Environment Agency
Pension Fund

June 2024

Investment Strategy Statement

Environment Agency Closed Pension Fund

Introduction

The Environment Agency Closed Pension Fund (the 'Fund' or 'EAPF') is a closed, final salary (defined benefit) pension scheme with around 9,400 members and assets of approximately £264m as at 31 March 2024. Full details of the Environment Agency Pension Funds and our activities can be found on **www.eapf.org.uk**.

This Investment Strategy Statement (ISS) sets out the principles and strategy that govern our process for investing the assets of the Fund as required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. This Statement was approved by the Environment Agency Pensions Committee on 26 June 2024, which acts on the delegated authority of the Environment Agency's Board, after receiving input and advice from its investment staff, investment consultants, independent investment adviser and consulting actuary.

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

The Closed fund is governed and managed by the same Pensions Committee and officers as the Environment Agency Active Pension Fund. Although the circumstances of the Closed Fund are always taken account of whenever appropriate, on certain matters both Funds are considered together ('the combined EAPF').

This Statement should be read and will be implemented in conjunction with the Fund's Governance Policy and Funding Strategy Statement. Where appropriate, the Responsible Investment Strategy, Getting to Net Zero & Building Resilience: EAPF Policy to Address Climate Change and our joint stewardship policy will also apply. These documents provide and state our more detailed requirements and supplementary guidance on specific topics for our members and wider stakeholders including external fund managers. It is supported by the contents of our investment management agreements for each investment mandate. Details of the investment and performance objectives for each mandate are published in our Annual Report and Financial Statements.

Fund governance: Investment

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

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

The Investment Sub-Committee has received delegated responsibility to prepare and recommend the investment strategy to the Pensions Committee and, within the context of the agreed investment strategy, to decide on the structure of mandates and their specification, to appoint fund managers, to monitor the performance of fund managers, and to terminate or alter mandates.

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

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

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

High Level Investment Principles

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

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

Long-term investors	**We are long-term investors. We delegate responsibility to Brunel and other asset managers to provide sustainable and sufficient return on our 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.
Responsible stewards	We will exercise responsible stewardship of the assets we hold, and engage with the broader investment community.
Climate change and nature loss present material financial risks and investment opportunities	We recognise that climate change and nature loss have the potential to impact the value of the holdings in our portfolio and our long term liabilities. Following appropriate due diligence and in line with our investment strategy, we want to invest in products and services which produce less carbon; use less or cleaner forms of energy; help society adapt to climate change; and value and protect natural capital.
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 Pensions Committee members, experienced and professional officers and high quality, knowledgeable advisers.
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 demonstrate innovation and thought leadership including 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 investments work as hard as possible to meet our funds' objectives. While we take account of market and economic levels in our decision making, we will avoid making decisions on a purely 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;, but also recognise the limits of diversification . As long term investors we accept that our investment success depends substantially on the sustainable growth of the economy.
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 Fund, 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.

Investment objectives

This Statement is consistent with the Fund's funding strategy, which is set out in the Funding Strategy Statement adopted on 8 December 2022. The Fund's solvency is guaranteed by the Government, in the form of the Secretary of State for Environment, Food and Rural Affairs ("the Guarantor"). The level of the Guarantor's contributions is reviewed every six months.

The Fund's invested assets are fairly small relative to the value of its prospective liabilities. Working on the basis that the Guarantor will meet pension payments until the value of the remaining liabilities is equivalent to the Fund's remaining assets, the investment objective of the Fund is to ensure that in due course that the Fund's assets will equate to its liabilities in as low a risk manner as possible. From that point onwards the Fund should be able to meet its pension payments directly.

The EAPF is a long-term investor who aims to deliver a truly sustainable Pension Fund; ensuring that it is affordable; delivers financially to meet the objectives of our scheme employers; and is invested responsibly.

Considering Responsible Investment with respect to the Obligations of the Pensions Committee and fiduciary duty to our members

Our primary duty is to provide pensions to members of the EAPF. Part of this includes making investments to ensure we are able to maintain a secure and well-funded pension fund for our members.

When making investment decisions we carefully consider the environmental, social and governance issues that can impact negatively or positively on our portfolio.

