Environment Agency
Pension Fund

April 2022 - V2.0

Our approach to responsible investment

EAPF submission to the UK Stewardship Code

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Welcome from the Chair

In March last year, the Environment Agency Pension Fund set a target to get to net zero emissions by 2045.

We have a long and proud tradition of investing to tackle climate change in the Fund. Yet even for us, to get to net zero by 2045 is going to be a challenge.

Addressing climate change is not just about reducing the emissions from our portfolio, it's also about real world change, investing in green solutions, making sure our investments are resilient to a warming climate and that we understand and tackle biodiversity risk. All while encouraging our peers to do the same.

I am delighted that we have made such great strides on all these fronts over the last year, alongside our work to tackle other governance and social risks to our investments. We need to manage all of these challenges to keep our pension fund well-run and well-funded to act in our members' best interest for now and the decades ahead.

And talking of members, last year we introduced our first ever members' AGM.

The express aim was for members to ask questions direct of the pensions committee on any aspect of the Fund. It was no surprise to us that the Fund's approach to responsible investment was at the very forefront of their minds.

I was very encouraged by this.

The Fund only exists because of our members. We very much share their passion, enthusiasm and hope for the positive role the investment industry can play to build a better future – even if we may sometimes disagree on the best way to do this.

We are committed to giving our members clear and engaging information on how we invest their pension contributions and why we invest it in the way we do. And then we must be held accountable for this.

We used content from our Stewardship Code submission last year in a wide range of member engagement events, as well as in external presentations. So that is why we have added more case studies this year to help bring the work of the Fund alive and show clearly the outcomes we have achieved.

I am delighted that we have had another terrific year despite the ongoing challenges of Covid – exciting new investments, very strong financial returns and even a chance to showcase our approach at COP in Glasgow. The details are all in this report. I hope you enjoy the read.

Robert Gould

Chair of the EAPF Pensions Committee

April 2022

Environment Agency
Pension Fund

1. Stewardship and what it means

Stewardship is 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.

What being a responsible investor means for us

- **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.**

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.

Environmental, social and governance issues present significant financial implications for investors. The more the finance sector consider these issues, the more resilient and shock-proof the wider financial market is.

The **UK Stewardship Code** sets high standards for asset owners, asset managers, and for service providers that support them. We met those standards in 2020.

We see it as our responsibility to meet the standards every year. The Financial Reporting Council will be assessing this report to decide if we can continue to be a signatory to the UK 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 of being a responsible investor. To show that we are meeting all of the 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 2021 until 31st December 2021.

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

- **Responsible Investment Strategy**
- **Getting to Net Zero and Building Resilience**
- **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.

Environment Agency
Pension Fund

2. Our Fund and how we are run

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

Our mission

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.

Facts about our Fund

- 38,500 members.
- £4.8 billion in assets (as at Dec 2021).
- 3 participating employers: the Environment Agency (EA), Natural Resources Wales (NRW) and Shared Services Connected Limited (SSCL).
- Open defined benefit pensions scheme.
- Part of the Local Government Pension Scheme (LGPS).
- The only non-local authority administering authority in the LGPS.
- 2 Funds – an Active Fund and a Closed Fund.[1]
- Liabilities potentially stretch out to 2100 and beyond.
- Part of the Brunel Pension Partnership (Brunel).

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.

A spirit of acting in the public good is strong for both our members and our Fund.

1 Broadly speaking, the Active Fund covers the pensions of current or previous employees of the EA, NRW & 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 which allows greater opportunity to be a responsible investor. 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 2021	31st Dec 2020	31st Dec 2021	31st Dec 2020	31st Dec 2021	31st Dec 2020
Active Fund	EA	10,535	10,612	7,511	7,335	6,980	6,711
	NRW	760	787	646	660	655	625
	SSCL	4	4	90	92	21	19
Closed Fund	EA	-	-	854	915	10,269	10,743

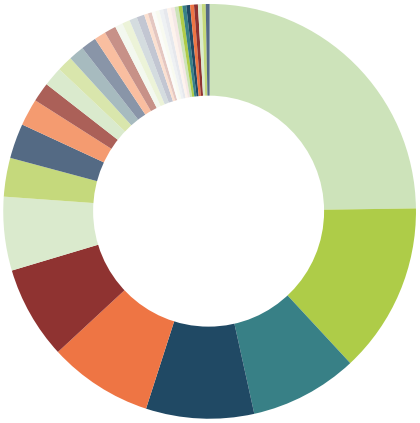
Age profile of active members at 31.12.2020		
	No.	%
Under 20	9	0.08%
20–24	256	2.24%
25–29	900	7.89%
30–34	1,194	10.47%
35–39	1,618	14.18%
40–44	1,873	16.42%
45–49	1,729	15.16%
50–54	1,713	15.02%
55–59	1,338	11.73%
60–64	611	5.36%
65–69	149	1.31%
70–74	18	0.16%
Total	**11,408**	**100.00%**

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%**

The vast majority of our pensioners live in the UK, although we have 444 pensioners living in 45 countries overseas.



Overseas pensioners in the Active Fund

- France **21**
- Spain **21**
- Australia **11**
- Ireland **12**
- Canada **10**
- USA **8**
- New Zealand **4**
- Portugal **4**
- Cyprus **3**
- Netherlands **2**
- Thailand **2**
- Barbados **1**
- Brazil **1**
- Croatia **1**
- Czech Republic **1**
- Estonia **1**
- Italy **1**
- Lithuania **1**
- Malaysia **1**
- Mauritius **1**
- Morocco **1**
- Philippines **1**
- Poland **1**
- Slovakia **1**
- South Africa **1**
- Switzerland **1**

Overseas pensioners in the Closed Fund

- Austrailia **82**
- USA **44**
- Canada **28**
- Ireland **28**
- Spain **27**
- France **24**
- New Zealand **19**
- South Africa **10**
- Thailand **9**
- Germany **7**
- Cyprus **5**
- Italy **5**
- India **4**
- Poland **4**
- Portugal **4**
- Jamaica **3**
- Netherlands **3**
- Greece **2**
- Israel **2**
- Philippines **2**
- Sri Lanka **2**
- Belgium **1**
- Bermuda **1**
- Botswana **1**
- British West Indies **1**
- Cayman Islands **1**
- Denmark **1**
- Estonia **1**
- Hong Kong **1**
- Hungary **1**
- Malaysia **1**
- Mauritus **1**
- Nicaragua **1**
- Nigeria **1**
- Norway **1**
- Serbia **1**
- Singapore **1**
- Switzerland **1**

How we make decisions

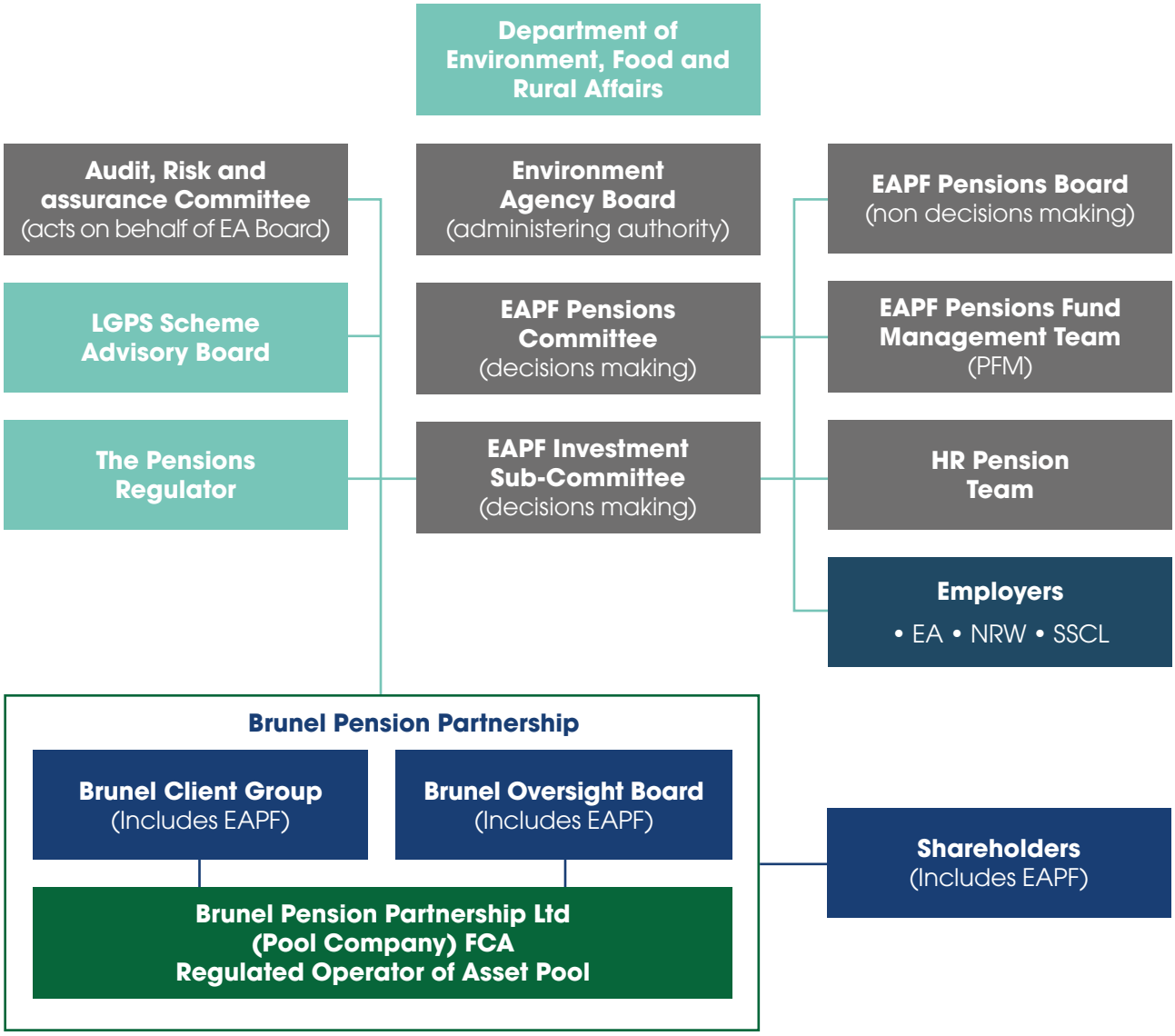
There are strict rules around the governance of our Fund. We report in detail on how we meet these every year in our **Annual Report**, which is laid in Parliament. We also publish all of our governance policies online.

The policies are reviewed regularly. Last year, we reviewed over a third of them, including key ones relating to stewardship, for example:

- Investment Strategy Statement
- Policy to Address Climate Change
- Knowledge & Skills Policy
- Risk Management Policy
- Governance Compliance Statement

Please click here to see our statements and policies.

For this report, we provide a summary of how we make decisions which are relevant to stewardship. The main parties involved are shown here.



Environment Agency Board

The EA 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.

86%

In 2021, the attendance rate across the 5 Pensions Committee meetings was 86%.

5 years

As at December 2021, each Pensions Committee Member had served on average 5 years on the Pensions Committee.

6 years

As at December 2021, each member representative had served on average 6 years on the Pensions Committee.

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 chosen by open advert.

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 continue to demonstrate excellent commitment over the last year and share a deep understanding of pension issues.

EAPF Member representatives in 2021 (full and shadow members).

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 made up of 4 employer representatives (2 Executive and 2 non-Executive members) and 3 member representatives.

73%

In 2021, the attendance rate across the 9 Investment sub Committee meetings was 73%

70%

In 2021, 70% of Members attended the Pensions Board 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. It meets annually.

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

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. The Fund reports 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 12 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 has 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 environmental policy and EA administration. 4 members of the team work on setting and implementing our responsible investment approach although all members of the team support this in their respective roles.

The achievement of our aims on responsible investment forms a key part of the team's objectives and yearly appraisals. Our work on responsible investment also links into the EA's Net Zero 2030 target and the EA's Race Action Plan.

The gender and ethnic background of members of the Pensions Committee and officers, as at March 21, is shown opposite.

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 procure goods and services in line with Defra Group Commercial (DgC) procurement prospectus and the LGPS National Framework. In 2021 we appointed actuarial advisers through the Framework.

Gender

- Male **57%**
- Female **43%**

Ethnic group

- White – English/British **84%**
- Black or Black British **4%**
- White – Welsh **4%**
- White – Irish **4%**
- White – Scottish **4%**

Advisers to the Pensions Committee

EAPF is supported by a core group of key advisers. They will normally be invited to all Pensions Committee meetings.

