doing this, Brunel will take into account the activities of its appointed engagement provider EOS at Federated Hermes (EOS). EOS engages with companies on Brunel's behalf in its segregated active equity portfolios and segregated corporate fixed income.

The appointment of a dedicated engagement and voting provider allows Brunel to cover a wider number companies and have access to specialised expertise on different engagement themes.

The EOS team is diverse. The team has a widespread of nationalities and languages, allowing it to engage with companies in the local language and understand local practices. Brunel monitors service levels in relation to this contract.

Case study:

Engaging with tenants and joint venture partners

Asset Class: **Property, Private Equity (TOP Portfolio)**

Location: **UK**

Fund Manager: **Bridges Fund Management**

Bridges provided guidance to tenants on how they should fit out and operate the premises sustainably. For example, for one project it supported the property development to become certified under the ISO 14001 Environmental Management. As a result, 100% of the waste generated on site is diverted from landfill.

Bridges also engages with its joint venture partners to develop a bespoke Sustainable Procurement Plan for each investment that strives for net zero carbon performance and sustainable sourcing of materials. For example, one project, a BPAF IV investment which the EAPF is invested in, will be a BREEAM "Excellent" building and will aim to achieve 100% of the BREEAM water credits and A+ Energy Performance Certificate.

Through Brunel's governance framework, the partnership has agreed the priority themes for the pool. These are:

- Climate change
- UK policy framework
- Diversity and inclusion
- Human capital
- Cost and tax transparency
- Cyber
- Supply chain management

These engagement priorities form the basis of EOS's work for Brunel and its clients.

EOS will attend RI Sub Group meetings 4 times a year to discuss their work for the partnership and will focus each time on 1 of the engagement themes in detail with client. This offers a useful exchange of information. The engagement priorities for the following year are also brought to the sub Group for approval.

EOS measure progress on whether they have achieved their engagement objective with a particular company using a four-stage milestone system. They set an objective and milestones at the start of an engagement and plot progress against this.

We get an annual report from EOS on the engagements they do on our behalf.

If after consultation with their asset managers and engagement providers, there are still areas of concern, Brunel may decide to escalate engagement, for example through collaborative action with other shareholders on voting or shareholder resolutions.

In 2020, EOS engaged on our behalf with 579 companies on 2,139 environmental, social, governance, strategy, risk and communication issues and objectives.

They typically engaged with companies on more than 1 topic at the same time.

EOS engaged with 62 companies over the last year

- Environmental **22.5%**
- Social and Ethical **19.2%**
- Governance **39.9%**
- Strategy, Risk and Communication **18.5%**

EOS engaged with 11 companies over the last year

- Environmental **23.3%**
- Social and Ethical **16.7%**
- Governance **56.7%**
- Strategy, Risk and Communication **3.3%**

EOS engaged with 579 companies over the last year

- Environmental **20.2%**
- Social and Ethical **19.4%**
- Governance **41.4%**
- Strategy, Risk and Communication **19.0%**

EOS engaged with 149 companies over the last year

- Environmental **18.3%**
- Social and Ethical **17.4%**
- Governance **44.6%**
- Strategy, Risk and Communication **19.7%**

EOS engaged with 259 companies over the last year

- Environmental **20.4%**
- Social and Ethical **19.8%**
- Governance **40.3%**
- Strategy, Risk and Communication **19.5%**

EOS engaged with 68 companies over the last year

- Environmental **20.7%**
- Social and Ethical **21.9%**
- Governance **37.5%**
- Strategy, Risk and Communication **19.9%**

EOS engaged with 30 companies over the last year

- Environmental **18.5%**
- Social and Ethical **20.4%**
- Governance **51.9%**
- Strategy, Risk and Communication **9.3%**

Case study:

Protecting and Enhancing Biodiversity

Asset Class: **Private Equity (TOP Portfolio)**

Geography: **Emerging Markets**

Asset manager: **Actis**

The development of the Kipeto project, a 102MW wind asset in Kenya which is owned by Actis' BioTherm Energy platform, was initially seen as a potential threat to two endangered vulture species that use the project site and surrounding area for foraging.

During project development, Actis introduced specialist advisors to assess the feasibility of the project being able to achieve a 'net positive' impact on biodiversity.

Once feasibility had been established, Actis worked with the advisors and the Kenyan conservation community to develop a Biodiversity Action Plan to mitigate the potential threat to the vultures, while also expanding a comprehensive vulture conservation program across the region.

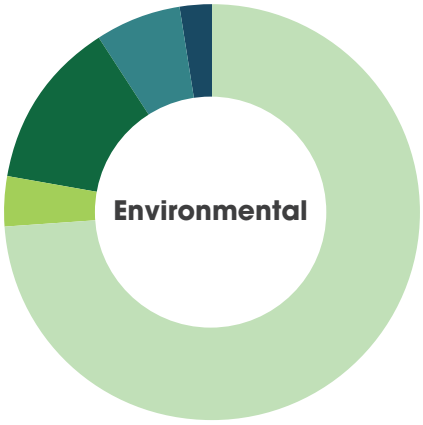
The program, which commenced during 2019, brings together pastoralists and an alliance of wildlife conservation NGOs to reverse the rapid decline in vulture populations by implementing a series of deterrents to prevent poisoning. Actis' Responsible Investment, Operations and deal teams worked together to understand and quantify the risk, develop plans and to renegotiate contracts to improve risk provisions and pricing.

