

Environment Agency Pension Fund

An evolving journey as a Responsible Investor

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www.pensionsforpurpose.com

Key points

- EAPF’s investment philosophy of incorporating environmental, social and governance issues into their investments has contributed towards the scheme being in surplus.
- As at March 2017, 34% of the fund is invested in clean technology and sustainable investments.
- EAPF are developing their monitoring and reporting requirements, and have an ambition to map all their investments to the UN Sustainable Development Goals (UNSDGs).
- As part of the Local Authority Pension Fund pooling process, EAPF will be joining the Brunel Pension Partnership and intends to share its expertise in this area with the other members of the pool.

EAPF quote

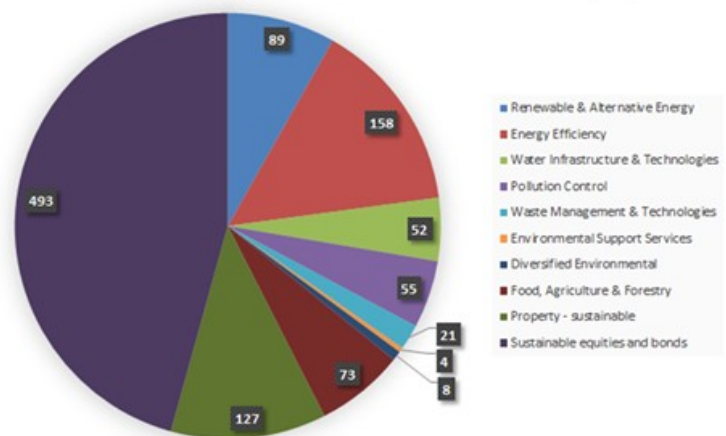
“We set ourselves the target to maintain at least 25% of our investments in clean technology and other sustainable opportunities.”

Introduction

The Environment Agency Pension Fund (EAPF) had £3.3bn AUM as at March 2017 and just under 40,000 members, making it one of the largest local government pension schemes in the UK. It started its responsible investment journey in 2005 by launching a new investment strategy with an environmental overlay to assess all its managers’ performance on their adherence to environmental considerations into risk management, stock selection, company engagement, shareholder activism and proxy voting.

The EAPF was the first LGPS to sign up to the UN Principles for Responsible Investment (UNPRI), the first to carry out its own voting on environmental issues at company annual general meetings, the first to carry out environmental and carbon foot printing of its portfolio, using research data from Trucost¹ and the first UK pension fund to align its investment portfolio with the 2 degree Celsius limit to global warming.

Clean Technology and Sustainable Investment (£m)



The EAPF believes that climate change presents a systemic risk to the stability of every country and that integrating environmental, social and corporate governance (ESG) issues throughout investment strategies is a necessary part of the investment process. In 2010, the EAPF set itself the target to have 25% of the fund in clean and sustainable investments by 2015. As at March 2017, 34% of the fund is invested in clean technology and sustainable investments.

¹ <https://www.trucost.com/>

What impact investments were made?

In 2005 the EAPF identified the opportunity to make impactful investments in private markets and mandated Robeco to create an £80m fund of funds portfolio with 30% invested in clean tech. This was enhanced in 2012 with a further £10m commitment with 50% in clean tech. In 2013 the EAPF engaged Townsend to implement a real asset mandate with strong sustainability criteria covering sustainable and low carbon real estate, renewable energy, forestry and agriculture. As at March 2017, £293m has been invested in real assets.

In 2014 the EAPF increased its focus on sustainable investments and created a separate portfolio ("Targeted Opportunities Portfolio") where £131m has been committed (of which £40m has been deployed) across a number of funds which have been selected based on their ability to deliver financial performance alongside sustainability outcomes. TOP investments demonstrate a clear contribution to sustainable capitalism – supporting key areas, addressing funding gaps, facilitating change, using new sustainability mechanisms or demonstrating best practice in their asset class.