EAPF's current advisers on stewardship issues

- Investment Advisers – Mercer
- Governance & 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

Once a year in Committee, as part of budget discussions, 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.

Training

In 2021, we approved a new **Knowledge & Skills Policy**. This incorporated the recommended standards that trustees and officers should know, as outlined in the **CIPFA guidance** which was released last year.

All Members have individualised training plans. This is based on an initial self-assessment, with all training undertaken logged and recorded.

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 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.

16 hrs

In 2021, each Pension Committee Member undertook an average of 16 hours of training.

22 hrs

On average, each EAPF officer undertook an average of 22 hours of training.

Pre-Covid, joint training was always done through in-house, in-person training days or as part of a formal Committee meeting. Last year, due to Covid-restrictions, all the training was done online in shorter, sharper bursts. For both Members and officers, the amount of training undertaken was greater than in 2020, reflecting the increased familiarity, availability and use of online facilities.

We also arranged individualised training, to meet specific needs. This was typically attending third-party webinars or training courses online.

Pensions Committee Joint Training in 2021

- Equity strategy review
- Paris Aligned Passive Equity Portfolios
- Sustainable equities
- Liability Driven Investment
- Private Markets
- Fossil fuels & level of transition risk
- Cyber security
- New CIPFA code on knowledge and skills
- 2022 Actuarial valuation

Managing risk

At every Pensions Committee and every Investment sub Committee we review all risks to the Fund with an emphasis on the top risks at that time. 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. A thorough review of actions is undertaken at year end and informs the next year's business plans.

At some meetings, we will do a deep dive into a 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. Last year the issues which dominated discussion included cyber security, COVID and climate change. We provide more detail about the investment risks and our actions to address them in Chapter 4.

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.

Conflicts of interest

The Fund's **Conflict of Interest Policy** sets out a number of steps to ensure that any perceived or actual conflict of interest is managed. These steps are shown below.

Step 1: Declaration of interests

All Members and officers make annual declarations of interest. Advisers also register their interests.

27

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

9

Last year, all of the 9 service providers who advised the Committee, or provided training for the Committee registered their interests.

All of the declarations and registrations of interest are available at all times to Committee Members as well as forming part of the pack of Committee papers.

Step 2: Review of interests

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

In 2021, 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, for example excluding the Member from the relevant part of the meeting if it is deemed necessary.

In 2021, there were 10 additional declarations of interest made during the year. None of these raised potential or actual conflicts which needed managing.

Ensuring no conflict of interest with our employers' roles

EAPF may sometimes invest in a company which its employers regulate. Our Policy explicitly addresses this and requires the following:

- 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 EAPF investments.

Case study:

Managing the Fund's and the employers' interests

In 2021 the EAPF supported the **Mining & Tailings Safety Initiative**. The EA regulates mining waste sites.

We were able to facilitate the introduction of a mining expert from the EA to input to the work of the initiative, which considered the preferred standards for tailings dams internationally. However, for both the expert and the initiative, we were very clear that their expertise was completely independent of the Fund. The expert has not been involved in any discussion about any specific investment that the Fund has or might consider.

Engaging with members

Our members are aware of the power of finance to drive positive change and we welcome the fact they are always keen to share their views.

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

In 2021, we introduced 3 new initiatives to improve the member experience.

1. Our first ever Member AGM

In November 2021, we held our inaugural members' Annual General Meeting (AGM).

What made our first members' AGM different from other forms of member engagement was that its express purpose was for our members to meet and challenge their Pensions Committee on anything they wanted.

We planned the AGM to take place after the annual suite of member webinars, so that if members wanted to escalate an issue further, they could.

These are the main things that were on our members' minds.

- **They want us to act with ever more urgency to tackle climate change.**
- **They think our net zero target of 2045 is too late.**
- **They want to know why we still invest in fossil fuels.**
- **They want a secure, well-run fund.**

As well as responding to these issues at the meeting, we provided a **full report** on the website and provided a **recording** of the first part of the AGM – for personal data reasons we could not include the recording of the second half.

The feedback on the AGM from members was fantastic.

93% thought the event was worthwhile and 88% would like it repeated next year (with the remaining 12% preferring to run this event bi-annually).

2. Our first series of webinars for the BAME community

We have been working with colleagues in the EA's Black Asian & Minority Ethnic community for over 2 years to understand any faith-based or cultural reasons why colleagues may not wish to join the pension fund. This followed engagement with a member in 2019 who felt uncomfortable being in the Pensions Fund on faith grounds.

In 2021, we worked with the pensions lead in the Black, Asian and Minority Ethnic Community to organise 2 tailored webinars for colleagues who may or may not have been members of the pension fund.

We were advised that some colleagues in the BAME community may be the first generation of their household to be in an occupational pension fund. We therefore focused part of the webinar on the wide range of additional benefits that the pension fund offered, beyond simply a pension on retirement.

We also discussed our wider responsible investment approach and went on to explore again whether there were faith or cultural reasons which prevented people from joining the Fund. None were raised. This reflected the feedback we had in other engagements with the BAME community and faith groups in the EA.

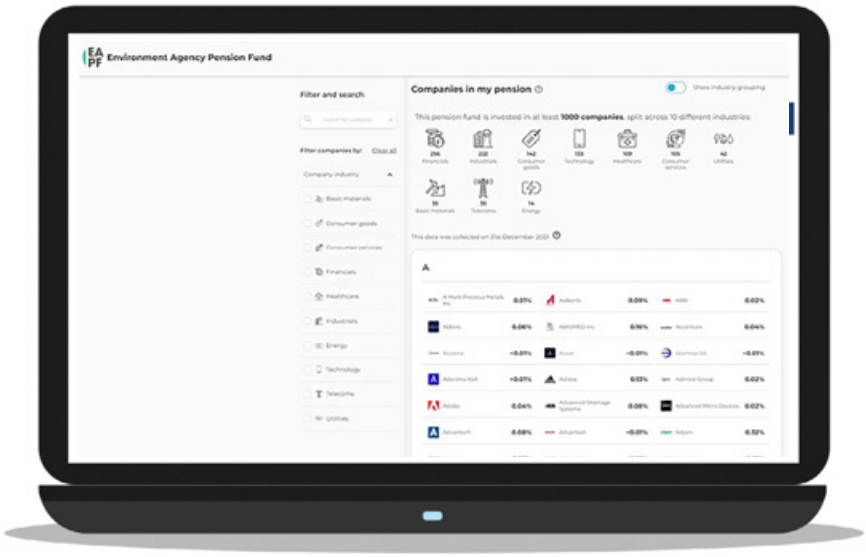
We intentionally planned the webinars to precede our annual suite of webinars and members' AGM, so that if interested in a particular topic, colleagues could then attend a webinar later that month to delve down into an issue in more depth, or escalate it with the Pensions Committee direct.

Colleagues in the Black Asian and Minority Ethnic Community warmly welcomed the webinars. The links go from strength to strength with new initiatives planned for 2022.

3. We became the first defined benefit scheme to sign up to Tumelo

In focus groups in 2020, members had told us that they could not find the Fund's holding data on the website. When showed where it was, members told us that they found the information very dry and dull.

We tested with members the approach available through a new start up company, Tumelo.



This offered holding data in an engaging way, which was easily interrogated. Members loved what they saw.

In 2021, we procured the services of Tumelo. Our **holdings data** is now easy to find and in an easy-to-use format for members and any member of the public to see.

Case study:

Walking the walk

We went out to tender for a Third Party Administrator, which was completed in December 2021.

As part of the tender, we asked the successful supplier to contractually commit to carbon reduction. A key consideration was how to encourage suppliers to get on board with these requirements, in what we know is a limited market.

We worked closely with our legal colleagues to develop an approach which, among other requirements, would reward financially the successful supplier for meeting an agreed carbon reduction target. If the target were met, the reward payment would be invested in a low carbon or a suitable offsetting scheme.

To create the carbon baseline, we worked with our Sustainable Business colleagues in-house to set a scientifically-robust starting point, which would be specific to an individual supplier.

Capita ended up winning the contract which could run for up to 8 years. We will assess their carbon performance, alongside other key service deliverables, every quarter and every year.

Case study:

External assessment of EAPF Governance in 2021

Aon undertook a confidential and indepth survey of PC Members' views in 2021 about how members thought the Fund was being run. In addition, Aon analysed our approach against their Governance Effectiveness Framework.

Aon concluded that the areas where the effectiveness of the EAPF governance arrangements really stand out are the following:

- **Clarity of vision**
  A clear direction, objectives and values. This allows focused meeting agendas, and efficient decision making. In Aon's view, the EAPF is ahead of most, if not all, other LGPS funds in this regard.
- **Risk management**
  Risk management is embedded in the culture of the Fund. This allows appropriate focus on key areas.
- **Committed to the cause**
  The Fund is managed by a set of highly committed individuals (both officers and Members), with diverse backgrounds and approaches to decision making, and high standards and expectations.

Aon's key recommendations to the Fund to strengthen governance further were:

1. Monitor **resource in Pension Fund Management Team** to maintain the right level of external oversight and risk management.
2. **Ensure continuity of Knowledge and Skills on Committee.** Aon noted that the collective level of knowledge and skills on the PC was very good but given changes in committee Membership the complexity of subject matter, it was worth focusing on this to deliver timely and effective training as the pandemic eases.
3. **Review terms of reference and decision making.** While the current arrangements appear to be working effectively, it was appropriate to ensure they remain so, particularly as the transition of assets to Brunel moves to its final stages.
4. **More signposting of key information in meetings** to ensure the Members understand what parts of the agenda papers they are referring to.
5. **Ensure Hybrid Meetings** have the right technology, presentation tools and structure to support effective governance and decision making.

All of the above recommendations are being addressed in 2022.

Our Fund and how we are run

Outcomes

Extremely high standard of governance

Every other year we subject ourselves to a critical third-party review of how well we are run.

An assessment by Aon of our governance in 2021 concluded that,

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

This independent governance assessment is something we do voluntarily every other year. From 2022, all pension funds will be required to do this by The Pensions Regulator.

Clean bill of health for our accounts and approach

As a public fund we are subject to much scrutiny and significant mistakes would soon be made public.

We are audited by the National Audit Office (NAO) every year. The audit in 2020/21 included key areas of significance for stewardship, including:

- Accuracy of valuation of pooled property funds and disclosure of pooled property in fair value hierarchy
- Valuation of complex investments; and
- Operation of Brunel

The NAO again confirmed that the Annual Report and Financial Statements give a true and fair view of the financial transactions of the Fund during the year and of the amount and disposition at that date of the Fund's assets and liabilities. They have also been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

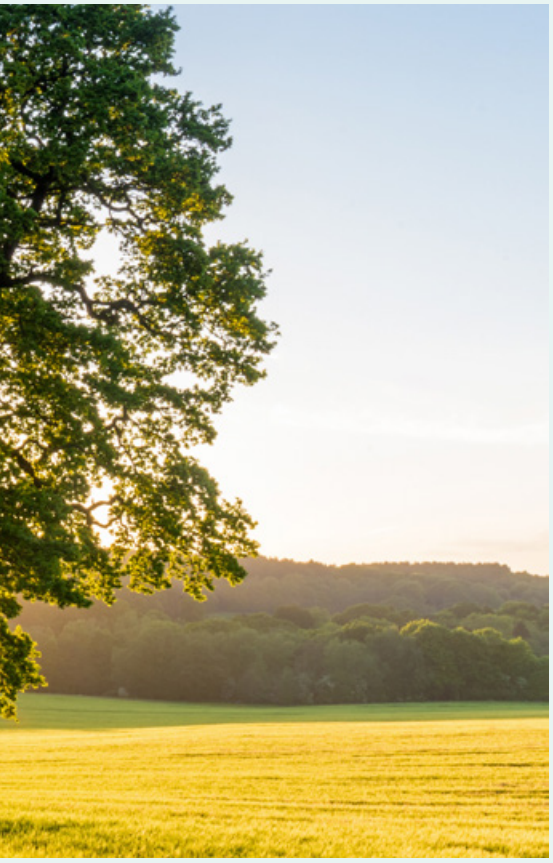
Our annual reports are laid every year in Parliament. We are also subject to freedom of information requests about the Fund. Last year we received 5 requests on how we invest, of these 3 came from commercial organisations.

Good customer service for our members

We seek external accreditation every year to make sure officers are providing the right customer service to our members and to our Pensions Committee Members.

In 2021, we again achieved third-party accreditation that we had met Customer Service Excellence 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."



We lead the way on member engagement

We know this because our members have told us and other Funds have told us.