Outcome

The conservation programme has so far proved highly successful and a team of specialist ornithologists have been appointed by the project to oversee the mitigation programme, which is based on leading 'shutdown on demand' technology, and to train local Maasai people in vulture mitigation and conservation practices. However, while remaining cautiously optimistic that the project will be successful, Actis recognise that the wind farm requires a prolonged period of safe operations and successful implementation of the mitigation programme before the manager can guarantee a successful 'net positive' impact.

Engagement by theme

A summary of the 2,139 issues and objectives on which EOS engaged with companies in 2020 is shown.



Environmental topics featured in 20.2% of engagements over the last year

- Climate Change **74.1%**
- Forestry and Land Use **3.7%**
- Pollution and Waste Management **13.2%**
- Supply Chain Management **6.5%**
- Water **2.5%**

Governance topics featured in 41.4% of engagements over the last year

- Board Diversity, Skills and Experience **21.3%**
- Board Independence **13.2%**
- Executive Remuneration **48.3%**
- Shareholder Protection and Rights **13.2%**
- Succession Planning **4.0%**

Social and Ethical topics featured in 19.4% of engagements over the last year

- Bribery and Corruption **2.2%**
- Conduct and Culture **19.0%**
- Diversity **24.1%**
- Human Capital Management **16.1%**
- Human Rights **29.9%**
- Labour Rights **6.7%**

Strategy, Risk and Communication topics featured in 19.0% of engagements over the last year

- Audit and Accounting **5.9%**
- Business Strategy **35.2%**
- Cyber Security **6.9%**
- Integrated Reporting and Other Disclosure **22.7%**
- Risk Management **29.3%**

Case study:

Engaging on Physical Climate Risk

Asset Class: **Sustainable Listed Equities**

Geography: **Global**

Fund Manager: **Impax**

Impax engaged several times in 2019 and 2020 with the Chinese wastewater treatment and water supply service provider in order to gain an understanding of to what extent the company manages its exposure to physical climate risk and how well-prepared the company is for it.

Engagement objectives are:

- To get localised plant-level data from company
- To raise company's awareness of physical climate risk
- To gain insight into company's physical climate risk exposures
- To seek company commitment to risk mitigating processes

Impax shared its forward-looking scenario analysis of the company's exposure to physical climate risks. This followed location specific data which the company provided to Impax following a previous engagement. Impax outlined that the most significant risk for the company appear to be Water Stress and Heat Stress for c. 10% of its plants in China. Other risk exposures were localized, for example, sea level rise risk for certain treatment plants in coastal regions. Although the company was aware of some of the issues around climate change, Impax and the physical climate risk model provided insight through the quantitative scenario-based analysis of their direct exposure to physical climate risk, which was shown to pose a tangible long-term risk to the business. The company appreciated the analysis and has since provided additional plant-locations for further analysis and raised questions about approaches to physical climate risk mitigation.

Outcomes

The outcome from this engagement is that the above first 3 objectives have been reached, objective 4 is on-going.

Case study:

Engaging on Social issues

Asset Class: **Private Equity (TOP Portfolio)**

Geography: **Europe**

Fund Manager: **Ambienta**

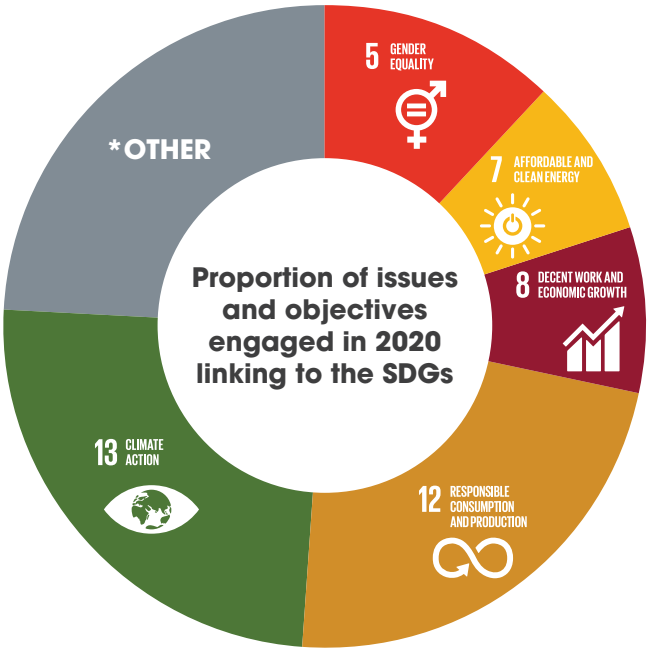
Part of Ambienta's engagement programme is to work with companies in its portfolio to formalise incentive and retention schemes and career development plans. The aim is to increase people's capabilities and skills and empower staff across all levels of the organization to promote a positive and proactive working environment as a key enabler of long term value creation for all stakeholders.

Ambienta monitors issues such as training expenditure per employee, staff turnover, percentage of overtime against working hours and how much the company spends on community engagement.

