



Spotlight

Facts and figures for Active and Closed Pension Funds



Welcome

Welcome to the 2019 edition of Spotlight, your annual publication with all the facts and figures on the Environment Agency Pension Fund.

2018/19 has been both a challenging and highly successful year for the Environment Agency Pension Fund (EAPF). We have around **£4 billion of assets** across both our Active and Closed Pension Funds. We have over 39,200 members and provide pension benefits for employees and former employees of the Environment Agency, Natural Resources Wales and Shared Services Connected Limited.

Spotlight gives you a clear view of both the Active and Closed Funds' financial performance to 31 March 2019. There's also a breakdown of the accounts so that you can see what has come in, and gone out of both Funds throughout the year, as well as updates on membership and asset allocation.

You can view our full annual report and financial statements for both funds [here](#).

We hope you find Spotlight useful and interesting. We value your feedback, or if you have any questions, please contact us using the details on the last page.

Investments

Our Investment Strategy, designed to both robustly manage risks and take positive opportunities, has **delivered 9.7% investment returns over the last 5 years**. Our successful financial performance is supported by our deep commitment to investing responsibly and we believe it is paramount in our ability to deliver sustainable, long term returns.

We had a **funding ratio of 103% at March 2019**, which remains amongst the best in the LGPS. Our **employer contribution rates are also amongst the lowest**, with our employers remaining committed to ensuring the Fund maintains its excellent position going forward. This means we can minimise the financial requirements of our employers so as not to divert valuable resources from front line work, whilst providing secure funding for our members.

We expect the results from our March 2019 valuation to be available during the autumn and anticipate remaining in a very good position. Improving the Fund's already strong financial performance remains paramount for us as a Pensions Committee. I am therefore delighted to report that our investments have once again delivered excellent performance.

During 2018/19, we achieved an **investment return of 8.0%**, outperforming our strategic benchmark by 1.1%. **Our positive returns of £303 million increased the net Active Fund assets to £3.7 billion** following strong global equity market returns on the back of broader global economic expansion. This performance is excellent particularly in light of increased market volatility over the last quarter to March 2019.

Responsible Investment

Responsible investment remains at the very core of the Environment Agency Pension Fund (EAPF). We have been calculating the carbon footprint of our assets since 2008 and have reduced our carbon footprint in active equities by nearly 70% while continuing to generate strong financial returns.

In 2018, we received the highest rating of A+ from the UN supported Principles for Responsible Investment (PRI) for our strategy and the governance of our approach to responsible investment. The last year has also seen us starting to transition our funds to Brunel Pension Partnership (Brunel) as part of the LGPS pooling arrangements. Brunel is a key partner for us in responsible investment.

Sustainable investment

In 2015 we set ourselves the target to maintain at least 25% of our investments in clean technology and other sustainable opportunities across all asset classes.

As at 31 December 2018, 39% of our investments were in clean technology and other sustainable opportunities, representing a value of £1.35bn. This is a 1% increase from 2017/18 (£1.30bn).

Alongside this, we aimed to invest 15% of the Fund in low carbon, energy efficient and other climate mitigation opportunities by 2020. By 2018 we have 11% invested. This is an increase of 1% from last year.

We also want to decarbonise our equity portfolio, reducing our exposure to 'future emissions' by 90% for coal and 50% for oil and gas by 2020 compared to the exposure in our underlying benchmark as at 31 March 2015. Coal is currently 56% less than our baseline. Oil and Gas is currently 95% less than our baseline.

Transition Pathway Initiative (TPI)

TPI is an asset owner-led initiative, which we helped to establish, along with the Church of England. The combined investments of all the asset owners who support the initiative now total £11 trillion.

The TPI assesses how companies within a particular sector are preparing for the transition to a low-carbon economy.

The TPI ranks companies by two measures:

1. How well management is dealing with climate change risks
2. How effective a company is at achieving carbon reduction

To see which airline comes out as best in their sector, or which oil and gas company is making the most progress on reducing green house gas emissions, see [TPI's State of Transition Report](#).

Active Fund investment performance

For the 2018/19 financial year the Fund achieved an absolute return of 8.0%, outperforming its benchmark (after fees) by 1.1%. Over three years the Fund has returned 10.5%, 0.6% p.a. above its benchmark, an excellent result for the Fund.

Financial Performance to 31 March 2019	2019 %
1 year	
Fund performance	+8.0
Benchmark performance	+6.9
Active Fund relative performance	+1.1
3 year	
Fund performance	+10.5
Benchmark performance	+9.9
Active Fund relative performance	+0.6

Active Fund geographic performance

The Fund works within regulatory parameters for the types of asset classes it can invest in and limits the amounts of these investments. The investment strategy of the Fund works at maximising returns, within an acceptable level of risk, by diversifying its investments throughout world markets.

