



Spotlight

Facts and figures for Active and Closed Pension Funds



Welcome

Welcome to the 2020 edition of Spotlight, your annual publication with all the facts and figures on the Environment Agency Pension Fund.

2019/20 has been both an extremely challenging and highly successful year for the Environment Agency Pension Fund (EAPF). The Coronavirus global pandemic has led to changes in ways of working and unavoidable delays in getting our Annual Report and Financial Statements (AR&FS) signed. We got the final sign off in December 2020, 5 months later than we normally would.

We have around **£4 billion of assets** across both our Active and Closed Pension Funds. We have around 39,000 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 2020. 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 6.4% average annual investment returns over the last 5 years for the Active Fund and 6.8% for the Closed Fund**. 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.

During 2019/20, we agreed a new investment strategy for the Active Fund, focusing on de-risking to help protect our strong funding position. We are very pleased that these strategic changes and the recognition that **Responsible Investment funds have outperformed during the market turmoil** have helped protect our Fund.

We set long term strategies to manage our investment and funding risks, and entered this period of uncertainty in a very positive position. Our formal triennial valuation at 31 March 2019 reflected a funding ratio of 106% for the Active Fund, which remains amongst the best across the LGPS. The Closed Fund funding level was 51% and was estimated to be 57% as at 31 March 2020.

Despite the wider market turmoil, the Active Fund funding ratio as at 31 March 2020 was around 100%, reflecting the success of our long term strategies. As part of the 2019 valuation process we agreed employer contribution rates which remain amongst the lowest across the LGPS. Our employers remain committed to protecting members' pensions and ensuring the Fund maintains its excellent funding position going forward.

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 73% while continuing to generate strong financial returns. We were delighted to be chosen by the United Nations Principle for Responsible Investment as a 'Global Leader in Responsible Investment' – along with 46 other Funds internationally .

Sustainable investment

The Fund has a strong ambition to keep innovating and driving change. To help us do this, we have set a number of targets.

Target: We aim to always have at least 33% of our investments in sustainable assets.

Result: In 2019/20, 31% of our investments were in sustainable assets.

Target: By 2025 17% of our investments will directly tackle climate change

Result: In 19/20 9% of our assets helped limit climate change.

Target: we will decarbonise our equity portfolio, reducing our exposure to future emissions by 95% for coal and 90% for oil and gas by 2025 compared to the exposure in our underlying benchmark as at 31 March 2015.

Result: In 19/20 we reduced our exposure to future emissions by 99% for coal and 95% for oil and gas compared to 2015.

Investing to build a better future

In October 2019, we agreed a new [Responsible Investment Strategy](#). It had 3 areas of focus:

First, our **investments** – how and where we will invest them to make a positive impact but which will also deliver the right returns to make the Pension Fund secure and fit for the long term.

Secondly, **the issues we will work in partnership on across the investment community**, with climate change being the most important and pressing priority.

And thirdly, **engage more with our members** who work tirelessly and with pride to improve the environment in their day job. We want to make you proud of what your Pension Fund stands for.

We undertook a survey in February 2020 on what our members thought about responsible investment. Over 2600 of you responded. We were really encouraged to see that you share our passion. For example, 88% of you thinking it important* to invest in sustainable and low carbon assets. (*Results of those who stated it was very important, important or quite important.)

You can [read the full results here](#).

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 £17 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 greenhouse gas emissions, see [TPI's State of Transition Report](#).

1. Last year we had 39% of investments in sustainable assets. The reduction is due to our evolving classification of which investments we define as sustainable and a change in our Strategic Asset Allocation over the year, where an allocation was moved from equities to fixed income.



Active Fund investment performance

For the 2019/20 financial year the Fund achieved a net return of -1.0%, underperforming its benchmark (after fees) by 0.9%. Over three years the Fund has returned 3.7%, 0.6% p.a. above its benchmark, an excellent result for the Fund.

Financial Performance to 31 March 2020	2020 %
1 year	
Fund performance	-1.0
Benchmark performance	-0.1
Active Fund relative performance	-0.9
3 year	
Fund performance	+3.7
Benchmark performance	+3.1
Active Fund relative performance	+0.6

Active Fund geographical distribution

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 2019/20.

Geographical distribution	2020	
	£m	% of total equity
North America	886.3	71.2
Europe (excluding UK)	171.1	13.7
United Kingdom	66.4	5.3
Japan	62.9	5.1
Asia Pacific (excluding Japan)	39.7	3.2
Emerging Markets and other areas	18.7	1.5
Total equities	1,245.1	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

Alphabet Inc CL C
Schwab (Charles) Corp
Baxter International Inc
Dentsply Sirona Inc
Cognizant Tech Solutions A
Henry Schein Inc
Thermo Fisher Scientific Inc
Cooper Cos Inc/The
Jones Lang LaSalle Inc
TE Connectivity Ltd
Illumina Inc
Informa Plc
LeGrand SA
Palo Alto Networks Inc
Unilever NV
Gartner Inc
Becton Dickinson and Co
Taiwan Semiconductor Manufacturing
Texas Instruments Inc
Trimble Inc