On top of this, all companies in Ambienta's portfolio are encouraged to support a non-profit organisation, which provides environmental education to children.

Supporting the UN Sustainable Development Goals

The chart below illustrates the number of engagement objectives and issues on which EOS have engaged in the last year, which EOS believe are directly linked to an SDG (noting that one objective or issue may directly link to more than one SDG).



885

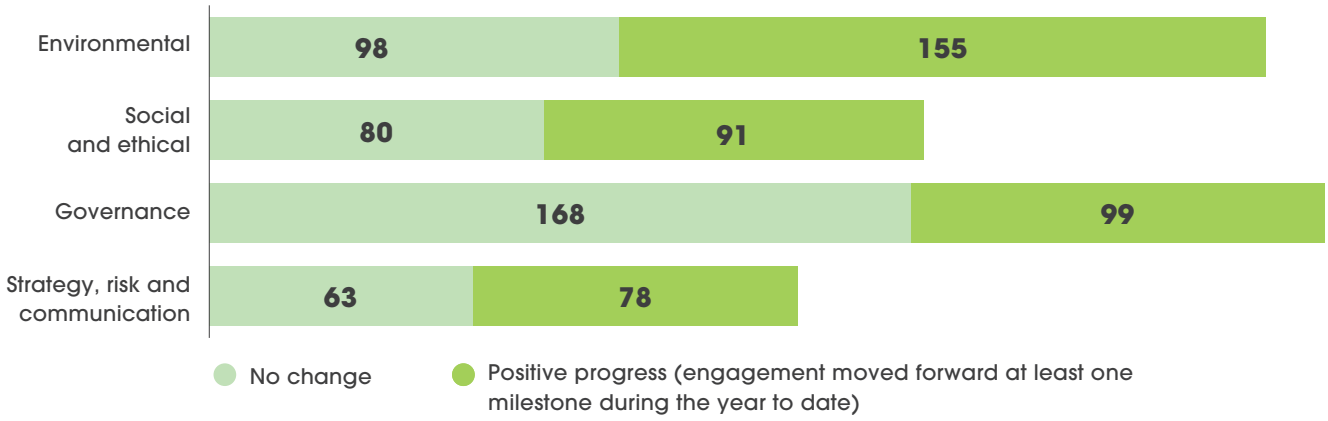
of the issues and objectives engaged in 2020 were linked to one or more of the SDGs.

* This represents the proportion of issues and objectives assigned to the remaining SDGs.

The milestones EOS use to measure progress in an engagement varies depending on the issue and its related objective. They can broadly be defined as follows:

- **Milestone 1 –** Concern raised with the company at the appropriate level
- **Milestone 2 –** The company acknowledges the issue as a serious investor concern
- **Milestone 3 –** Development of a credible strategy/Stretching targets set to address the concern
- **Milestone 4 –** Implementation of a strategy or measures to address the concern

Theme	Total Engagement Objectives	Engagement objective status (last milestone completed)				Closed engagement objectives	
		Objective set	Milestone 1	Milestone 2	Milestone 3	Milestone 4	Discontinued
Environmental	225	11	53	89	43	26	3
Social and ethical	143	6	38	48	41	9	1
Governance	229	3	76	74	40	30	6
Strategy, risk and communication	123	7	36	38	18	21	3
Total engagements	720	27	203	249	142	86	13



Through our legacy asset managers

We have always encouraged our managers to work with companies to improve the sustainability of their operations. Many have a relatively small number of underlying holdings, allowing them to get to know the company well.

If we pick up concerns about a particular company through our advisers, partners, members or press, we will ask the asset manager to explore further.

In 2020, we escalated 1 issue through a legacy asset manager. This was about a holding which we had held previously with another manager, which was now also in their portfolio. Please see case study on the right for more details.

Historically, when we managed all the assets ourselves, we also employed an Engagement Adviser to help engagement with companies. With the introduction of pooling, this service has now been passed to the pool level.

We asked our legacy equity asset managers (all in Global Sustainable Equities) to tell us the number of engagements they had undertaken with companies in our portfolio in 2020, on what issue and how many they felt had led to successful outcomes.

3 of our 4 managers gave us a detailed breakdown. The collective results are below.

Issues our legacy listed equity managers engaged with companies on

- Environmental **38**
- Social **22**
- Governance **56**

In total, they judged 60% of the meetings to be successful. How they judged success was based on their own criteria. This will be linked to their objectives for that company. Given all of these managers focus on sustainability, it is good to see environmental and social issues featured prominently in their engagements.

Through collective action

We are members of LAPFF, the **Local Authority Pension Fund Forum**.

LAPFF facilitates local authority pension schemes and pools coming together to improve corporate governance. They arrange collective action in relation to individual companies. On a weekly basis they will also flag issues of concern in relation to a handful of companies. They may also give recommendations on how to vote. Brunel is also a member of LAPFF and will take their concerns into account in engagement and voting activities.

Case study:

Holding a company to account

We held shares in BHP Billiton when a dam collapsed at its site in Samarco, Brazil in 2015 causing 19 deaths, immeasurable distress to local people and environmental harm. In 2020 we became aware of apparent failings in the reparations and support for the communities devastated by the disaster. We have been engaging through LAPFF ever since and with our previous asset manager.