With our members, we still have lots of areas to improve on but each year we innovate to raise the awareness of responsible investment with more and more of our members.

We know that some of our members may disapprove of some holdings, most notably the very few holdings that still remain in fossil fuels, but we try our best to explain why. We always seek to give members fulsome responses and plenty of opportunities to escalate their issues.

We have also had feedback from our members over the last year who have deferred pensions with other providers. They have compared us favourably and use examples from our approach to ask questions of their other provider about what they are doing on responsible investment.

Finally, we are often asked to talk to other pension funds about how we engage with our members. Last year, we were asked to speak to a number of pension committees about this as well as to other parties.

We never forget our fiduciary duty

The Fund has a very strong belief in investing responsibly that runs through everything it does. However, this is never at the expense of thinking about the best long terms interest of our members or good governance.

For example, while we are strong proponents of investing in a low carbon economy, last year Members took part in a training session to critically assess common assumptions on transition risk, to challenge group think. And as part of our most major policy decisions of the year – to agree to get to net zero by 2045 – a decision was only reached after 9 months of analysis, training and debate to make sure that the policy was right for our investment approach long-term and in line with our fiduciary duty.

3.
How we invest

Our investment beliefs

Sections 4,7 & 8 of the Stewardship Code

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.

Setting a strategic direction at Fund level

Our responsible investment approach recognises that environmental, social and governance issues, and in particular climate change, can positively and negatively impact on the Fund's financial performance.

To address this, we have to set out the right strategic approach at Fund level and then make sure that it is implemented by Fund Managers.

This is how we set out the right strategic direction:

- **Put responsible investment at the heart of our governance.** It is integrated into committee meetings, all relevant policies, training plans and engagement with members.
- **Put environmental, social and governance issues at the heart of our investment beliefs.** We will review our investment beliefs in 2022.
- **Set a Strategic Asset Allocation (SAA) to meet our funding requirements.** We review the SAA every 3 years in line with our triennial valuations and as part of this model the impact of climate change on certain asset classes. The next review is due in 2022.

We also monitor the SAA annually 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.

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

Given our healthy funding level, in 2021 we continued to move 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.

- **Set an Investment Strategy** to implement the SAA which reflects our investment beliefs and in particular a strong focus on investing in products that are good for the environment and society and tackle climate change. This is also reflected in the responsible investment targets, which are part of the Investment Strategy, notably:
  - Get to net zero carbon emissions from our investment portfolio by 2045 and halve emissions by 2030
  - To always have at least 33% of our investments in sustainable assets
  - By 2025, 17% of our investment portfolios will be in green solutions which build a clean, biodiverse and climate-resilient future
- **Appoint and monitor asset managers who can deliver our responsible investment beliefs across all asset classes.** This is increasingly done through the Brunel Pension Partnership. If the appropriate portfolio is not available through Brunel to meet our Investment Strategy, we may appoint managers directly (we refer to them in this report as "directly-appointed managers").
  - By December 2021:
  - £2.4bn of assets had transitioned from EAPF to Brunel, which represents 51% of EAPF's total assets
  - We invest through 5 portfolios managed by Brunel appointed asset managers.
  - We have 7 directly-appointed managers
  - We also invest as Limited Partners in 27 Private Market funds (18 Managers)

– **Manage investment risk and monitor performance**
The Investment sub Committee has responsibility for implementing the Investment Strategy. As part of this it monitors quarterly financial performance, our implementation of our responsible investment approach and manages investment risk.

Our investment consultants and our asset managers will report on financial performance quarterly. In addition, we have appointed an independent performance measurer to give us an extra layer of assurance. They will also report quarterly on the returns of our investment managers against agreed benchmarks. The reporting allows comparison each quarter, over periods of 3 months, 1 3, 5 and 10 years, as well as reports from inception per manager and at whole fund level.

To monitor asset managers performance on responsible investment, one of the things we use is 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 one 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.

Where appropriate, 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.

EAPF Target Strategic Asset Allocation

Asset Classes	31 Dec 2021 (%)
Equity	
Global Equities	36.5
Private Equity incl TOP	4.0
Total Equity	**40.5**
Real Assets	
Property	5.0
Infrastructure	5.0
Timberland & Farmland	2.0
Private Debt	5.0
Multi Asset Credit	8.0
Total Diversifying Growth	**25.0**
Total Growth Assets	**65.5**
Defensive	
Sterling Corporate Bonds	22.0
LDI	11.5
Cash	1.0
Total Defensive	**34.5**
Total	**100.0**

Geographical distribution (equities)	31 Dec 2021 (£m)
North America	1,330.7
Europe (excluding UK)	249.0
United Kingdom	94.5
Japan	70.6
Asia Pacific (excluding Japan)	56.7
Emerging Markets and other areas	21.1
Total	**1,822.6**

Our funding strategy

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 & 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.

Investing for Impact

Our Targeted Opportunities Fund is where we can have real world impact.

We set it up in 2014 to increase our allocation to investments in private markets which delivered strong sustainable and financial outcomes.

This report includes a number of case studies from our TOP Fund, highlighting the strong social and environmental benefits it generates in all parts of the world.

As of 31 December 2021 the Fund had around £200m invested in TOP (4% of our total fund).

Net Zero by 2045

In 2021, following a thorough financial, legal and climate science, we agreed to set a target to get to net zero 2045.

We followed the **IIGCC net zero framework** which we had sponsored as a Fund the year before.

Our approach is about:

- **Reducing emissions across all asset classes. We want to move across to Paris-aligned benchmarks (first one in place in 2021) and deny debt to those companies which are not Paris-aligned, unless covenants are in place.**
- **Continuing to invest in climate solutions – these made up 10% of our investments in 2021.**
- **Engaging with our companies and the wider finance sector**

We were also delighted after much due diligence to invest in a really exciting nature based solution in Paraguay last year.

The feedback from many of our members about our target date was disappointment. They wanted us to match one of our employer's target – 2030. In many engagements with members, we told them that this was not possible for 2 main reasons:

- As an open defined benefit scheme, there are not the right investment products for us at the moment to get the right risk and return for the right amount of emissions; and
- We are not offsetting – offsetting would have allowed us to bring forward the target date.

We would love to get to net zero earlier. And it may be possible – we know from the data that we are already 5 years ahead of where we need our emissions to be in our listed equities portfolio.

So going forward we will review regularly the investment products, our Fund's emissions, known data gaps, the climate science and ultimately our investment strategy to see if this is possible.

EAPF as a shareholder and client of Brunel Pension Partnership

There are 10 shareholders in Brunel with equal shares. Details can be found here.

All 10 shareholders are also the sole clients of Brunel.

Each Pension Fund has their own investment strategy to meet their respective aims and funding strategies. Brunel has to offer investment portfolios to implement these investment strategies.

The Funds agree the specifications for a portfolio. Brunel then choses the right investment manager for the portfolio and monitors performance, reporting back regularly to clients.

Each Fund is part of the governance arrangements at Brunel and takes their own decisions which portfolio(s) to invest through and when to make any changes.

Investment risks

These are some of the investment risks which the EAPF considered in 2021.

Climate Change – The Fund has had a policy to address financial risks from climate change since 2015. In 2021, we agreed a policy to net zero by 2045. As part of the decision-making process, the Pensions Committee considered transition risk, physical risk, biodiversity risk and fiduciary duty to make sure the approach was in the best interests of members.

COVID – Covid continued to cause market disruption in 2021, 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 should be transitioned in line with our investment strategy. In 2021 Brunel attended 4 ISC meetings to discuss pooled funds.

Private market allocation – the ISC held 5 extra meetings in 2021 so as to be able to consider allocating to new private equity and private debt funds, which had a particular focus on managing the transition to a low carbon economy. This allowed the Fund to meet both the SAA target for private markets and climate change policy.

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.

Ensuring asset managers implement our investment approach

The different ways our assets are managed

The asset managers may manage our assets directly and have a direct link with the companies in their portfolio. This is common for our listed sustainable equity active holdings.

Or sometimes, our asset managers may oversee portfolios where there are underlying managers who have a direct link to the company. For example, our Real Assets mandate is managed as a portfolio of listed and private investment funds.

Our holdings may be in segregated accounts, which means that they are held directly in the name of the Environment Agency Pension Fund. Or sometimes our holdings are in pooled funds, where the holdings are held collectively with other unit holders, in the name of the managed fund. This is common for the portfolios which Brunel manage on our (and our partner funds) behalf.

We may invest in portfolios where the asset manager picks specific companies for the portfolio in line with the stated aim of the portfolio. These are called "active funds". For an active mandate, we expect the asset manager to make the call about what should or shouldn't be in our portfolio, in line with our responsible investment approach. 85% of our listed equities are in active funds.

15% are in passive funds, where the portfolio replicates a benchmark index. These are also called "tracker" funds. The chosen index will specifically set out which companies should be in or out of the portfolio, with limited or no choice for the asset manager to divert from this. In 2021, we moved our passive equity holdings from a MSCI World Low Carbon Target Index to a FTSE Paris Aligned Index. This ensures that the overall emissions from the portfolio will be aligned with Paris, and in line with EU requirements, it excludes tobacco Oil & Gas companies, arms manufacturers and others breaching the "Do No Significant Harm" principle.

The Fund will consider all the above issues to balance risk and return, ensure the Fund is well diversified and chose the right managers who will meet our investment strategy and our responsible investment aims.

Assets managed by Brunel

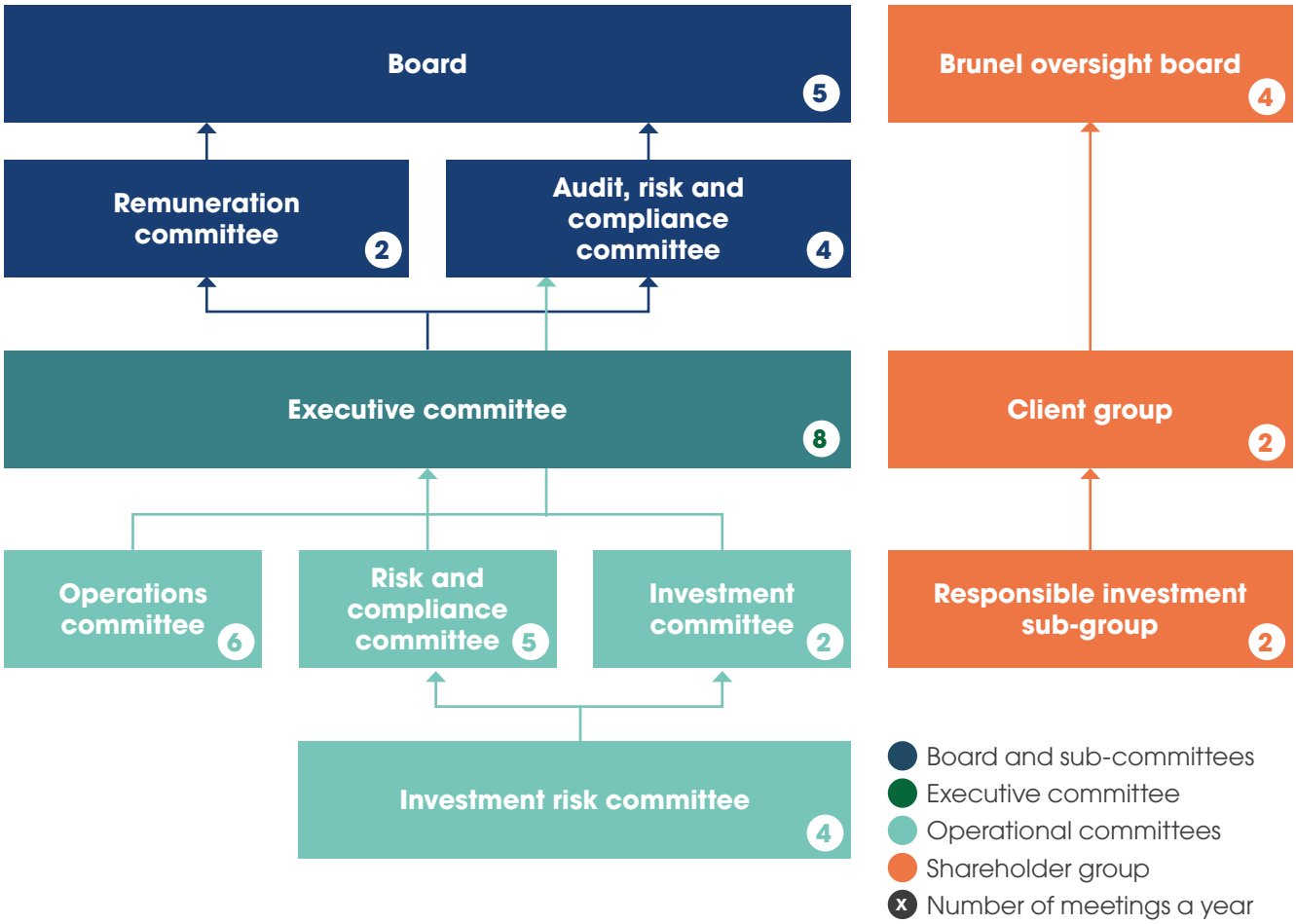
Over 50% of our assets are managed by Brunel and this number will rise over the next few years.