Our Fund managers invest in shares in a number of countries and the table below shows the geographical distribution of quoted and pooled equity investments for 2018/19.

Geographical distribution	2019	
	£m	% of total equity
North America	970.2	60.6
Europe (excluding UK)	215.7	13.4
Emerging Markets and other areas	154.3	9.6
Asia Pacific (excluding Japan)	110.8	6.9
United Kingdom	84.6	5.3
Japan	66.6	4.2
Total	1,602.2	100.0

Active Fund top equity holdings

The top 20 companies in the entire fund. Each holding represents less than 1% of the Fund.



Top 20 companies
Taiwan Semiconductor Manufacturing Co Ltd
Analog Devices Inc
Dentsply Sirona Inc
Alphabet Inc
Schwab Charles Corp
DEERE + CO
Thermo Fisher Scientific Inc
Cooper Cos
Jones Lang LaSalle Inc
Henry Schein
LeGrand SA
Sensata Technologies Holding NV
Automatic Data Processing
Texas Instruments Inc
Microsoft Corp
Indusind Bank Ltd
Mercadolibre Inc
Acuity Brands Inc
TE Connectivity Ltd
Ingersoll-Rand PLC

Active Fund accounts for the year ending 31 March 2019

Fund account	2019 £000
Contributions and transfers	
Contributions	88,565
Transfer values received	5,307
	93,872
Benefits and other payments	
Benefits payable	(87,652)
Payments to and on account of leavers	(2,769)
	(90,421)
Net additions from dealings with members	3,451
Management expenses	(27,849)
Return on investments	
Investment income	63,068
Taxes on income	(645)
Change in market value of investments	240,895
Net returns on investments	303,318
Net increase in the Fund during the year	278,920
Opening net assets of the Fund at 1 April	3,418,357
Net assets of the Fund at 31 March	3,697,277

The Active Fund is open to all members of the Environment Agency and to those employees of Natural Resources Wales and Shared Services Connected Limited who transferred from the Environment Agency.

The EAPF accounts provide information about the financial position and performance of the Fund and are prepared on a market value basis.

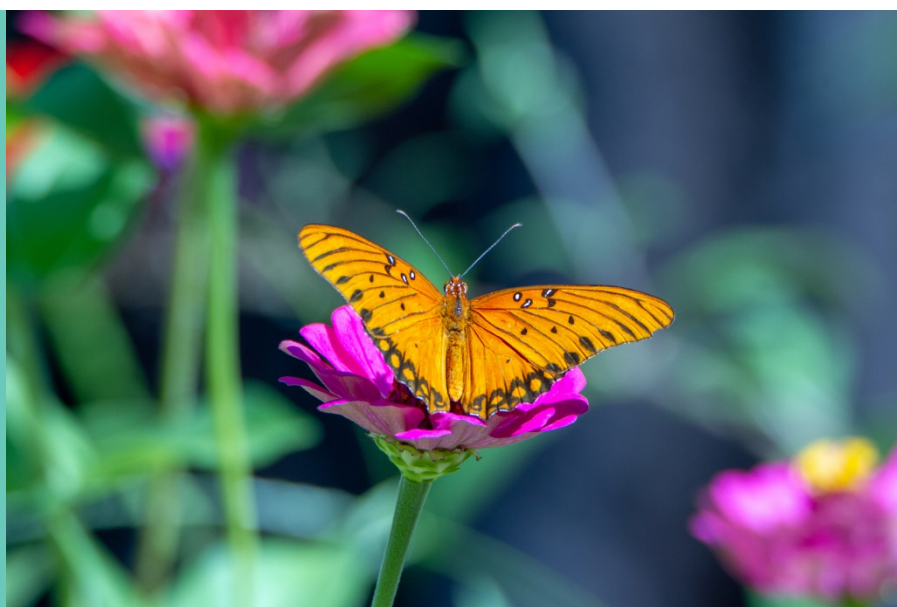
Closed Fund accounts for the year ending 31 March 2019

Fund account	2019 £000
Income	
Grant-In-Aid	58,678
	58,678
Benefits and other payments	
Benefits payable	(56,227)
Payments to and on account of leavers	(102)
	(56,329)
Net increase from dealings with pensioners and deferred members	2,349
Management expenses	(737)
Return on investments	
Investment income	1,431
Change in market value of investments	14,924
Net returns on investments	16,355
Net increase in the Fund during the year	17,967
Opening net assets of the Fund at 1 April	276,305
Net assets of the Fund at 31 March	294,272

The Closed Fund exists solely for the purpose of paying the benefits of a group of former employees of the water industry in England and Wales who did not transfer to one of the privatised water companies' schemes in 1989.

A detailed Memorandum of Understanding exists between the Accounting Officers in Defra and the Environment Agency that provides grant-in-aid to pay benefits and the running costs of the Fund.