Being part of a collective action gives us greater weight, influence and resources. LAPFF for example paid for representatives of the local community to come and meet investors in the UK to give their account of the situation.

We now hold BHP through a different asset manager. We have also had conversations with this new asset manager about the Samarco disaster and due reparations. We have encouraged them to ask questions of the company too about this.

We remain unconvinced that the appropriate support has been forthcoming to local communities. We will continue to lend support to LAPFF and related initiatives on this issue. LAPPF hopes to visit Brazil to look at conditions for local people in 2021.

Voting

If we hold shares in companies which are publicly listed on stock exchanges, we have the right to vote at those companies' Annual General Meetings (AGMs). This is an important way to bring matters to the attention of the Board of under-performing companies.

How we engage at AGMs depends on whether our holding is through legacy assets or whether they have been transitioned to Brunel. 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 **Voting Guidelines**.

In all cases, we want managers to use 100% of votes available. We publish all of our voting records quarterly on our website. We also publicise our voting records in our Annual Report and Financial Statements.

We are pleased to see that all our listed equity managers exercised all of their votes in 2020 – having a 100% voting record meets the high standards we expect.

Through transitioned assets

Brunel's **voting guidelines** are agreed by the partnership. These guide EOS's voting recommendation alongside country and region-specific guidelines. Brunel's voting decisions are also informed by investment considerations, consultation with asset managers, other institutional investors, engagement with companies and/or escalation by individual funds.

Brunel generally operates with a single voice but is clients, are allowed to vote by exception where they have a specific investment policy commitment. We have not done this to date.

More details on this and the voting process, including the approach across asset classes, is explained in further detail in Brunel's **Stewardship Policy**.

We receive voting and engagement reports every quarter. We publish a link on our website to the votes and engagements done on our behalf by Brunel. This is also updated quarterly.

Case study:

Integrating Physical Climate Risk into Company assessments

Asset Class: **Corporate Bonds**

Geography: **UK**

Asset manager: **RLAM**

Following conclusions drawn by RLAM from the performance assessment conducted by the Environment Agency in 2019, both Yorkshire Water and Southern Water were identified as outliers amongst the water utilities sector in the UK. Both companies were among the lowest scoring. This coupled with the increasing pressures that ever changing weather patterns bring, as a result of climate change, means that through RLAM's investments in such companies our portfolios are potentially exposed in the medium-long term to the impacts of climate risk.

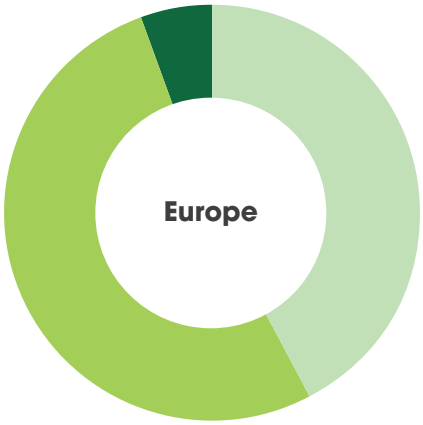
RLAM entered the engagement with two objectives; to ensure climate risk management is embedded into business strategy and for companies to maintain an Environmental Performance Score of 3 stars or above.

Outcome

This engagement is ongoing. RLAM is gaining confidence in the direction of Southern and Yorkshire and feel that the companies are taking serious steps to improve performance significantly. Upcoming court cases for Southern Water will address historic behaviour and will undoubtedly bring negative headlines to the company. Southern Water are investing for positive change, however it will take a number of years before the investment is reflected in pollution and leakage statistics and overall company image.

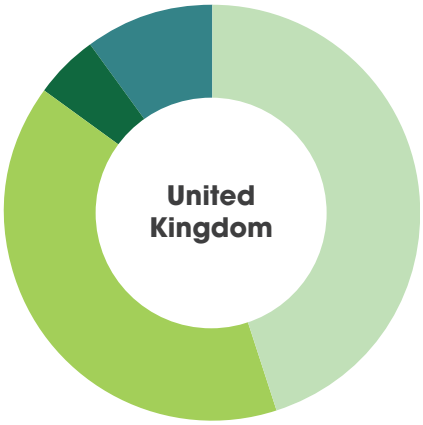
In 2020, EOS made voting recommendations to Brunel on 4,731 resolutions at 343 meetings on our behalf.

At 185 of those meetings, EOS recommended opposing one or more resolutions, while at one meeting, EOS recommended abstaining. They recommended voting with management by exception at 51 meetings and supported management on all resolutions at 106 meetings.



EOS made voting recommendations at **73** meetings (**1,324** resolutions) over the last year.

- Total meetings in favour **42.5%**
- Meetings against (or against AND abstain) **52.1%**
- Meetings with management by exception **5.5%**



EOS made voting recommendations at **20** meetings (**435** resolutions) over the last year.