Active Fund accounts for the year ending 31 March 2020

Fund account	2020 £000
Contributions and transfers	
Contributions	97,724
Transfer values received	6,655
	104,379
Benefits and other payments	
Benefits payable	(92,573)
Payments to and on account of leavers	(69,072)
	(161,645)
Net withdrawals from dealings with members	(57,266)
Management expenses	(24,112)
Return on investments	
Investment income	63,216
Taxes on income	(510)
Change in market value of investments	(74,016)
Net returns on investments	(11,310)
Net decrease in the Fund during the year	(92,688)
Opening net assets of the Fund at 1 April	3,697,277
Net assets of the Fund at 31 March	3,604,589

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 2020

Fund account	2020 £000
Income	
Grant-In-Aid	55,836
Transfers in	4
	55,840
Benefits and other payments	
Benefits payable	(53,186)
Payments to and on account of leavers	(112)
	(53,298)
Net increase from dealings with pensioners and deferred members	2,542
Management expenses	(786)
Return on investments	
Investment income	1,578
Change in market value of investments	8,991
Net returns on investments	10,569
Net increase in the Fund during the year	12,325
Opening net assets of the Fund at 1 April	294,272
Net assets of the Fund at 31 March	306,597

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.

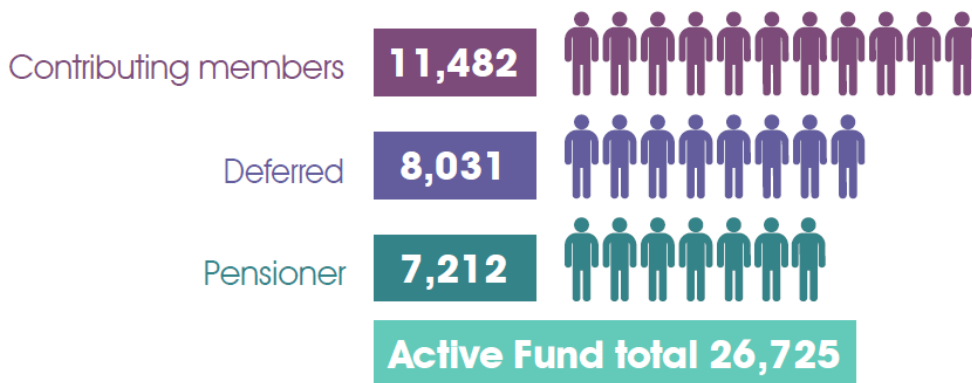
Over the year grant-in-aid received amounted to £55.8 million (£58.7 million for 2018/19) and were used to meet the Fund's obligations to meet pensions and other liabilities.



Fund Membership

Active Fund at 31 March 2020

Over the year, the total membership of the Active Fund increased by 370 to 26,725 members.



Closed Fund at 31 March 2020

The Closed Fund saw the total number of current pensioners and deferred members fall by 767 to 12,179 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.

The COVID-19 pandemic has brought about some changes to how we transact with our members, meaning we can now approve various tasks digitally making the process easier and quicker in many cases.

We've also introduced interactive annual pension statements for our contributing members and will also be rolling this out to deferred members over the coming years. This is a move towards becoming fully digital. We'll be reducing our carbon footprint by eliminating printing requirements whilst contributing to achieve our Net Zero goals.

In 2020, Phase 2 of our EAPF Online developments introduced a CARE pension estimate tool, a print and download function to the Retirement Illustrator, Payslips and P60s. We've also enhanced our online P60s so that pensioner members are now able to download/print and use these as an official HMRC approved document in order to deal with their tax returns.

We're working on further developments on the online portal too which will mean other transactions will be possible to complete online.

We've also taken feedback from our public website UX research focus groups and worked hard to create a new refreshed public website for our members which will launch in 2021.

Improvements to our public website will include:

- Improved accessibility in line with government regulations for public service pension websites
- New refreshed design and imagery on EAPF brand
- Improved navigation to enhance user experience
- Better use of overall space bringing attention to key information

Commendations

In addition to be recognised as a Global Leader on responsible investment, the Environment Agency Pension Fund (EAPF) was identified as Best in Class in a report on Responsible Investment (RI) in the LGPS. This analysed the Investment Strategy Statements of Local Government Pension Funds (LGPS) and was undertaken by ShareAction & UNISON.

The EAPF was also recognised for its Customer Service Excellence (CSE). To achieve this, evidence was submitted through a desktop review across 57 elements, followed up by a visit to the EA offices. The audit consisted of an interview with all staff, the Chair of the Pensions Committee and two key delivery partners.

The EAPF achieved a 'Compliance Plus' scoring across 5 areas, including commitment to delivering excellent services, staff empowerment and customer insight. Also achieving Compliance Plus for the first time in recognition of our responsible investment strategy, national and international awards on climate change and our AGM initiative.

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
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