Governance

We play a key role in the Brunel governance framework to make sure that is delivering what we need as clients. We take part in 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

Brunel's governance framework



- 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 2021, workshop topics included Paris-aligned benchmarks and the forthcoming Brunel climate change stocktake.

Sometimes we invite the Brunel team to attend our Pensions Committee or Investment sub Committee. Last year they attended 4 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 approach which is overseen operationally by the Executive Committee. Operational accountability on a day-to-day basis is held by Brunel's 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 63 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 best identify and respond to market-wide and systemic risks, Brunel engages with a wide range of stakeholders, including government authorities, trade bodies, unions, investors, and NGOs. Brunel consultation responses are published on their website: Policy advocacy.

Portfolios

Brunel have been in the process of rolling out over 20 investment portfolios to their clients to meet our respective investment strategies.

We agree our requirements for portfolios we want to invest in with the 9 other partner funds and incorporate them into the portfolio specifications. These are then implemented by Brunel who appoint the managers for the pooled portfolios, and oversee the application, reporting back to the partner funds on a quarterly basis via assurance reports

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

- Understand the investment requirements of the funds to determine the portfolio specification
- Review of market
- Design the tender process and agree the selection criteria
- Assess & select managers

Client Group are 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.

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

Brunel selects managers of behalf of the Funds which can deliver the agreed portfolio.

The effective management of environmental, social and governance risks will be a key factor in their choice. How this will be done may differ in each portfolio, depending on the asset class, geography and risk objective. Some of the key issues that Brunel considers when appointing managers is set out below.

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	

Monitoring Managers

Brunel monitors managers performance on a quarterly basis and gives them a rating. This includes their approach to stewardship. Brunel ensures that managers are tracking the agreed guidelines, benchmarks and risk parameters.

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

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

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

Directly-appointed managers

We have 7 asset managers remaining whom we selected pre pooling and manage directly. These manage investment strategies and portfolios which are not currently available through Brunel /or whose offering most closely aligns with our Investment Strategy. These are in the areas of listed sustainable equities, real assets and renewable energy private equity. We also have 27 directly managed limited partner (LP) ownership stakes in impact private equity and private debt funds as part of our Targeted Opportunities Portfolio

For directly appointed mandates, our expectations of managers are discussed in detail as part of the selection process and laid out formally within the investment management agreement (IMA) as the investment guidelines. This will include:

- The investment universe available to the manager
- The benchmark against which performance will be measured
- Investment objectives including risk, return, investment strategy and any non financial objectives (eg specific impact objectives)
- ESG considerations
- Securities excluded from the investment universe (individually or particular types of securities)
- our relevant overarching policy and strategy documents, including the Investment Strategy Statement, Responsible Investment Strategy and Policy to Address Climate Change

In private markets, our investments are implemented typically through Limited Partner (LP) structures, which set out the investment objectives and constraints through the Limited Partner Agreement. EAPF will normally have a seat in the Limited Partner Advisory Committee (LPAC), through which adherence to the guidelines is monitored, and EAPF's expectations of the manager can be directly communicated.

We meet asset managers at least once every year to discuss their performance, returns, changes in policies and strategies, notable issues and consider responsible investment themes we wish to explore. Last year we asked the managers in particular to report on:

- How their approach is helping us to achieve our 2045 net zero target
- Indirect activity they undertake that is supportive of our wider responsible investment policy, eg supporting research, collaboration, educational activities and influencing policymakers
- Their work in measuring the impact of physical risk, diversity and the impact of their portfolio on biodiversity

Case study:

Investing in climate solutions

In 2021, EAPF through The Townsend Group (TTG), invested in a fund managed by EnCap Investments. The Fund focuses on the development or substantial redevelopment of low carbon energy infrastructure in North America, including battery storage facilities.

Batteries provide a crucial role in supporting the grid and enabling more traditional intermittent renewables, storing surplus energy when demand is low and delivering energy when demand is high and supply is scarce. Energy storage facilities can be installed at specific locations on the grid to make the existing systems more reliable and effective. For example, battery storage facilities are commonly paired with solar farms, facilitating the matching of demand with supply, allowing energy to be stored when the sun is out and then supplementing the grid's power requirements once the sun has set.

In 2021, 2.6 gigawatts[2] of storage capacity was installed in the U.S. market, taking total capacity to over 4.5 gigawatts. This was an annual capacity increase of 196% compared to 2020 volumes. In 2022, 9 gigawatts of batteries are expected to be installed. A significant growth area in the U.S. market is the residential market.

Case study:

Development in technology

Lithium-ion batteries currently account for more than 95% of the global energy storage installations. These types of batteries are expected to remain the dominant energy storage technology this decade. Technological advances over the past decade mean the cost of battery storage has been significantly reduced. Furthermore, the average energy storage duration has increased from 1 hour in 2008 to over 3 hours for newly operational projects in 2021. Sodium-ion batteries, which use similar technology, are expected to gain market share from 2025, but are likely to supplement, rather than replace, lithium-ion batteries.

The EnCap Energy Transition Fund will cater to the increased need for battery storage, whilst improving the efficiency of the storage process through investment in new technologies.

How we invest

Outcomes

Our investments consistently deliver strong returns and outperform the market year on year

The Fund has outperformed its benchmark over 1, 3 & 5 years.

- In 2021, our investments delivered a return of 12.2% in 2021 against a Benchmark of 8.5%.
- Over 3 years, the Fund delivered a return of 11.4% per annum, outperforming the benchmark by 0.9% pa.
- Over 5 years, our investments delivered a 9.0% per annum against a benchmark of 7.7% p.a.

The Fund has been fully funded for the last 6 years

The success of our investment approach has contributed to the Fund being fully funded at 31 March (our financial year end) since 2016. This means our assets are estimated to be greater than our liabilities. At the formal valuation of 31 March 2019 the funding level was 106%. At 31 December 2021 we were estimated to be 116% funded.

This has also contributed to the EAPF having one of the lowest employer contribution rates across the LGPS.

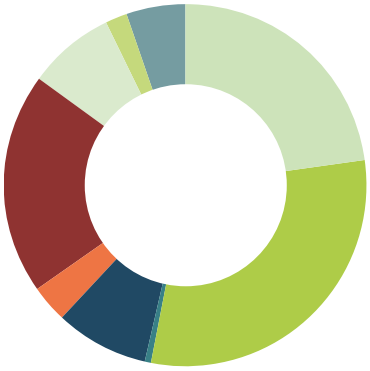
The investment approach offers good value for money

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.

A quarter of our investments focus on sustainability

In 2021, 26% of our investment were in 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.

In the absence of a common classification system across the finance industry, we work with one of our asset managers to analyse all of EAPF holdings and classify what is a sustainable asset. In 2021, our asset managers used the FTSE Environmental Markets Classification System to do this.



Our sustainable low carbon investment as a percentage of Fund total

- Diversified Environmental **5.9**
- Energy efficiency **7.8**
- Environmental Support Services **0.2**
- Food, Agriculture and Forestry **2.1**
- Pollution control **0.9**
- Property – sustainable **5.1**
- Renewable and Alternative Energy **2.0**
- Waste Management and Technologies **0.5**
- Water Infrastructure and Technologist **1.3**

The pie chart (above) shows the spread of these assets.

2 A gigawatt is equal to one billion watts.

A tenth of our Fund is invested in climate solutions

In 2021, 10%* 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 previous year this was 9%.

The Fund has reduced significantly its exposure to fossil fuels

In 2021, 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. The previous year this was 99% and 98% respectively. Going forward, we will be transitioning to Paris Aligned benchmarks, which means that we will only invest in those oil and gas companies that meet the Paris Agreement.

We have a good reputation as a responsible investor

Last year we were invited to speak at a large number of events internationally to share our approach to responsible investment. This included at COP 26 in Glasgow. It also reflected our status as a global leader on responsible investment, which was awarded by the UNPRI in 2020 due to our work on climate reporting. PRI did not require Funds to report in 2021.

We have won an award on our approach to responsible investment at the LAPF awards for the past 2 years running. LAPF Investments is the magazine for local authority pension investment specialists.

Finally, a welcome bonus for the Fund of our increased profile is that this leads to more approaches from asset managers internationally who are at the cutting edge of sustainability and are keen have us as an investor. Their feedback is often that we are a relatively demanding Fund.

4. How we influence the companies we invest in

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

Once we are invested in companies, this offers us opportunities, if needed, to try to influence the corporate behavior of those companies.

We invest in approximately 1200 equity holdings, around 400 corporate bond issues and in excess of 100 companies invested in private market vehicles. We also invest in 20 UK Government bonds.

Due to the number of companies and the limited resources of the Fund, we are unable to engage with all of these companies directly. We have to work through our asset managers with other investors, and third parties.

How much influence can EAPF have as an investor?

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 we 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 us to bring forward shareholder resolutions in our own right.
- **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 we may have greater rights and influence in European and North American companies than in emerging markets.
- **Information known 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 on Climate-related Financial Disclosures, and/or report to platforms such as CDP. The more we understand about the environmental, social and governance risks and opportunities the greater the opportunity to act.
- **The number of backers a company has** – we find that some of our private market 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** – the regulatory environment and public discourse may facilitate certain issues getting more profile and traction, and result in a greater number of other shareholders who hold the same view as ourselves.

Engagement

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

- Climate Change, which covers a low carbon economy, building resilience to a changing climate and enhancing biodiversity
- Using resources sustainably, with a particular emphasis on reducing plastics in the environment
- Water – managing amount of water used and impact on 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.

Engaging with publicly listed companies

All of the assets which Brunel manage for us are in publicly listed companies. Being part of a pool, means that many of our stewardship responsibilities for transitioned assets are managed by Brunel.

Brunel liaises with its asset managers, understands areas of risks and escalates these if needed. In doing this, Brunel takes 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 of companies and have access to specialised expertise on different engagement themes.

The EOS team is diverse. The team has a widespread number 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.

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

- Climate change
- UK policy framework
- Diversity & 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 attend Brunel's 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.

Last year's discussion focused on COP26, investing in China & carbon metrics reporting. The joint 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.

EOS use milestones to measure progress. These are:

- 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

The chart below shows the status of the milestones in 2021 by theme.

49% of these milestones were progressed in 2021, as shown below.

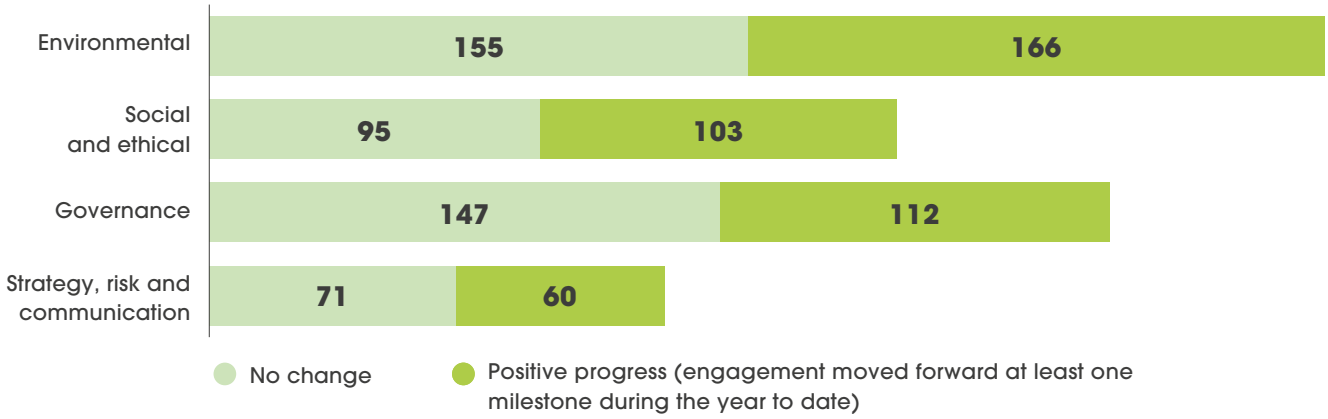
The engagements can also be aligned to the priorities of the UN Sustainable Development Goals, as shown (on page 38).