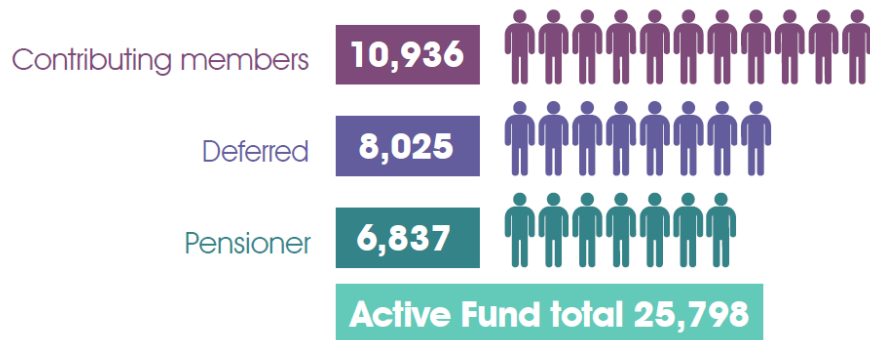
Over the year grant-in-aid received amounted to £58.7 million (£63.4 million for 2017/18) and were used to meet the Fund's obligations to meet pensions and other liabilities.



Fund Membership

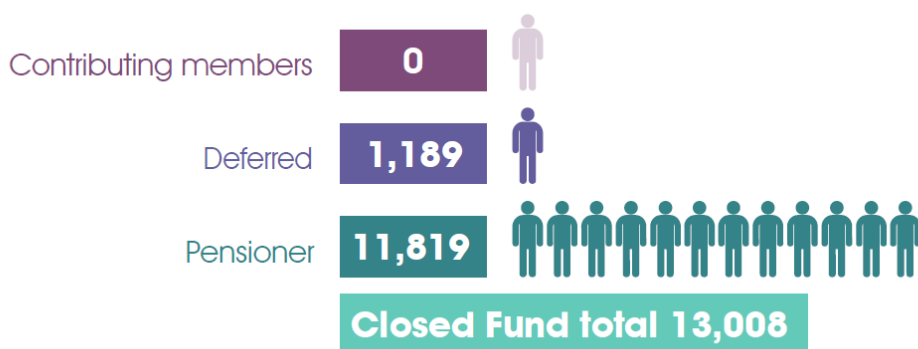
Active Fund at 31 March 2019

Over the year, the total membership of the Active Fund increased by 32 to 25,798 members.



Closed Fund at 31 March 2019

The Closed Fund saw the total number of current pensioners and deferred members fall to 13,008 during the year.



Member engagement

The Fund continues to work hard to develop and create a service that meets the needs and expectations of our members.

As part of our digital journey and commitment to make improvements, in May 2019 we invited members to attend a number of website user experience (UX) workshops in Bristol and Sheffield. The aim was to better understand how our members interact with our website - www.eapf.org.uk, and to identify elements of the current website that work well and those areas where improvements can be made for an enhanced user experience.

We had 7 participants attend (4 in Bristol, 3 in Sheffield) who represented a selection of active and deferred members. The sessions lasted 45 mins and involved asking participants to answer questions and perform tasks online.

The next step will be to send a survey campaign to a selection of all member types with similar questions asked during the user experience sessions. By using our member's feedback data; we'll refresh and update our website improving the user experience and content.

Here's some of the feedback we received from our members:

"Utilisation of space on the page could be better"

"Everything is there; it's just a case of knowing where to find things"

"Could we have instant chat?"

Throughout 2019, we've also continued to create relevant messaging to different segments of our membership. We monitor feedback carefully, and work hard to continually improve our service.

Commendations

The Environment Agency Pension Fund (EAPF) has been identified as Best in Class in a recent report on Responsible Investment in the LGPS, which was an analysis of the Investment Strategy Statements of Local Government Pension Funds (LGPS) undertaken by ShareAction & UNISON.

The EAPF are acknowledged as recognising climate change as a key risk, considering divestment from carbon intensive industries and investing in low carbon alternatives.

'The Fund identifies clear investment beliefs regarding climate risk, seeing climate change as a systemic risk to the environmental, societal and financial stability of every economy and country on the planet, with the potential to affect their members, employers and all holdings in the portfolio'.

The report also found that the Fund has set itself clear objectives to ensure their investment portfolio and processes are compatible with keeping global average temperature increases below 2°C relative to pre-industrial levels, in-line with international government agreements.

Contact details

If you have any questions regarding your pension entitlement you can contact our pension administrator, Capita, by:

 Using the **Contact the EAPF** button on the website at www.eapf.org.uk

 Emailing info@eapf.org.uk

 Following on twitter [@EAPensionFund](https://twitter.com/EAPensionFund)

 Calling **0800 121 6593**

 Sending your query to **Capita**
11b Lingfield Point
Darlington, DL1 1AX