

How is the climate emergency driving investment strategy and what does a good impact solution look like?

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Pensions for Purpose's quarterly asset owner event for the Impact Investing Adopters Forum, sponsored by Tikehau Capital.

Pensions for Purpose runs a quarterly cycle of events for members of the Impact Investing Adopters Forum (IIAF). Asset owner events are exclusively for asset owners such as pension funds, trustees, in-house teams and company sponsors of corporate pensions. They provide a unique opportunity for peer-to-peer discussion and knowledge sharing.



In this event Graham Cook, CIO of the Environment Agency Pension Fund (EAPF), part of the Brunel Pension Partnership pool, was joined by Simon Males of private markets impact manager Tikehau Capital in a 'fireside chat' to talk about his Fund's climate policy, how objectives at EAPF are set and how the portfolio is managed. Graham also discussed what he believes makes a good impact strategy.

As well as asset owner events the IIAF hosts all-stakeholder meetings which are open to all members and provide an invaluable forum for cross-fertilisation of ideas between asset owners, advisers, investment consultants, asset managers, lawyers and impact specialists. Other events include our small group on-line afternoon teas and morning coffees and online training sessions.

Fireside chat – Graham Cook, CIO of the Environment Agency Pension Fund

Simon Males of Tikehau Capital introduced the session describing the work he does in this area as a manager investing in debt, equity and real estate with a focus on impact and Article 9¹ funds. He handed over to Graham to describe the EAPF's approach.

Graham is the Chief Investment Officer of the Environment Agency Pension Fund, a £4.5bn open defined benefit pension fund which is part of the LGPS. It is also a member of the Brunel Pensions Pool who are responsible for implementing a large part of the investment strategy.

The EAPF's approach is driven by its Climate Policy and a full version of the policy can be found on the EAPF's [Climate Strategy Page](#). This was published about a year ago which some might say is very recent but the EAPF had been working on this for a long time before going public. This was to make sure that the science was fully understood, the objectives were clear and there was a pathway for achieving the objectives.



¹ Classification of sustainable funds under the EU Sustainable Finance Disclosure Regulations (SFDR). Funds are classified as Article 8 or 9.

The EAPF Climate Policy in a nutshell



1. Get to net zero by 2045 and halve emissions by 2030

- Reduce listed equity emissions by 87% by 2025 and 95% by 2030.
- Allocate money through fixed income, multi-asset credit and private markets to fund the low carbon transition and help build resilience.



2. Invest significantly in green solutions which build a clean, biodiverse and climate-resilient future

- Aim to always have at least 33% of investments in sustainable assets.
- Have 17% of investments by 2025 directly tackling climate change by helping to reduce emissions or building resilience.



3. Work with others so that the whole economy turns greener

- Use EAPF's shareholder power to drive change in companies.
- Work in partnership to help reduce emissions, value natural capital and build resilience.



4. Walk the talk – get to net zero as a pension fund team

- Get to net zero as a pension fund team by 2030.
- Communicate with members on how they can reduce their carbon footprint.

An interesting challenge on the policy came from the Fund's sponsor – the Environment Agency which has a 2030 net zero target. Nevertheless, given the goal to achieve real world de-carbonisation across all industries, 2045 is still ambitious.



Real world change

Getting the world to net zero is a cornerstone of the strategy. That thinking has informed the decision-making. For example, low carbon indices are unattractive because they just exclude the high emitters. The EAPF want to invest in high emitters that are an essential part of the economy and then reward and help them to reduce their emissions. So EAPF choose benchmarks that are focused around investing in the real economy and in Paris Alignment.

Climate solutions

The other angle is investment in climate solutions. 17% of the portfolio is invested in climate solutions and 33% invested sustainably.

The role of lending and debt – debt denial as a risk management tool

A lot of industry focus is on equity and exercising voting rights. Perhaps an even more powerful route is debt denial. Debt markets provide most of the capital that companies need so debt denial is powerful. The EAPF won't provide debt capital unless there are covenants requiring change. They see this as good risk management.