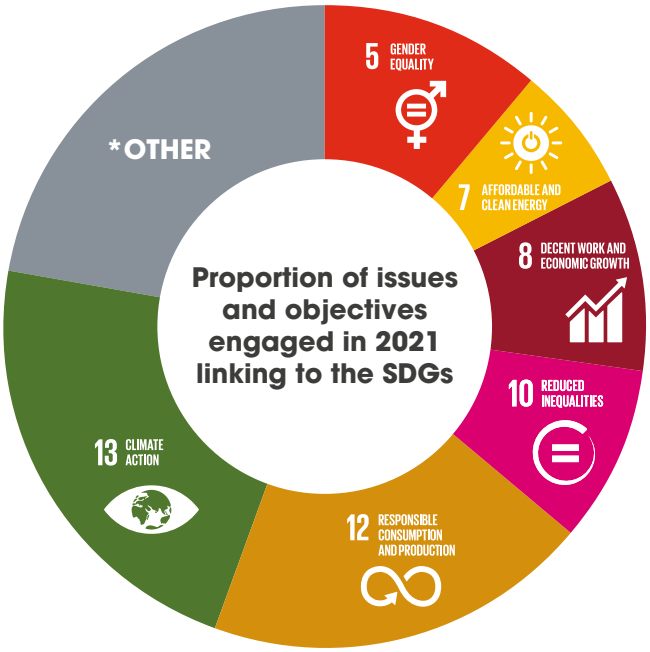
The 4 active equity managers which EAPF have appointed directly also undertake engagement with their underlying holdings. These managers specialise in sustainable equities and have been doing this for many years.

Status of milestones in 2021 by theme

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	321	34	47	114	73	42	11
Social and ethical	198	12	30	65	57	30	4
Governance	259	2	69	88	40	42	18
Strategy, risk and communication	131	6	32	50	25	15	3
Total engagements	**909**	**54**	**178**	**317**	**195**	**129**	**36**

Progression milestones in 2021





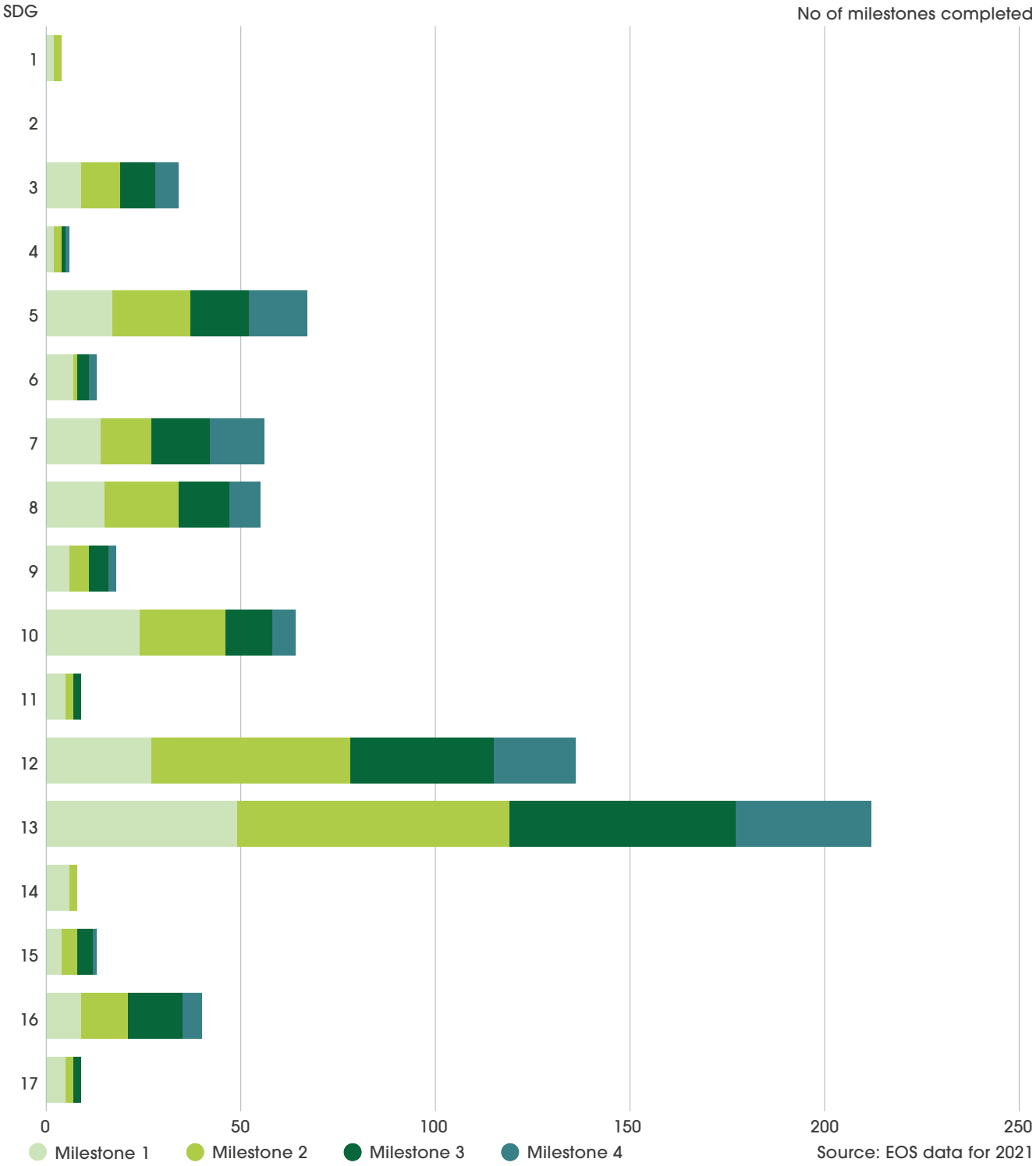
1,247

of the issues and objectives engaged in 2021 were linked to one or more of the SDGs.

- 1 NO POVERTY — No poverty
- 2 ZERO HUNGER — Zero Hunger
- 3 GOOD HEALTH AND WELL-BEING — Good health and well-being
- 4 QUALITY EDUCATION — Quality Education
- 5 GENDER EQUALITY — Gender equality
- 6 CLEAN WATER AND SANITATION — Clean water and sanitation
- 7 AFFORDABLE AND CLEAN ENERGY — Affordable and clean energy
- 8 DECENT WORK AND ECONOMIC GROWTH — Decent work and economic growth
- 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE — Industry, innovation and infrastructure
- 10 REDUCED INEQUALITIES — Reduced inequalities
- 11 SUSTAINABLE CITIES AND COMMUNITIES — Sustainable cities and communities
- 12 RESPONSIBLE CONSUMPTION AND PRODUCTION — Responsible consumption and production
- 13 CLIMATE ACTION — Climate action
- 14 LIFE BELOW WATER — Life below water
- 15 LIFE ON LAND — Life on land
- 16 PEACE, JUSTICE AND STRONG INSTITUTIONS — Peace, justice and strong institutions
- 17 PARTNERSHIPS FOR THE GOALS — Partnerships for the goals

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

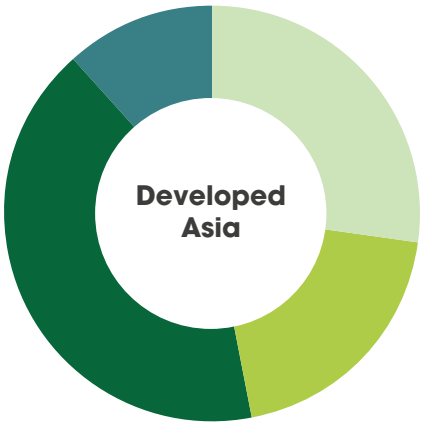
Milestone progress of SDG-linked engagement objectives



In 2021, EOS engaged on our behalf with 562 companies on 2,297 environmental, social, governance, strategy, risk and communication issues and objectives.

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

Engagement by region



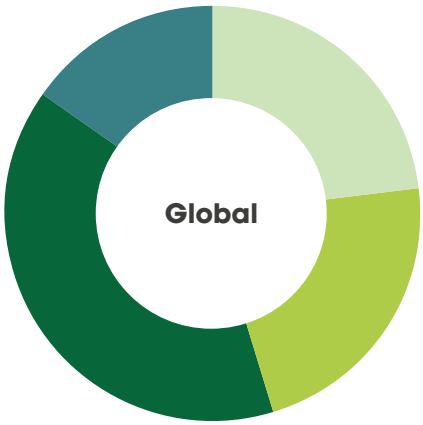
We engaged with 63 companies over the last year

- Environmental **27.4%**
- Social and Ethical **19.7%**
- Governance **41.3%**
- Strategy, Risk and Communication **11.5%**

We engaged with 9 companies over the last year

- Environmental **19.4%**
- Social and Ethical **16.1%**
- Governance **51.6%**
- Strategy, Risk and Communication **12.9%**

Engagement globally



We engaged with 562 companies over the last year

- Environmental **23.1%**
- Social and Ethical **22.3%**
- Governance **39.6%**
- Strategy, Risk and Communication **15.1%**

We engaged with 145 companies over the last year

- Environmental **22.0%**
- Social and Ethical **21.3%**
- Governance **41.3%**
- Strategy, Risk and Communication **15.3%**

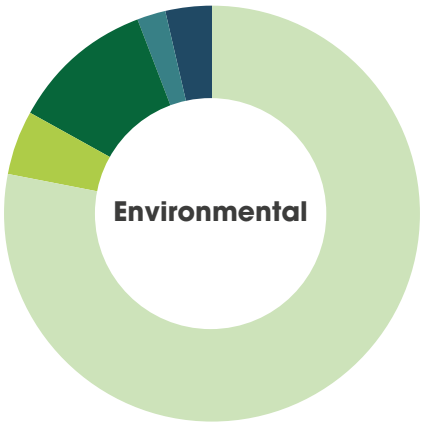
We engaged with 271 companies over the last year

- Environmental **22.5%**
- Social and Ethical **23.0%**
- Governance **38.7%**
- Strategy, Risk and Communication **15.9%**

Engagement by theme

We engaged with 55 companies over the last year

- Environmental **23.1%**
- Social and Ethical **25.9%**
- Governance **37.0%**
- Strategy, Risk and Communication **13.9%**



Environmental topics featured in 23.1% of our engagements over the last year

- Climate Change **78.1%**
- Forestry and Land Use **5.1%**
- Pollution and Waste Management **11.1%**
- Supply Chain Management **2.3%**
- Water **3.4%**

Governance topics featured in 39.6% of our engagements over the last year

- Board Diversity, Skills and Experience **22.1%**
- Board Independence **13.5%**
- Executive Remuneration **48.0%**
- Shareholder Protection and Rights **13.1%**
- Succession Planning **3.3%**

We engaged with 19 companies over the last year

- Environmental **35.9%**
- Social and Ethical **12.8%**
- Governance **38.5%**
- Strategy, Risk and Communication **12.8%**

Social and Ethical topics featured in 22.3% of our engagements over the last year

- Bribery and Corruption **1.0%**
- Conduct and Culture **14.1%**
- Diversity **24.1%**
- Human Capital Management **19.1%**
- Human Rights **33.8%**
- Labour Rights **4.5%**
- Tax **1.2%**

Strategy, Risk and Communication topics featured in 15.1% of our engagements over the last year

- Audit and Accounting **8.4%**
- Business Strategy **40.8%**
- Cyber Security **3.2%**
- Integrated Reporting and Other Disclosure **24.0%**
- Risk Management **23.7%**

Case study:

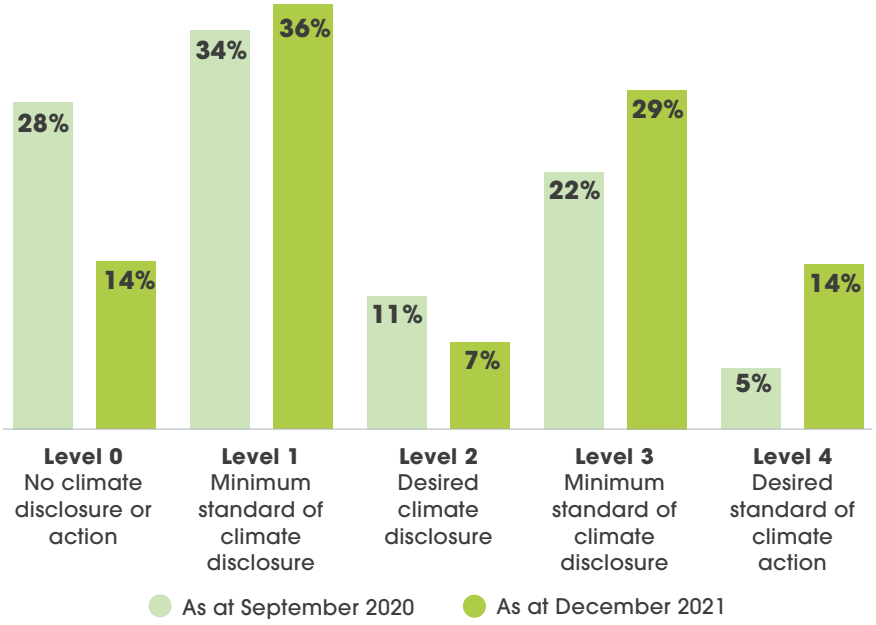
Engagement on climate-related disclosures

Our Global Sustainable Equity asset manager Generation monitor the levels of climate disclosure throughout their Focus List, from which portfolios are constructed.