Targeted Opportunities Portfolio (TOP) commitment breakdown:

Region	Value (nearest million)	Fund Manager	Sector
Global	£ 15,000,000	Actis Energy 4 LP	Infrastructure
United Kingdom	£ 25,000,000	Bridges Property Alternative Fund III	Property
United Kingdom	£ 15,000,000	Bridges Property Alternatives Fund IV	Property
United States	£ 19,000,000	DBL Partners III	Venture Capital
Global	£ 38,000,000	Generation Investment Management Climate Solutions Fund II	Private Equity
United Kingdom	£ 15,000,000	Palatine Impact Fund	Private Equity
Total	£ 127,000,000		

Why were these investments made?

The TOP was created as a way for the EAPF to invest directly into funds rather than relying on fund of funds. This was deemed preferable in order to enable EAPF to have better control and visibility into its underlying investments. A further advantage of investing directly is the cost: higher fees are incurred investing into fund of fund managers in comparison to investing directly into funds. As EAPF has built a strong reputation in the space, they are able to secure sufficient pipeline without needing to use the networks commonly associated with fund of funds.

Successes

- **Pipeline:** As a result of the EAPF's strong reputation as an environmentally focused investor, cleantech and greentech focused funds have started to approach EAPF directly, therefore reducing the resources associated with sourcing investment opportunities.
- **Financial performance:** The EAPF active fund is in surplus with a funding ratio of 103% at its March 2016 valuation. It has delivered 11.6% annualised investment returns over the last 5 years scheme, which the EAPF attributes to its long-term, responsible investment approach to investment. For example, through the TOP, the EAPF invested into a brand of non-toxic and renewable-based household and personal care products in North America, which was acquired by Unilever last year leading to substantial returns (Seventh Generation).

Challenges

- **Ticket size:** Although the EAPF has been attracted by the offering of smaller impact funds, it has struggled to make investments into them because of constraints on the pension fund's minimum allocations size (c. £15m based on necessary due diligence work and legal cost) and internal guidelines which restrict the EAPF from being the sole lead investor in any TOP fund. Pooling of Local Authority Pension Fund assets represents a potential further challenge: the minimum ticket size in Brunel Pension Partnership Limited (with collective assets of £28bn) might be larger than £15m.
- **Thematic investing:** Cleantech investments in particular have proven challenging because this is a resource intensive sector, where the speed of innovation means attracting the scale of capital required for success can be demanding. This highlights the issues in attracting private capital into thematic areas of impact.

Next steps

Having demonstrated the financial benefits to incorporating ESG issues into decision making, the EAPF seeks to share its expertise with the other members of the Brunel Pension Partnership, the broader LGPS and other asset owners.

EAPF is working on its climate goals (as outlined below) for 2020.

Climate goals	Progress
Invest 15% of the Fund in low carbon, energy efficient and other climate migration opportunities.	10% invested with current commitments bringing it to 12.5% .
Decarbonise the equity portfolio, reducing our exposure to 'future emissions' ⁹ 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 65% less than our baseline. Oil and gas is currently 79% less than our baseline.
Supported progress towards an orderly transition to a low carbon economy through actively working with asset owners, fund managers, companies, academia, policy makers and others in the investment industry.	Active engagement across the industry with a strong focus on working collaboratively. More information our website.

Figure 1 EAPF goals for 2020 from FY16/17 Annual Report

Further information

For more information, please visit the below websites:

EAPF Responsible Investment: <https://www.eapf.org.uk/en/investments/responsible-investment>

Brunel Pension Partnership: <https://www.brunelpensionpartnership.org/>

About Pensions for Purpose

Pensions for Purpose is an online collaborative initiative to raise awareness of impact investment amongst pension funds. Our members consist of Influencers (eg. impact managers, trade bodies and consultants) who want to promote the understanding of, and discussion around, impact investment, and Affiliates (eg. asset owners, government bodies, independent advisers and journalists) who want to deepen their knowledge of this important topic. Affiliates are able to register for free, which allows them to access additional, Affiliate-only material and to receive monthly updates of new content posted on the platform. For more information see <https://www.pensionsforpurpose.com/>.