“Most capital comes from debt markets so good debt management is a potent tool.”

Q&A discussion

After Graham's introduction, Simon opened the session to questions.



How do you make sure your objectives flow into the underlying portfolios in public and private markets?

First, make sure your objectives and the actions to be taken are clear and communicate these to your investment managers. Back these up with firm investment beliefs – such as climate change being a key driver of risk in the future. Second look for integrity of process from your investment managers. How will they meet a dual objective of return and impact?

“Find investment managers that use returns and impact to reinforce each other, not compete against each other.”



Can you give some examples where you have pushed the boundaries?

The hardest thing is taking away the 'comfort blanket' of a track record. Given that our future world will be so different from the past, track record can be a false comfort anyway – what has worked before won't necessarily work in future. The Targeted Opportunities Fund which was set up 6-7 years ago is a good example. This looks for innovative solutions, allocations are evidence-based and assessed on investment managers' technical expertise and experience in similar areas. A good example is the allocation to sustainable forestry.



Tell me more about your sustainable forestry investment

This was one of our toughest discussions. The fund invests in Eucalyptus plantations in Paraguay. So, while it is climate-aligned, there were immediate concerns around a monoculture and a non-indigenous crop. Digging further revealed concerns around the impact on indigenous people (are we 'digging up' people to plant trees?), competition for water resources and wildfire risk. These were certainly disturbing headline concerns, so the EAPF explored each one in detail, e.g. high rainfall in Paraguay mitigated wildfire risk, the manager committed 25% of land to re-wilding helping with biodiversity and trees are planted on degraded agricultural land. All of this takes time and expertise coupled with a strong desire to lead and set an example.

“We don't displace people to plant trees.”



How do you manage time dependence – the fact that we need the carbon emitting sectors so we can move to a lower carbon world?

The EAPF's objective is not low carbon in the pension fund immediately – that does little for real world change. The problem is that while we have metrics on current and past emissions, future emissions trajectories are harder to measure. EAPF acknowledge the question and are working with to address it but the answer, for all of us, is a work in progress. A good example is decarbonisation of steel: building green furnaces for the future costs £billions and needs a carbon budget.

“We have to understand lifecycle of carbon emissions – accepting emissions now to reduce emissions later.”



Should we sell the emitters?

It is easy to decarbonise at portfolio level by selling high emitting sectors. That doesn't stop emissions though – if anything it passes firms on to owners that may have less interest in the transition. Given the objective is around real-world decarbonisation, the EAPFs approach is to invest in the economy and hold the best companies in each sector. That represents good investment management as well as real-world impact.

“We want to hold the Netflix of decarbonisation not the Blockbuster Video.”



Where does stewardship and engagement fit in?

Stewardship and engagement are central to the transition. For public markets, most of this is undertaken by the Brunel Pension Partnership. In private markets, engagement is a very effective tool, particularly as the EAPF may well represent a large portion of a manager or investee's capital which brings significant influence.



What about the 'just transition'?

This is an important area and Guy Opperman (UK Pensions Minister) has been hosting roundtable discussions with the pensions industry on this. The area where impact is highest is emerging markets and although EAPF do not have an explicit allocation to EM, several investments are in emerging countries. Examples include the forestry investment in Paraguay and the renewable energy investment in North Africa and the Middle East. The forestry investment described above was a great illustration of the interconnectedness of social and environmental impact.

Closing the meeting

Simon thanked Graham for his contribution and for providing such open and transparent information on the EAPF's approach.

Graham concluded by encouraging participants to get in touch if they want to learn more and share ideas. Indeed, the fourth point of the EAPF climate policy ('Walk the Talk') is to share knowledge in order that the industry can work effectively to a net zero world.

Pensions for Purpose

Pensions for Purpose already offer access to general information and education through the Impact Investing Adopters Forum. As well as that, we run tailored events for individual pension funds.

Please [get in touch](#) with your ideas

If you would be interested in joining or participating in the [Impact Investing Adopters Forum](#), please contact [Charlotte O'Leary](#).