A year ago Generation wrote to all of the companies on the Focus List setting out Generation's climate-related expectation, that all companies should achieve net zero by 2040. Generation categorises companies on a climate transparency scale of 1 to 4 with 1 being companies that only disclose greenhouse gas emissions either to the CDP (formerly Carbon Disclosure Project) or in their own reporting, and Level 4 meaning that companies are aligned with Generation's goal of net zero emissions no later than 2040 and are showing leadership on climate action.

Generation have seen meaningful progress against this engagement framework after one year. The chart on on the right sets out the progress on climate disclosures comparing Q3 2020 versus Q4 2021.

Proportion of focus list companies at each level



Engaging with private companies

Our primary investment route in private markets is through our Targeted Opportunity Portfolio (TOP). This is both through private equity and private debt.

Our general focus here is to support younger and smaller companies who offer exciting sustainability credentials. We find that they are very amenable to accepting ideas from our asset managers on how to improve their environmental and social performance.

Case study:

Engaging with property tenants to drive energy efficiency and decarbonisation

Bridges are one of our private equity managers in our TOP Fund, who invest in the UK. They engaged with their tenants by providing them with guidance on how they should fit out and operate their premises sustainably.

One underlying company was Flexspace who were provided with the Bridges Occupant Sustainability and Fit Out Guidance. Bridges provided the tenants of this property portfolio guidance on energy efficiency, retrofitting energy metering and LED lighting and controls.

As a result, the carbon emissions from this portfolio of properties has reduced by 60% in comparison to the investment at purchase.

Escalating action

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

If the issue is not resolved to our satisfaction by the asset manager, then we will discuss with the asset manager how things might be taken forward.

In the last year, the sorts of issues we have sought more information about included:

- The governance issues at an insulation company
- An agro-chemical company which produces products that may harm insects
- United Nations Human Rights Council report into business activity in Israel's settlements
- Changes in underlying holdings in portfolios due to enhanced responsible investment screening by the manager

As a Fund we may attend a company's AGM to ask questions directly of the company's board. This is something we did pre Covid and something we are looking to do from 2022 again.

Another option for the EAPF is to take part in a joint investor initiative focused on a company we invest in. In these situations, we are typically a lead or joint signatory to a letter requiring action from the company. In 2021, our actions focused on better disclosure of a company's environmental impact, requesting that companies produce Paris-aligned accounts and ensuring appropriate reparations for the local community after a mining disaster.

Another route for EAPF to engage on matters that may impact the Fund is through the **Local Authority Pension Fund Forum**.

LAPFF facilitates local authority pension schemes and pools coming together to improve corporate governance. They facilitate action in relation to individual companies and/or emerging topics impacting good governance.

With the approval of member funds, LAPFF will research a topic and then this may develop into wider engagement. For example, last year LAPFF worked with Members of Parliament to hold an All-Party Parliamentary Group inquiry into 'Responsible Investment for a Just Transition'', which the EAPF gave written evidence to

They also provide updates on individual firms and selectively issue voting recommendations, which can be shared with managers so that the LGPS sector can consider voting individually or collectively on an issue.

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 and may build on previous engagements with the company.

Our aim is for our managers to use 100% of votes available.

We publish all our voting records quarterly on our website. We also publicise our voting records in our Annual Report and Financial Statements.

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 Partnership. 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 or not within a particular portfolio is made by clients. This is reviewed annually.

In 2021, none of the portfolios we invested in undertook stock lending.

Case study:

Examples of Brunel's voting guidelines in relation to improving diversity

- Brunel may vote against the financial statements and statutory reports of companies that provide inadequate disclosure on diversity or may escalate this to withdraw support for the chair's re-election
- In the UK, Brunel will vote against the financial statements and statutory reports of qualifying companies (250 or more UK employees) that fail to disclose their gender pay gap, where required to report by government.
- In the UK, Brunel will vote against the election of the chair of the nomination committee of FTSE 350 companies where women or men comprise less than 33% of the Board, and against the chair of smaller companies with no female or no male board representation. Brunel will vote against the chair of FTSE 100 businesses with materially less than 20% female representation in the combined population of the executive committee and its direct reports.

How we vote through assets managed by Brunel

The voting is managed by Brunel's engagement provider EOS at Federated Hermes. In 2021,

EOS made voting recommendations on 4,470 resolutions at 334 meetings on behalf of the EAPF. They will be guided by Brunel's **Voting Guidelines**. These are agreed by the partnership.

Brunel generally operates with a single voice but its clients are allowed to vote by exception where they have a specific investment policy commitment. The EAPF has not done this to date.

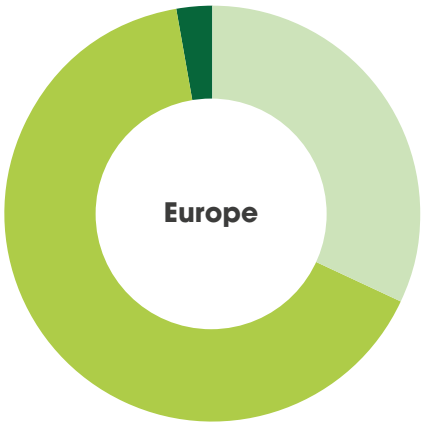
The voting process itself involves a number of actors and is set out on page 45.

Global voting overview

We made voting recommendations at **334** meetings (**4,470** resolutions) over the last year.

- Total meetings in favour **26.0%**
- Meetings against (or against AND abstain) **67.4%**
- Meetings with management by exception **6.6%**

Regional voting overview



We made voting recommendations at **78** meetings (**1,423** resolutions) over the last year.

- Total meetings in favour **32.1%**
- Meetings against (or against AND abstain) **65.4%**
- Meetings with management by exception **2.6%**

We made voting recommendations at **15** meetings (**306** resolutions) over the last year.

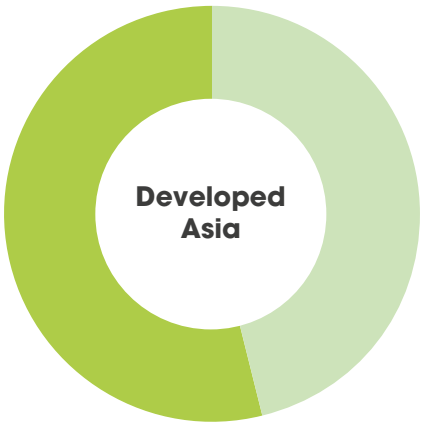
- Total meetings in favour **66.7%**
- Meetings against (or against AND abstain) **26.7%**
- Meetings with management by exception **6.7%**

We made voting recommendations at **175** meetings (**2,182** resolutions) over the last year.

- Total meetings in favour **15.4%**
- Meetings against (or against AND abstain) **73.7%**
- Meetings with management by exception **10.9%**

We made voting recommendations at **6** meetings (**54** resolutions) over the last year.

- Total meetings in favour **16.7%**
- Meetings against (or against AND abstain) **83.3%**



We made voting recommendations at **41** meetings (**395** resolutions) over the last year.

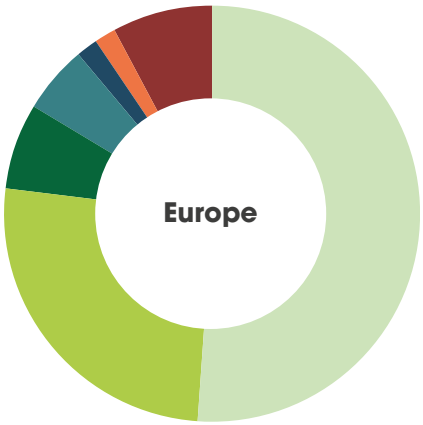
- Total meetings in favour **46.3%**
- Meetings against (or against AND abstain) **53.7%**

We made voting recommendations at **19** meetings (**110** resolutions) over the last year.

- Total meetings in favour **26.3%**
- Meetings against (or against AND abstain) **73.7%**

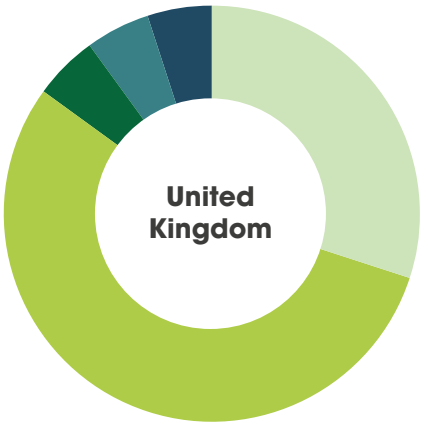
The issues on which EOS recommended to Brunel voting against management or abstaining on resolutions are shown here.

Regional issues overview



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

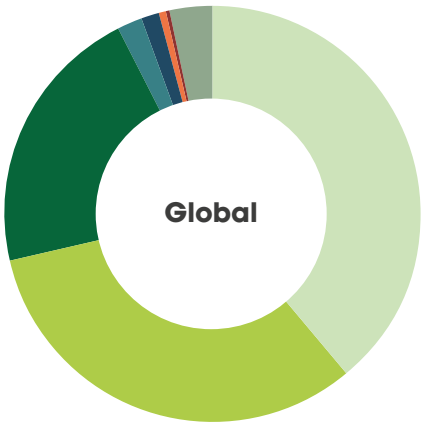
- Board structure **51.3%**
- Remuneration **25.6%**
- Shareholder resolution **6.8%**
- Capital structure and dividends **5.1%**
- Amend articles **1.7%**
- Audit and accounts **1.7%**
- Other **7.7%**



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%**

Global issues overview

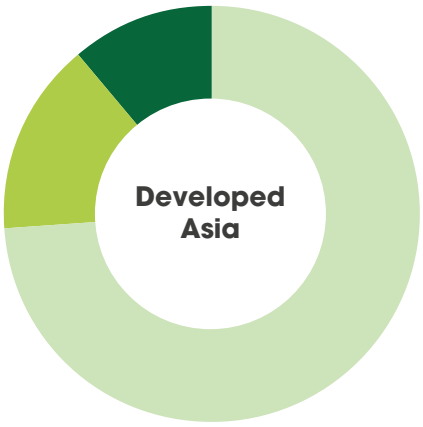


EOS recommended voting against or abstaining on **550** resolutions over the last year

- 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%**

Voting Process

1. Notification of an AGM/EGM is sent to Brunel's Custodian, State Street
2. State Street will generate the share positions using its digital voting platform, Broadridge
3. Broadridge will issue electronic ballots* to the designated proxy voting provider, ISS
4. ISS will share the electronic ballots and research with our appointed advisor, EOS
5. EOS, with reference to our voting guidelines, will issue a recommendation 'alert' to Brunel and the asset manager/s who hold that company
   - **a.** Where Brunel does not agree with an EOS recommendation, Brunel will discuss with EOS and the recommendation will be updated accordingly
   - **b.** Where the asset manager identifies a different approach to the EOS recommendation they are asked to report quarterly to Brunel. In exceptional circumstances where asset managers do not agree with EOS recommendation, the manager will contact EOS to discuss with the analyst
   - **c.** If a consensus is reached, the voting instruction will reflect that view and Brunel will be informed if there has been a change
   - **d.** Where consensus is not reached, Brunel, after taking feedback from EOS and the asset managers, will direct the voting recommendation
6. Where there are multiple asset managers who hold a stock and one or more manager does not agree with the recommendation, Brunel, after taking feedback from EOS and the asset managers, will direct the voting recommendation
7. Recommendations become vote instructions and are issued via the ISS and Broadridge platforms to sub custodians, the registrar, and the issuing company where the vote is tabulated
8. Analytics of voting activity and voting records are generated every quarter and published on Brunel's website

How we vote through directly-appointed managers

We had 4 listed equity managers in 2021 which voted on our behalf. They all used a voting platform and voted in line with their stewardship approach. These are long-standing managers, whose views on responsible investment have been shown to mirror closely our own over many years. We have shared the Brunel Voting Guidelines with these managers so that it also informs their view.

