Best of the LGPS

The Environment Agency Pension Fund chief pensions officer Craig Martin chats to Theo Andrew about the fund's responsible investment approach, the Local Government Pension Scheme pooling process and its best-in-class funding ratio

Please could you give an overview of the Environment Agency Pension Fund and its current position?
The Environment Agency Pension Fund (EAPF) is part of the Local Government Pension Scheme (LGPS), with over 39,500 members and assets of £3.7 billion. We have a 96 per cent employee participation rate, and our funding level was 103 per cent at our last triennial valuation. The fund was established from the closure of the National Rivers Authority Pension Fund in 1989 at the time of the privatisation of the water industry in England and Wales, and in 1996 it transferred to the Environment Agency.

The EAPF is a multi-employer fund consisting of the Environment Agency, Natural Resource Wales and Shared Services Connected Limited. It's open to all eligible Environment Agency employees. The fund is also responsible for administering some unfunded benefit payments so operates an active and closed fund. We are an award winning, national defined benefit pension scheme, and we provide a mix of final salary and career average benefits. The Environment Agency Board delegates the management and oversight of the fund to a pensions committee, an investment sub-committee and our pension board.

How are its services tailored to its members?
Being open and transparent about the fund, its benefits and how we invest is a core principle. Our board and member representatives actively engage with our members and other stakeholders to ensure the fund is aware and can respond effectively to all member and stakeholder concerns. We also actively use our website, newsletters and member webinars to engage directly. In autumn last year we ran webinars that specifically allowed members the opportunity to both learn more about the fund and directly ask questions of the team.

Providing an excellent level of service to members and employers is embedded in our day-to-day work. We have successfully retained our accreditation to Customer Service Excellence (CSE) and this work supports us achieving a 96 per cent participation rate, and employees rating their pension as their top reward package benefit in staff surveys.

How does the EAPF approach investment; what does it feel can be done to boost responsible investing?
Our investment strategy, designed to both robustly manage risks and take positive opportunities, has delivered 9.7

per cent investment returns over the past five 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 102 per cent at March 2018, which is amongst the best in the LGPS.

Responsible investment is rooted in our governance, our approach to risk and how we deliver our investment strategy on a day-to-day basis. We first published our policy to address the impacts of climate change in October 2015 and updated this in 2017 to demonstrate to our members we have a credible plan to deliver strong long-term financial returns as the impacts of climate change materialise. We believe financial risk and opportunities will come from both these impacts, regulation and policy, alongside increased competition from alternatives and technological innovation.

I'm very pleased to report that we have met our climate change goals of decarbonising our equity portfolio through reducing our exposure to 'future emissions' for coal and oil and gas two years ahead of target. We have reduced both by over 90 per cent with embedded emissions from coal reserves among active managers now reduced to zero. We have achieved this success through a number of factors linked to our overall investment strategy.

We have continued to be active in our support for the work on Climate-related Financial Disclosure (TCFD) and we report in line with the TCFD recommendations. Following our launch as co-founders of the Transition Pathway Initiative (TPI) in 2016, it is rapidly becoming an important framework through which asset owners can assess how companies are transitioning to a low-carbon economy, with over 100 companies across seven high-impact sectors having now been assessed.

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What have the main challenges been for the scheme and what initiatives is it taking moving forward?

Our biggest area of focus for our pensions committee over the past two years has been to implement the government's requirement to pool the management and investment of our fund assets with other LGPS funds. We worked with nine other partner funds, and established the Brunel Pension Partnership (Brunel) in July 2017 as a new company wholly owned by the 10 funds. Brunel meets all the governments' regulatory requirements and has successfully received Financial Conduct Authority (FCA) authorisation to become operational from April 2018. Our assets have started to transfer into the new Brunel portfolios during July 2018 with others following over the next two years.

Importantly, the assets remain our, EAPF, assets and we retain responsibility for setting our detailed EAPF strategic asset allocation. We will be working with the Brunel Pension Partnership to implement our strategic asset allocation across our funds, including our real asset and private market allocations. We are working with Brunel Pension Partnership to design and implement these portfolios.

Brunel implementation and transition will continue to be a big focus for the committee during 2018/19. Whilst not without its challenges, we see the creation of Brunel as an opportunity to innovate, demonstrate and promote responsible investment leadership, not just across the LGPS but on a wider scale. We look forward to working collaboratively to achieve this.

How has the scheme found the pooling process so far?

There's no doubt pooling has been a challenge, not just for us as officers, but for our pensions committee and the wider Environment Agency governance.

We've created and become shareholders in an FCA regulated company, which is both a challenge and great opportunity.

We're working very closely with our partner funds and Brunel Ltd to address the challenges and we've made great progress with our first portfolio for passive equity now live and transitioned across the partnership.

As partners, this strong ethos has been key to the positive way we, as a client group work and link to the oversight board and shareholders.

How has the schemes relationship with the regulator changed?

It has definitely been beneficial for The Pensions Regulator to formally have oversight of public sector schemes.

We have probably not seen much change, as we used its guidance operationally before formally having to do so, and we'll continue to work closely with the regulator on some of the specific challenges facing the LGPS.

Written by Theo Andrew