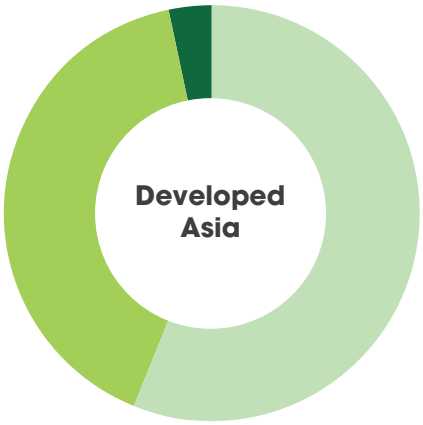
- Total meetings in favour **45.0%**
- Meetings against (or against AND abstain) **40.0%**
- Meetings abstained **5.0%**
- Meetings with management by exception **10.0%**

EOS made voting recommendations at **343** meetings (**4,731** resolutions) over the last year.

- Total meetings in favour **30.9%**
- Meetings against (or against AND abstain) **53.9%**
- Meetings abstained **0.3%**
- Meetings with management by exception **14.9%**

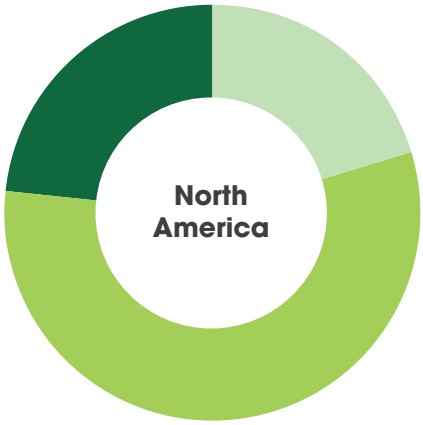
EOS made voting recommendations at **16** meetings (**168** resolutions) over the last year.

- Total meetings in favour **12.5%**
- Meetings against (or against AND abstain) **81.3%**
- Meetings with management by exception **6.3%**



EOS made voting recommendations at **32** meetings (**357** resolutions) over the last year.

- Total meetings in favour **56.3%**
- Meetings against (or against AND abstain) **40.6%**
- Meetings with management by exception **3.1%**



EOS made voting recommendations at **181** meetings (**2,330** resolutions) over the last year.

- Total meetings in favour **20.4%**
- Meetings against (or against AND abstain) **56.4%**
- Meetings with management by exception **23.2%**

EOS made voting recommendations at **21** meetings (**117** resolutions) over the last year.

- Total meetings in favour **42.9%**
- Meetings against (or against AND abstain) **52.4%**
- Meetings with management by exception **4.8%**

Case study:

Engaging on Diversity and Inclusion

Asset Class: **Sustainable Listed Equities**

Geography: **Global**

Listed Equity: **Impax**

Impax is focused on engaging on diversity and inclusion with one company in Canada.

Their engagement objectives are:

- Raise awareness of the benefits of improved diversity, 2018 (achieved)
- Raise company's awareness of how to implement improved diversity, 2019 (achieved)
- Achieve change and positive diversity outcomes in the company, 2020 (achieved)
- Focus on diversity-related policies and targets (partially achieved, company committed)

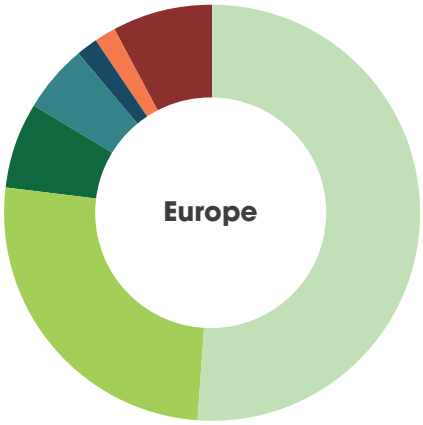
Outcomes

Impax and the company remain engaged and committed on this subject.

A milestone was achieved in 2020 when two new female members were appointed to the company Board – the first ever females on the Board of the company. Their appointment also added to diversity of background as they brought additional technology and ESG experience.

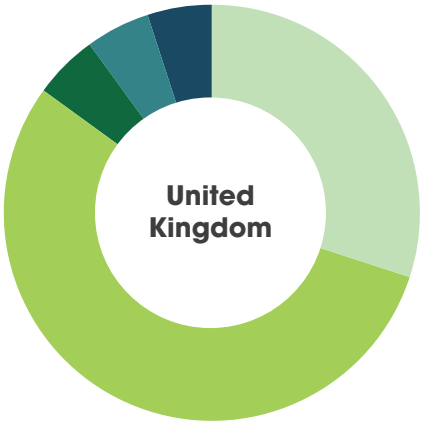
Impax will re-visit this engagement topic in Q4 2021.

The issues on which EOS recommended to Brunel voting against management or abstaining on resolutions are shown below.