We expect these asset managers to raise any missed votes with us. If there are any issues with a particular company we are unaware of, we expect managers to disclosure this at our annual meetings with them. We also use a third party to audit voting data with these managers every six months.

These managers voted on over 4000 issues at 313 meetings in 2021, using 99% of the eligible votes they had.

98.5% of our managers' significant votes in 2021 focused on governance issues such as executive pay and a lack of transparency of board diversity.

Environmental and social issues made up a minority of votes (just 0.3% and 0.6% respectively). This is because typically the vast majority of votes at any AGM are on governance issues which are put forward by the company themselves. Shareholder resolutions are far fewer in number and are often more focused on environmental and social issues. Also, for those companies we invest in through these sustainable equity managers, the company are likely to be more progressive on environmental issues than the average company. This doesn't mean there is always sufficient progress and the most notable environmental votes for our asset managers included shareholder proposals regarding emission reduction targets.

Case study:

Racial equity audits and gender diversity

Hermes EOS saw a significant number of racial equity audit shareholder proposals in 2021, including at US banks Goldman Sachs and JPMorgan Chase, which EAPF holds shares in.

Resolutions requesting enhanced disclosure on the effectiveness of diversity and inclusion

programmes were also filed at American Express, Berkshire Hathaway, Johnson & Johnson and others.

Although Hermes EOS did not always agree with every aspect of the supporting statements, they broadly agreed with their substance, believing that racial equity audits would add substantial value beyond the actions the companies were already taking.

During engagement Hermes EOS explained that audits can provide additional insight into the root causes of complex problems that companies must address in order to develop enduring solutions. They also enable more rigorous performance evaluation against underlying challenges and increase a board's capacity to provide effective oversight.

Hermes subsequently recommended support for the racial equity audit shareholder proposals at Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase and Wells Fargo, among others, in order to drive momentum for closing racial equity gaps in society.

A few of these proposals were withdrawn, such as at BlackRock and Morgan Stanley, or were put to the vote with the support of management.

At IBM, which EAPF also invests in, the board recommended that shareholders support a resolution for a diversity, equity and inclusion report as it "aligns with IBM's goals of a diverse and inclusive workforce". Hermes EOS encouraged other companies to consider supporting proposals in this manner.

Case study:

Voting against management – Say on Climate

We have shares through Robeco asset manager in BHP Group, which is involved in the extraction of oil, Copper, Iron Ore, and Coal.

The 2021 Annual General Meeting (AGM) of the BHP Group included some controversial proposals including a Say on Climate and several shareholder proposals. Especially interesting was the split in vote recommendations between the influential proxy advisors ISS and Glass Lewis, who disagreed on the credibility of BHP's climate plan.

Despite the fact that BHP's Climate Transition Action Plan provides thorough discussion of its climate-related considerations and Capex spending, Robeco had concerns regarding the level of ambition of the emissions reduction targets and their alignment with the goals of the Paris Agreement. In particular, Robeco thought the plan had limitations on how it will achieve, in full scope, its emissions reduction targets on scope 3 emissions. Therefore, Robeco decided not to support the company's Say on Climate at this point in time.

The combined results for BHP's Australian and United Kingdom AGMs led to the adoption of the Climate Transition Action Plan by around 85% of the votes cast being in favour. Despite the adoption of the Climate Transition Action Plan in its current form, Robeco will continue to closely monitor the situation.

Shareholder resolutions

Shareholders can join together to put forward a resolution. This is another form of escalating an issue which has been a previous engagement topic. If agreed, it may cause 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.

Brunel co-files shareholder resolutions on behalf of the partnership on agreed priority topics.

Working through large international engagement providers like Hermes EOS provides yet greater depth and expertise, enabling Brunel to add its weight and vote intelligently to a broad range of global issues.

Brunel's recent shareholder resolutions have included:

- **Banking** – the banking sector is a key player in tackling climate change and it has been a priority for engagement for some time, one which Brunel builds on year on year. Brunel has co-filed shareholder resolutions at Barclays and HSBC over the last 2 years.
- **Climate related financial disclosures** – Brunel has co-filed a shareholder resolution at Berkshire Hathaway, Inc which seeks Task Force on Climate-related Financial Disclosures (TCFD)-aligned reports on physical and transitional climate-related risks and opportunities. Other co-filers include Caisse de Dépôt et Placement du Québec, California Public Employees' Retirement System, and State of New Jersey Common Pension Fund.
- **Living Wage** – Brunel has co-filed a Shareholder Resolution at Sainsbury's with ShareAction and 9 other institutional investors and 108 individual investors calling for the grocer to accredit as a Living Wage employer and commit to paying all its workers a wage that meets the cost of living.

Progress on all issues takes time. Even after the AGM, and whatever the outcome of the vote, engagement will continue to ensure progress.

How we influence the companies we invest in

Outcomes

Our listed equities portfolio is 5 years ahead of where it needs to be to get to net zero target by 2045.

Year on year our companies emit fewer carbon emissions, even though the value of those assets continue to rise.

Our carbon footprint in active equities has reduced by 80% since we started monitoring it in 2008 (compared to a 57% benchmark reduction). In the same period (to March 2021) the fund size increased from £1.5bn to £4.3bn.

A really interesting debate is to what degree this reduction in carbon footprint is due to engagement with companies or whether it is due to our Strategic Asset Allocation.

In analysing data for our net zero target, we found that the EAPF changing SAA from passive to active managers who focused on sustainability was the predominant reason for our significant drop in carbon emissions for our Fund from 2010-20.

However, the wider picture in 2022 is far different. We had one asset manager last year who required all its underlying portfolios to reach net zero by 2030 and another by 2040. Across all asset classes, more managers are engaging with companies and there is far more regulatory and social pressure on companies to disclose and improve their environmental performance. Today, we think engagement is far more effective than it was even a few years ago.

Our asset managers are driving real world change across all asset classes

In **listed and private equity,** we have many examples of our manager engaging to help improve the sustainability practices of the underlying companies and reporting on the outcomes.

In our **sustainable forestry and agricultural asset class,** our asset managers are giving us the evidence that shows our investments enhance nature. We are encouraged by the large improvements being made by our asset managers on biodiversity reporting over the last year.

We are encouraged to see significant progress in the development of the offerings of Private Debt asset managers that are contributing to our Responsible Investments strategy, seeing two major innovations:

- the inclusion of financial incentives to portfolio companies who meet ESG improvement targets
- Funds specialising in providing capital for companies to move to a more sustainable business model (become "Paris aligned") – Transition Finance

Our insistence for high environmental and social standards has led directly to the best approach being used on the ground

We choose asset managers who truly share our passion for delivering good environmental and social outcomes. This is particularly the case in our TOP private market portfolio.

We have frequently pushed even those managers who we think are good to go even further. And we have shared what we think is best practice across our managers to improve standards further among them.

Last year for example, we required a legal covenant in one contract to make sure that the accredited carbon removal truly was permanent by legally protecting the long-term land use of the forest– something we had in another similar contract on another continent. We know from an NGO working with this particular asset manager that the learning from this best-practice investment is going to be shared across the country and hopefully more broadly across South America.

7 more companies report what their environmental impact is after we wrote to them in 2021.

Each year we take part in the CDP's Non-disclosure initiative, where we write to companies and encourage them to report through CDP on their environmental impact. We do this to be better able to understand the risks (and opportunities) in that company but also reporting in this way can help companies manage those risks.

The EAPF led engagement in this campaign with 17 companies. As a direct result, 7 (41%) of them now report for the first time to CDP. This will lend greater transparency and pressure on those companies to improve their performance going forward.

We know our vote has influenced the actions of some large companies.

We have used our vote effectively. We can point to concrete examples where we have helped to drive change, working through Brunel, Hermes EOS and collectives of investors internationally.

Sometimes companies we invest in do the wrong thing. We do not let this drop.

Even if we no longer hold the company, we think it is right that we continue to engage with a company that we think has not acted correctly.

Case study:

Disclosure campaign

The publication 'Responsible Investor' reported in January 2022 that 'US tech giants Amazon, Netflix, Facebook and Twitter are among the firms to make first time disclosures to CDP following record investor participation in the environmental data NGO's engagement campaign targeting non-disclosers. CDP reported that 168 financial instiutions, including EAPF (see below) participated in its 2021 Non-Disclosure Campaign, which gives investors an opportunity to target firms failing to disclose key environmental data, up 56% on the year before. This unprecedented support prompted a record 328 firms – 25% of those engaged – to respond to at least one CDP questionnaire – a 21% increase on 2020. Forestry was a standout disclosure with a 120% rise in the number of firms responding to that questionnaire compared to 2020."

The EAPF led engagement in the above campaign with 17 companies. As a direct result, 7 (41%) of them now report for the first time to CDP as shown below:

	Leads		
	Engaged	Disclosed	%
Companies	17	7	41%
Climate change	2	1	50%
Forests	10	3	30%
Water security	8	3	38%

Case study:

Enhancing bee populations on farms in North & South America

In our sustainable forestry and agricultural holdings, our asset managers are delivering ever more detailed biodiversity metrics to show that our investments are delivering for nature as well as more broadly for the environment and society.

The Townsend Group manage our investments in real assets; investments like property, infrastructure and agriculture. In turn, Townsend select specialist asset managers who select the right investments for us around the world which meet our high environmental criteria.

One such manager is Nuveen, whose farmland investment specialist Westchester focus on investing in sustainable agriculture. Here are some of the things Westchester do while growing crops to help conserve bee populations in different parts of the world.

On a ranch in Chile, during avocado and cherry blooming seasons, beehives are placed in the orchards to help the pollination of these crops. Bees are able to feed in early spring, starting with the cherries in mid- September and continuing with the avocados until November. After blooming periods, beekeepers are provided with access to areas of the ranch, where they can continue to sustain their hives from the native vegetation

Westchester is increasingly using bees for avocado pollination in Chile, with beekeepers having placed nearly 1,000 hives at Westchester's farms in 2020. The forecast for 1 ranch alone is to support about 185 million bees.

Case study:

Finance packages linked to sustainable outcomes

Funds managed by our private debt asset manager Ares are serving as sole lenders of £1 billion of available debt facilities to a sustainable packaging firm.

The new debt facilities include an annual margin review based on the achievement of sustainability targets, which are broadly focused on carbon intensity reduction and continual improvement to health and safety management and ethics. These targets are aligned to the firm's Corporate Responsibility and Sustainability Route Map, which forms the basis of the firm's sustainability strategy, based on five sustainability pillars and the United Nations Sustainable Development Goals.

The firm anticipates interest savings in excess of £500,000 per year and has committed to donate a minimum of 50% of this margin benefit toward sustainability-related initiatives or charitable causes.

Case study:

Sustainable timber in South America

Astarte Capital Partners manage one of our sustainable forestry investments in our TOP private market fund. They partner with the forest development company SilviPar who focus on creating and managing environmentally, socially, and economically sustainable forest assets. SilviPar have implemented several international best practice forestry projects. Our investment is in Paraguay, one of the world's best suited locations for forestry. WWF Paraguay have been consulted and engaged with the project for several years and support the benefits it can bring to the local area.

Increasing biodiversity & reducing carbon

This nature-based project will enhance biodiversity at the same time as removing carbon emissions by converting degraded grazing land into a commercial forestry that will provide a sustainable source of timber, reducing pressure on what few local native woodlands remain. The project is also committed to restoring and protecting approximately 25% of the land they acquire to natural habitat such as wetlands and native woodlands that will be set aside for conservation purposes.

As new trees grow, carbon will be sequestrated from the atmosphere. As this is a plantation, the flow of carbon stored rises and falls depending on the different stages of the crop's lifecycle. The carbon stored is the average additional carbon as compared to the previous land use of degraded grazing land. Our managers have committed that the land will remain forestry, which ensures this average additional carbon is stored on a permanent basis. Using an internationally respected carbon accounting framework, the carbon stored from both plantations and conservation areas will be calculated. The plantation part of the project alone is expected to capture and store c. 14mt of CO_2, which is equivalent to 1.7x the annual emissions of Paraguay or 5.2 million cars in the UK. This has the added benefit of removing carbon emissions at the same time as improving biodiversity.