If an environmental, social and/or governance issue is poorly managed and thereby poses a material financial risk to our individual investments or our portfolio as a whole, we must take this into account. This includes, for example, climate change and nature risks.

We may also consider other environmental, social and governance issues, which don't present a material financial risk to our fund but allow us to act in the best long-term interest of our members more generally. In doing this, we must not impact on our ability to maintain a secure and well funded pension scheme.

We need to take these issues into account in our funding and investment strategies, and throughout the funding and investment decision-making process.

We place a great emphasis on engaging with our members to understand their views and to make sure that EAPF reflects their values. We want our members to take pride in the work their pension fund is doing to tackle climate change and build a better future.

Members' views inform our approach but the decisions on setting the right investment strategy remains with the Pensions Committee. As a defined benefit scheme, the EAPF Pensions Committee has the legal responsibility for ensuring that the right approach is taken to ensure that it is able to pay members' pensions over the very long term.

By law our investment strategy must contain our policy on environmental considerations among other considerations.

The suitability of different types of investment

The Fund may invest in any investment considered appropriate. However, after considering the exceptional nature of the Fund, specifically the grant in aid provided by Defra, the Government guarantee underpinning the Fund, and the low risk nature of the investment objective, it is currently invested in index linked government bonds and cash only. The Committee considers these classes of investment to be suitable in the circumstances of the Fund. The range of assets we choose to invest in are always reviewed as part of our investment strategy review process.

Costs are also an important consideration when assessing the suitability of investments. When considering costs and charges, both transparency and the need to control these are important. Recurring annual costs and charges are a drag on performance.

Asset allocation

The Pensions Committee has translated its objectives into a suitable investment strategy for the Fund. The investment strategy takes due account of the specific liability profile of the Fund, together with the planned funding arrangements agreed with the Fund's Guarantor.

The strategy is consistent with the Committee's views on residual asset management on the appropriate balance between maximising the long-term return on investments and minimising volatility and risk. The Committee is adopting a low-risk approach by investing in index-linked government bonds. It is intended that the investment strategy will be reviewed at least every three years following actuarial valuations of the Fund. Therefore, the assets comprise:

- a portfolio of index-linked government bonds, intended to broadly reflect an estimate of the duration of the liabilities the Fund is exposed to;
- cash held at our custodian and administrator, sufficient to meet pension payments until the next grant in aid payment, together with a small reserve; and
- a small portfolio of legacy unquoted equities – the value of which has been written down to nil - which is managed internally and is currently being run down.

Managers and Mandates

We have appointed an investment manager (currently Sarasin & Partners LLP), authorised under the Financial Services and Markets Act 2000 to undertake investment business, to manage the portfolio of index-linked government bonds. Sarasin & Partners LLP invest the portfolio on a low cost, non-discretionary basis. We have, after seeking appropriate investment advice, given the manager specific directions as to the securities to be held.

Risk

We take the management of risk in our investments very seriously. However, because of the low risk nature of our investment approach the investment risks are considered low. The bonds are guaranteed by the UK Government and the returns are fixed in real (after inflation) terms. The current value of the bonds can change as long term real interest rates move, but this will be closely correlated to movements in the Fund's liabilities. There may be some mismatch between our assets and the liabilities these assets are intended to match but this is kept under review.

We provide a practical constraint on the Fund's investments deviating from the intended approach by specifying the particular bonds to be held.

The Fund is exposed to a number of other risks which pose a threat to the Fund meeting its objectives, such as changing demographics and custody and counterparty risk. The Committee keeps mortality and other demographic assumptions, which could influence the cost of benefits, under review. In addition, the Committee has a process of regular scrutiny and audit of providers to the Fund.

Liquidity and the realisation of investments

The Fund's investments are in UK government bonds that are widely traded and liquid and may be realised quickly if required.

Stewardship and the exercise of our rights as owners

As the Fund invests in index linked government bonds there are no voting rights or issues of stewardship matters to consider. Similarly, social, environment and governance considerations are of limited relevance.

EAPF approach to Asset Pooling

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

Due to the nature of the Closed Fund's investment strategy, these assets have not yet been taken under pool management. For more detail on the governance and management of pool assets, see the Active Fund's Responsible Investment Strategy Statement.

Approved by the Pensions Committee on 26 June 2024.