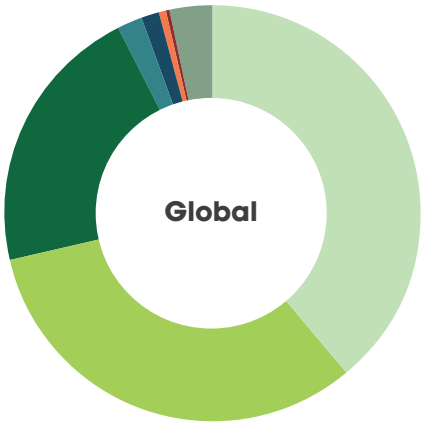
EOS recommended voting against or abstaining on **117** resolutions over the last year

- Board structure **51.3%**
- Remuneration **25.6%**
- Shareholder resolution **6.8%**
- Capital structure and dividends **5.1%**
- Amend articles **1.7%**
- Audit and accounts **1.7%**
- Other **7.7%**



EOS recommended voting against or abstaining on **20** resolutions over the last year

- Board structure **30.0%**
- Remuneration **55.0%**
- Capital structure and dividends **5.0%**
- Audit and accounts **5.0%**
- Poison pill/Anti-takeover device **5.0%**

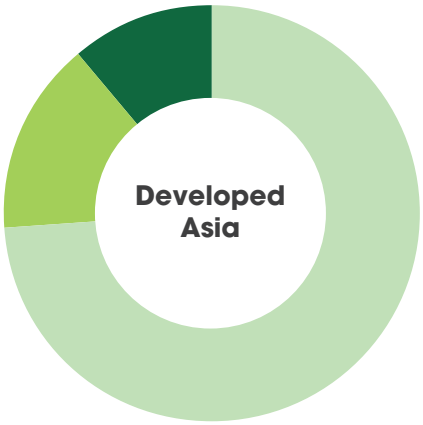


EOS recommended voting against or abstaining on **550** resolutions over the last year

- Board structure **39.1%**
- Remuneration **32.4%**
- Shareholder resolution **21.1%**
- Capital structure and dividends **2.0%**
- Amend articles **1.5%**
- Audit and accounts **0.5%**
- Poison pill/Anti-takeover device **0.2%**
- Other **3.3%**

EOS recommended voting against or abstaining on **36** resolutions over the last year

- Board structure **47.2%**
- Remuneration **11.1%**
- Capital structure and dividends **2.8%**
- Amend articles **13.9%**
- Other **25.0%**



EOS recommended voting against or abstaining on **27** resolutions over the last year

- Board structure **74.1%**
- Shareholder resolution **14.8%**
- Capital structure and dividends **11.1%**

EOS recommended voting against or abstaining on **329** resolutions over the last year

- Board structure **33.1%**
- Remuneration **35.3%**
- Shareholder resolution **31.6%**

EOS recommended voting against or abstaining on **21** resolutions over the last year

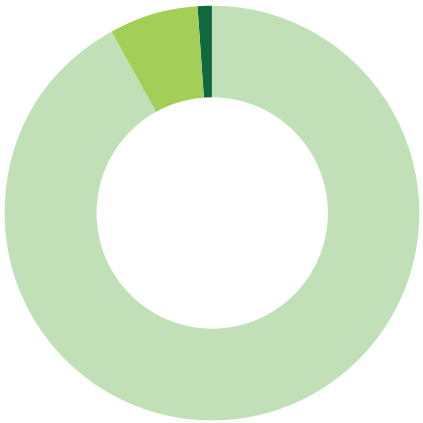
- Board structure **14.3%**
- Remuneration **81.0%**
- Amend articles **4.8%**

Through legacy assets

We expect our legacy asset managers to raise any missed votes with us. If there are any issues we are unaware of, we expect managers to disclosure this at our annual meetings with them.

In addition, we ask Mercer Sentinel to undertake an audit of EAPF voting data by our legacy asset managers.

We publish voting information from our legacy asset managers every quarter on our website.

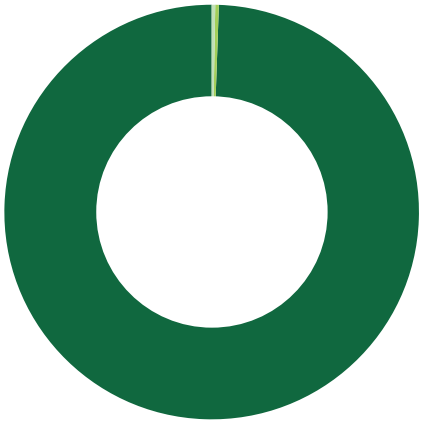


Votes by Legacy Asset Managers

Number of meetings **327**

Number of resolutions that manager was eligible to vote on **4301**

- Resolutions voted with management **92%**
- Resolutions voted against management **7%**
- Resolutions where manager abstained from voting **1%**



Number of votes broken down by Governance and Strategy, Environmental, and Social categories

- Environmental **14**
- Social **17**
- Governance **4299**

Most of our managers' significant votes focused on governance issues such as board appointments and compensation. We were pleased to see a number of votes against management due to a lack of diversity at the board level.

Environmental issues made up a minority of votes. This is because the vast majority of votes are on governance issues, as put forward by the company themselves. Shareholder resolutions are fewer in number and are often more focused on environmental and social issues. The most notable environmental votes for our asset managers focused on shareholder proposals regarding greenhouse gas reduction targets.

Shareholder resolutions

Shareholders can join together to put forward a resolution. If agreed, it can force the company to act in a certain way.

Being in a pool means that our collective weight and resources to bring forward resolutions is greater. Only Brunel partnership can bring forward resolutions on behalf of the pool, or be a signatory to the resolution. We can no longer be signatories in our own right as part of a pool.