Local community engagement

The project engages with those living nearby to make sure the development of the plantations benefits the local communities in an area of significant underemployment and poor living conditions. Examples of this include sourcing the workforce locally where possible and opening certain parts of the forest for community use, including honey production. There is also a wider ripple effect of jobs created indirectly which stimulates the local economy. This includes the development of a broader wood industry in the area, such as companies involved in the planting and harvesting of the plantations and more business for the local port which transports some of the sold timber.

Case study:

Reducing energy and water use

One of our long-standing listed equity sustainable equity asset managers is Impax Asset Management.

Impax are specialists in investing in the opportunities arising from the transition to a more sustainable economy. As such, we use their expertise and research capability to pick the best companies for our portfolio of shares.

One of these companies an industrial engineering group providing cost and energy savings solution. In addition to providing energy savings, the company also delivers water and waste savings to its customers.

According to Impax, the company estimates that use of its products sold in 2020 will save its customers 15.8m tonnes of CO_2 emissions per year, the equivalent of taking 10.3m new cars off the road. Impax has been active in engaging with the company on improving its sustainability processes and measuring its positive impact.

Case study:

HSBC

In 2020, the Brunel partnership co-filled a shareholder resolution at Europe's second largest financier of fossil fuels, HSBC Bank. The resolution was subsequently withdrawn as it was replaced by a management backed resolution committing the bank to phasing out financing the coal industry by 2030 in the OECD and by 2040 worldwide. HSBC also committed to publishing emission reduction targets for its oil and gas and power and utilities portfolios and to publish a coal policy by the end of 2021.

In withdrawing the shareholder resolution Brunel's expectations were communicated to HSBC in a letter to the CEO and Chair. Brunel made it clear further action would be taken next year if they were unsatisfied with the bank's progress. The bank's coal policy failed to meet expectations and contained significant loopholes resulting in Brunel co-filing another shareholder resolution for 2022.

Persistence paid off. In February 2022, HSBC announced new climate commitments, which acknowledged the findings of IEA's Net Zero by 2050 report that proposed achieving net zero emissions by 2050 means no new fossil fuel expansion. HSBC's commitments also included to review and update its coal policy by the end of 2022, and confirmation that it would be updating the scope of its fossil fuel targets to cover capital markets – a significant inclusion.

Brunel welcomed the commitments in a letter to the board, but plan to watch the execution of these commitments closely.

Case study:

Supporting jobs

One of our private equity managers in the TOP Fund is Palatine Impact Fund.

Based in the North of England, they have a strong focus on supporting sustainable communities, healthy living, the environment and helping people make sustainable choices.

Three of Palatine's portfolio companies focus on skills and training in sectors where there are skills shortages in the UK. One of these is focused primarily on Pre-Employment Training and upskilling people in low paid jobs. It focuses on meeting skills gaps in local areas in ways that will help more people succeed and get back into work and out of the employment poverty trap. By working with local employers, job centres and recruitment companies the company helps each candidate choose the training course where they are most likely to succeed and gain a permanent job or better their earnings prospects.

Since we began our investment in 2017, Palatine portfolio companies have trained over 35 000 people (to December 2021)

Case study:

Lack of reparation for the local population following a mining disaster

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.

In 2021 we continued to engage with our previous asset manager and also the current asset manager who now held our shares in BHP.

A key partner in this engagement has been LAPFF. LAPFF came up with the simple but effective idea of publishing on their website the number of replacement houses that have been built. As of late 2021 this highlighted the minimal progress that has been made.

LAPFF continues to engage with the mining companies involved and the body set up to oversee the reparations. LAPFF have also involved representatives of the local community throughout.

The Covid pandemic had an impact on progress that could be made – for example by deferring visits to Brazil to check on progress – but it remains a LAPFF priority. We will be using a forthcoming report from LAPFF on mining and human rights, to inform our engagement with the two asset managers as we feel it is important to present a reasoned case backed up with facts.

The current situation is unacceptable – with the local community reporting that many issues remain unresolved over 6 years after the disaster.

Separately EAPF have contributed to the Church Commissioners' Mining & Tailings Safety Initiative in the hope that progress here can help prevent future disasters.

Environment Agency
Pension Fund

5. How we contribute to wider change across the finance sector

Section 10 of the Stewardship Code

Sometimes the issues we face need cross-sectoral support to resolve. For example, addressing a new emerging issue, improving data gaps, pushing for regulatory change or coming up with a common method to measure sustainability.

To address these, we typically work through investor networks, which in turn link in with, NGOs, industry experts and academics. These can be a great driver for wider positive change.

The groups we work through include:

- **Institutional Investors Group on Climate Change**
- **United Nations Principles for Responsible Investment**
- **Local Authority Pension Fund Forum**
- **A4S Accounting for Sustainability**
- **Global West Government Funds Roundtable**

Some of these wider issues may take years to resolve and may be escalated following engagement with a particular issue (for example poor health and safety practices at mining companies leading to global standards introduced by the mining initiative).

Sometimes the issue may start at a macro level and then investors require it of their underlying companies (for example reporting to TCFD).

Initiatives we supported in 2021

Climate change – understanding transition risk

All investors need to have the right information to assess their investment risks from environmental social and governance issues and that is why we remain active supporters of the **Transition Pathway Initiative (TPI)**.

Using the expertise of the London School of Economics, the TPI provides investors with trusted and free 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.

Today 118 investors globally have pledged support for the TPI representing over $45 trillion combined.

In 2021, TPI announced that a TPI Global Transition Centre would be based at Grantham Institute in the London School of Economics. This will go live in 2022 and will significantly scale up the number of companies TPI can analyse.

As part of the plans, we worked with partners on turning TPI from a voluntary initiative into a not-for-profit Limited Company, which will put it in a better position to support the very ambitious research output. EAPF is a Director on the new limited company.

Climate change: managing physical risk

We know that the climate is already changing. This will result in greater exposure to hazards such as flooding, sea level rise, wildfires and heatwaves.

It is very hard for investors to understand how exposed their underlying companies in their portfolio are to a warming climate. It is likely to depend on a huge number of factors including location of company, its underlying assets and its supply chain, the actions the company has taken to manage business continuity, the local infrastructure and government actions and ultimately the climate science.

EAPF co-led an IIGCC working group in 2021 to set out what information investors would like from listed companies to help them understand a company's exposure to material physical risk and what the company is doing to address this.

Work is already underway to build on this in 2022 and expand the analysis into other asset classes. The aim is to help investors make sure their portfolios align with the resilience ambitions in the Paris Agreement.

Climate change: tackling biodiversity risk

Last year, the EAPF became aware of a company in its holdings which was doing very well on reducing carbon emissions but was producing a product which may have a negative impact on insects.

We went on a journey to understand more about how to manage biodiversity risk.

As well as picking up the issue with the company concerned (this is ongoing), we looked at the wider issue of natural capital accounting and deforestation risk.

This led us to getting involved with **Global Canopy** and joining the advisory forum for the **Taskforce for Nature-Related Financial Disclosures**.

Global Canopy led a Finance & Deforestation Advisory group that brings together experts in deforestation, nature loss and sustainable finance with the aim to achieve deforestation free finance. As part of this work, 30 financial institutions with more than US$ 8.7 trillion in assets committed to eliminate agricultural commodity-driven deforestation in their portfolios by 2025 at COP 26.

EAPF are also part of another Global Canopy working group developing guidance for pension funds so that they too can commit to deforestation free portfolios.

Using Resources Sustainably

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 consulted with industry on the draft standard from January 2021 and in July 2021 the standard was launched, meaning there is an independent, auditable and accredited standard which should result in fewer plastic pellets being released to the environment.

Water

EAPF joined the Ceres Valuing Water Investor Working Group as poor management of water is a material risk that EAPF believe needs to be addressed by the wider investment community. We understand the importance of properly valuing and using water and want to learn from and share best practices with our peers.

It works with over 150 members, representing more than $40 trillion in assets under management to strengthen the financial case for corporate water leadership through engagement. We review draft research reports and provide strategic advice on how to best advance the global initiative.

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. Over the last year, we have been increasingly asked to speak to international networks, who welcome understanding the UK perspective.

A particular highlight was being invited to speak at a number of events at COP26 in Glasgow, where we focused on how to invest for net zero, managing biodiversity risk, and understanding physical risk.

Case study:

COP 26

Green finance dominated more at COP 26 than at any time before.

The EAPF was delighted to be invited to speak at a number of events to highlight its approach to responsible investment.

We were able to showcase our investments in a nature-based solution investment in Paraguay. The feedback we got was that others also thought the investment was a real gamechanger – delivering genuine benefits for the environment and the local community.

We were invited to speak at a conference on our work with IIGCC to manage physical risk. This was held at COP but beamed internationally in real time to thousands of people globally, generating much feedback.

It was interesting to hear health discussions – this was the first time it has been a discussion topic at COP. Climate change is the biggest health threat of the 21 century according to the Lancet. That is why health investments figure so large in many of our sustainable equity portfolios.

Case study:

How Federated Hermes EOS use TPI Data

EOS, representing assets under advice of US$1.75 trillion as of 30 June 2021, has had a formal climate change voting policy in place since 2019 targeting climate change laggards and they strengthened this again in 2021.

They continue to use the Transition Pathway Initiative (TPI) assessment, setting a threshold of Level 4 for all European companies, coal mining companies or oil and gas companies, or Level 3 for all other companies.

The policy identified over 250 companies in 2021– versus around 130 in 2020 – including over 190 outside the EOS engagement programme. They wrote to companies setting out the reasons for our concern and requesting further engagement and saw a high level of response. This enabled them to successfully engage with over 45 companies beyond the core engagement programme.

Ultimately, they recommended opposing the election of the responsible director for climate change (usually the chair) at over 100 companies, including Canadian Natural Resources and China Resources Cement Holdings, which the EAPF hold.

How we contribute to wider change across the finance sector

Outcomes

We are a small Fund but we are having an impact globally

We are very proud in particular of the **Transition Pathway Initiative**, an initiative we co-founded in 2017 with the Church of England.

The Fund's continued support, working with over 100 other investors internationally has helped it go from strength to strength.

TPI is a trusted data source for a large number of investors around the world, who use it to prioritise which companies they should engage with. This in turn leads to pressure on those companies to improve their carbon performance.

TPI is also a key data source for the **Climate Action 100+ benchmark** which is focused on assessing the performance of the key 166 companies that are key to driving the net zero transition. These 166 companies account for up to 80 % of corporate industrial greenhouse gas emissions globally.

And TPI data is now also being used in investment products to provide forward-looking metrics on how well carbon-intensive companies are managing climate risk. Last year we invested in FTSE Russell Paris-Aligned Benchmark Index. We were one of 5 Brunel clients investing over £3bn into these series of FTSE indexes.

Our Fund is breaking new ground to protect biodiversity

Nature is the new frontier for the investment industry and we want to be at the forefront of that.

Nature loss presents financial risks to organisations and is something the Task Force on Nature Related Financial Disclosures (TNFD) hopes to raise awareness of in their new disclosures framework.

We have made a commitment to assess our fund against the draft TNFD framework. We believe that it will help us make evidence based decisions that support a strong and healthy economy.

We have also had discussions to trial natural capital accounting in part of our portfolio, which we hope to progress next year.

Ultimately on nature, we want to get to a position where we can show net positive biodiversity gain from our investments, starting with our sustainable forestry and agricultural holdings.

We are all doing too little to adapt to climate change

The truth is that adaptation still remains the very poor cousin to mitigation in the corporate and investment world.

This is true for us as Fund too. We have far more of our investments in products which support the move to a low carbon economy than we do in products that help companies and society adapt to a warming climate. We also do not have a portfolio-wide understanding of how exposed we are to physical risks from climate change.

The IIGCC report which we co-led on physical risks was supported by investors internationally representing USD 10 trillion in assets. It led to an engagement exercise with IIGCC writing to fifty highly exposed companies internationally asking them to implement the findings of the report. Sadly, the responses mirrored very similar responses we had received as a Fund in our 2019 AGM campaign – many companies don't have a comprehensive plan to tackle physical risks from climate change.

The science tells us that we are on track to meet 1.5 degrees in the early 2030s. We cannot ignore this. We all need to do more at every level.

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