Stocklending

The Fund does not engage in stock lending through active equities, but we may do so in some passive or quantitatively managed pooled portfolios through our participation in the Brunel. Where stock lending does take place within pooled funds, Brunel will seek to arrange where practical to have the ability to recall stocks to be able to vote.

Within Brunel the decision to stock lend is made by clients at portfolio level. This is reviewed annually.

Case study:

Taking part in Bank Climate Shareholder Resolutions

In December 2019, Brunel co-filed a shareholder resolution at Barclays, the first climate change resolution to ever be filed at a European bank. Since filing, Brunel, alongside lead filer ShareAction, engaged with Barclays and other shareholders. Positive shareholder pressure led to a significant step by the bank as, in April, it put forward a proposed "ambition to become net zero by 2050". While Barclays' own resolution set out an overarching 2050 ambition encompassing all financing across all sectors, the shareholder resolution ensures a greater focus on short- and medium-term actions needed in order to achieve that long-term goal. Both proposals were put to vote at the May annual general meeting. Barclays' proposal passed, but we were pleased to see that votes for the shareholder resolution (23.95%) exceeded the 20% threshold that requires the bank to consult with shareholders and explain the views received and actions taken publicly within six months. Brunel will continue to engage constructively to ensure that Barclays delivers on its commitments and takes real action to align its financing with the needs of the low-carbon transition.

Engagement expanded to include Europe's second largest financier of fossil fuels. The Rainforest Action Network (RAN) found HSBC provided $87bn to some of the world's largest fossil fuel companies since the signing of the Paris Agreement (2016–2019). In December 2020 Brunel co-filed a ShareAction led shareholder resolution at HSBC. The resolution called for HSBC to publish a climate strategy and targets to reduce its exposure to fossil fuel assets, on a timeline consistent with the Paris climate goals. We believe this resolution would enable the bank to meet the Net Zero ambition it set out.

Following intense and diligent engagement Q1 2021, the power of shareholder engagement prevailed. The coalition of investors, representing $2.4 trillion in assets, agreed to withdraw the shareholder resolution in exchange for a board-backed resolution. Europe's largest bank has tabled a resolution, for its May AGM, that commits it to, set a strategy with short-and-medium-term targets to align its provision of finance with the goals and timelines of the Paris agreement, publish a coal policy, and report on progress annually. HSBC has committed to engage with the co-filing groups in the development of the coal policy, we will continue engaging with the bank during 2021.

Case study:

Voting: Modern Human Slavery

As an escalation of the engagement on modern human slavery statements, Brunel voted against the statutory reports for Frasers group (previously Sports Direct). Frasers failed to disclose a modern human slavery statement in line with mandatory government requirements. A revised statement has since been published. The collaborative engagement with target companies continues.

Case study:

Voting: Remuneration

Due to concerns about the excessive severance package awarded to the former CEO at McDonald's, and the lack of a robust 'clawback' policy, Brunel voted against the named executive officers' compensation. The resolution received 20.3% dissent.

What we lack is the ability to report on social impact and biodiversity across the portfolio.

How we know we are influencing the companies we invest in

We know that our companies emit fewer emissions.

Between 2010 and 2020, we reduced scope 1 and 2 carbon emissions from our listed equity portfolio by 74%. During the same period the value of this portfolio rose by 94% to £1.25bn.

Over the last 10 years we have also moved to consider environmental and social issues in all asset classes, so we can confidently say that the portfolio is greener but measuring progress on social issues is harder. We can see our asset managers are engaging more on social issues but there is very limited measuring on this – maybe from the occasional manager.

Harder still is understanding how our portfolio protects and enhances biodiversity. We only get a sense of progress on this when asking asset managers but even then it is not in any detail. We have the occasional case study and we are proud to show one in this report. What we lack is the ability to report on social impact and biodiversity across the portfolio.

We know our asset managers are making full use of their vote. It is good to see a willingness to vote against management at times. This suggests that they are closely following the activities of the companies, considering the merit of individual resolutions and acting in a manner that they believe is in the best long term interests for investors.

Outcomes from resolutions are mixed but even in instances where the asset manager supported a failed shareholder resolution there was often strong investor support.

The encouraging experience from Brunel's actions at Barclays show that shareholder resolutions may not get corporate support but can still lead to future action by the company themselves.

How we seek to influence wider change across the finance sector

Sections 10 and 11 of the Stewardship Code

We want to be a positive force for change across the finance sector as a whole.

As with any initiative we are pleased to collaborate with other investors, work with NGOs, industry experts and academics to help drive positive change, in line with the ethos of our Fund.

Our engagement priorities mirror our engagement priorities for the companies we invest in, namely:

- Climate Change – helping investors understand and manage the financial risks from climate change and in particular the need to manage physical risks.
- Using resources sustainably, with a particular emphasis on reducing plastics in the environment.
- Water – helping investors manage water quantity and water quality.

We still support other environmental, social and governance issues which are important to us, for example food security, gender equality and human rights but our resources are limited. We are fortunate in that Brunel has a wide outreach on engagement issues and we can lend support through their work, including on modern slavery, diversity and tax evasion.

Sharing EAPF best practice with other funds

We are often asked to speak at conferences for investors and to other funds about our approach on responsible investment.

Last year, this included presentations to:

- The World Pension Summit.
- Conferences focusing on impact investing.
- Conferences focusing on LGPS issues.
- Visiting delegations to the UK from China and Mexico.
- Members of the Houses of Parliament pension scheme.

We also took part in an initiative through the City of London to promote environmental social and governance issues to investors in China.

Working through investor networks

We are members or supporters of a number of established investor networks, including

- PRI – Principles for Responsible Investment
- Transition Pathway Initiative (TPI)
- IIGCC – International Investors Group on Climate Change
- A4S – Accounting for Sustainability

Last year through these groups we took part in the following initiatives:

- Sponsored IIGCC's Net Zero Initiative for Investors. This delivered a leading framework to help investors to get to net zero.
- Co-chaired an initiative to help investors understand physical risks from climate change (this work is ongoing).
- Supported the Transition Pathway Initiative in its work to provide data for the Climate Action 100+ benchmarks.
- Signatory to letters to policy makers to encourage them to Build Back Better after Covid.
- Supported a campaign led by Sarasin to push for companies to have Paris-aligned accounting.

Improving company disclosure

All investors need to have the right information to assess their investment risks from environmental social and governance issues. That is why we co-founded the Transition Pathway Initiative – so that investors can get trusted information about how carbon intensive listed companies are managing their transition to a lower carbon economy, and compare them to their peers in the sector.

We also support the CDP. CDP provides a reporting platform for companies to disclose information about their impact on climate change, forestry and water. It provides a one-stop source of comparable data for investors.

Each year we take part in the CDP's Non-disclosure initiative, where we write to companies and encourage them to disclose to CDP. For the first time last year we linked our engagement to that of our AGM initiative in 2019, which meant writing to fewer companies but a greater focus and link to those that we did.

Through ShareAction we support the Investor Decarbonisation Initiative (IDI), helping companies set ambitious climate targets. We were a signatory on 60 letters encouraging companies to adopt science-based emissions targets and complementary commitments to renewable electricity (RE100), energy productivity (EP100), and electric mobility (EV100).

Reducing plastic pollution

We pledged support in 2019 to an initiative to reduce the amount of plastic pellets lost in the supply chain. It was the first time that investors have combined with other stakeholders in the UK, such as Government, industry and NGOs to create a new standard to manage plastic pellets.

The initiative was launched in 2020 and work was started on drawing up a draft standard.

The outcome is that the British Standards Institute is now consulting with industry on the draft standard. It will be an independent, auditable and accredited standard which should result in fewer plastic pellets being released to the environment.

Training the investment management industry

Our Chief Investment Officer, Graham Cook, is vice chair of Chartered Financial Analyst (CFA) UK, the body for UK investment professionals.

Through Graham, EAPF is helping to drive the required changes in the investment management industry to deliver our net zero ambitions. This has included work to help launch

- the CFA UK Certificate in Environmental, Social and Governance Investing,
- an Office of Qualifications and Examinations Regulation level 4 qualification,
- and a future roadmap on the investment profession's role in navigating the carbon transition.

Supporting member engagement

Make My Money Matter was set up last year to encourage pension funds to invest in such a way that reflects the values of its members. We lent support to each other's campaigns during the year.

Richard Curtis, one of the founders of the campaign, recorded a video presentation for our member engagement work, encouraging our members to share their views on how they want their Pension Fund assets invested. This helped boost interest internally in the work of the Pension Fund and helped contribute to the large numbers of members who came along to our events last year.

We have learned a lot about member engagement over the last year and we have spoken about this at a number of conferences. This has generated many follow-up meetings from funds that want to learn from our success and failings on the issue. For example, an early learning from our survey work was to get market research professionals involved – they know what they are doing and how best to get members to express their views.

We also contributed to a PRI document on experience from asset owners worldwide on how best to engage with members. We learned some tips from Denmark as a result, in what we could do if we were to hold a members' AGM. This PRI report will be published in 2021.

We hope all of this work will help share one of our responsible investment priorities – to make members proud of their Pension Fund.

How do we know that we are influencing wider change across the Finance Sector

In conjunction with all the other investors and asset managers we work with, we are all bringing pressure to bear to make a change.

It is hard to point to some of the above initiatives and be specific about the change it made directly. What we can say is that change is occurring and undoubtedly, the pressure on companies, investors and policy makers to take into account environmental, social and governance issues has increased significantly over the last year.

Some of the initiatives do have tangible outcomes.

As a direct result of our actions, 3 more companies are now reporting on their environmental impact to CDP and 11 other companies have made commitments to decarbonise.

We also know that the Transition Path Initiative which we co-founded continues to grow from strength to strength. Last year it was named ESG Assessment Tool of the Year in 2020 at the Sustainable Investment Awards, hosted by Environmental Finance.

TPI was credited with having been

"instrumental in enabling asset owners to understand what the transition to a low carbon economy means for their major holdings in energy intensive sectors. It has simplified the message around climate change and has made it easier for asset owners to take action."

And finally that Net Zero Initiative that we sponsored, well it produced a very well respected framework and by the end of 2020 we were putting it into practice to work out our own Net Zero Target. More on that in next year's report.

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