Acclimatising to change

In the midst of an active campaign against climate change, Lauren Weymouth speaks to Environment Agency Pension Fund (EAPF) head of pension fund management Dawn Turner about overcoming challenges and pooling success

EAPF head of pension fund management

What major challenges have the EAPF had to overcome over the past year?

Of the many challenges currently facing the fund, there are two clear winners. Firstly, in July all the local government pensions schemes (LGPS) were asked to pool their assets with other funds in the LGPS. The EAPF has had a long-standing relationship with seven funds in the South West and already had two collaboration forums – South West Investment Management (SWIM) and South West Administration Pensions Operations Group (SWAPOG). It was therefore a natural step for all eight funds to look to see how we could take up the pooling challenge. We started in August, putting us in a good position to attract two other funds to the pool by the 19 February submission date. Our pool is called the Brunel Pension Partnership and we are now looking ahead to the next deadline of 15 July 2016.

Secondly, in October we launched our policy to address the impacts of climate change ahead of COP21. Our objective is to ensure that our fund's investment portfolio and processes are compatible with keeping the global average temperature increase to remain below 2°C relative to pre-industrial levels, in line with international government agreements. A key strand of this policy is engagement, both of organisations and within the investment industry. Our launch has enhanced this opportunity on a global basis.

The reason the government asked the LGPS to pool assets was to significantly reduce costs. How is the EAPF working with other funds to bring these costs down?

The Brunel Pension Partnership has estimated predictable savings from mandate rationalisation and fee renegotiation when transition is complete, after 10 – 15 years, of £16 million a year across the 10 Founder Funds. The Founder Funds are open to seeking further savings from other sources. These opportunities are not yet agreed but the Founder Funds share an aspiration to make the Brunel Pension Partnership work for them, and to deploy long-term investment approaches consistent with scale. There are two clear requirements for pooling – one is to reduce costs of investments and the other is to maintain or improve performance. With this is mind there is an aspiration to make total improvements in net investment return over the Founder Funds of around £70 million a year.

What is the fund's investment strategy? How is its investment portfolio split?

Our investment strategy is split between three core areas; equities, diversifying growth assets and bonds/defensive assets. We have introduced the high level class of diversifying growth to reflect assets that are returns seeking, but offer some diversification from equities. It consists of real assets (property and infrastructure), private debt and absolute return bonds. Target allocation is 22 per cent but we are building it up gradually and currently have around 15 per cent invested. We have around 30 per cent in bonds and 55 per cent equities, both of which will fall slightly as the diversifying assets builds up.

The EAPF has played a huge role

in the climate change movement and has more recently been an advocate for encouraging pension funds to invest more responsibly. As a result of such heavy involvement in this cause, do you feel under pressure to exemplify the benefits through your own investments?
Yes, we do feel the pressure to exemplify the benefits – but with many of our members dealing with the day-to-day impacts of climate change as their job, we feel it is clear that we have to take the issue seriously and support other pension funds in tackling the issues and positively contributing to shift to a low carbon economy.

How have you seen the attitudes towards responsible investment change over the past few years? Have pension funds become more attuned to what is ethical over what will generate the best returns?
Attitudes have changed considerably to responsible investment (RI) over the last few years and RI is becoming an integral part of many main investment processes (both risk and opportunity). This shift has been more pronounced with fund managers, less so at the asset owner level, although the topic of fossil fuel and climate change has been a huge catalyst to tentative interest in the last few months.

For clarity, we do not describe ourselves as ethical investors. Our strategy considers all these issues through the lens of short- and long-term financial implications. We have found that investors who consider all relevant risks to long-term shareholder returns generally provide more consistent, positive returns over the long term. The key is ensuring that process does indeed cover all relevant risks, and it is that where we see the need for investment consultants to up their game.

How have you had to adapt your communications to increase member engagement since the pension freedoms?
We had a 'customer excellence' focused communications strategy in place prior to the pension freedoms, so it was a simple matter of looking to see what we needed to do to ensure our members understood what this meant for them, and build it into our communications plan.

As it happens, as a public sector scheme, the introduction of pension freedoms have had a minimal bearing on the Environment Agency Pension Fund, but we are monitoring member transfers and the potential impact these changes could have on the fund.

We have adapted our transfer letters, factsheets and AVC materials to respond to these changes. We have used our wider communication channels to raise awareness of the new options open to our members by including an item in our most recent newsletter, cascading information through our fund employer intranets and including the topic as part of our contributing member webinars.

This has helped with education and enabled us to answer questions directly from our members.

What areas do you think are most crucial to successful governance?
Successful governance is dependent on the right people, knowledgeable and well trained, making quality decisions by having reviewed quality information and received well-researched evidence that leads to the desired outcomes within the right timeframes. This is underpinned by active monitoring of risks and opportunities, prioritising resources to mitigate the risks and enable the opportunities. All is then enhanced through open and transparent communications and reporting.

Building on this, it is therefore essential, when we are creating what will be some of the largest asset pools in the UK, that we take the time to get the right approach for each of funds and their members. This is the biggest ever change to the governance and investment approach by funded public pensions in the UK - getting it right (and right for each pool – one size will not fit all) needs to be paramount over speed.

What are your future plans for the fund?
We have robust strategies and policies in place so our business as usual, if you want to call it that, is to ensure we deliver against them, and we have every confidence we can deliver. However, that confidence has to be maintained with the immediate priority and attention on pooling. With the deadline of July rapidly approaching we are applying our professionalism and experience to making the Brunel Pension Partnership a success for our fund and the other nine funds. Our future plans therefore are simple – achieving the best outcome for our collaboration with Avon, Buckinghamshire, Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Somerset and Wiltshire.

Written by Lauren Weymouth

EAPF's key targets for addressing the impacts of climate change by 2020:
- Invest 15 per cent of the fund in low carbon, energy efficient and other climate mitigation opportunities.
- Decarbonise the equity portfolio, reducing its exposure to future emissions* by 90 per cent for coal and 50 per cent for oil and gas by 2020 compared to the exposure in its underlying benchmark as at 31 March 2015.
- 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.

** 'Future emissions' is the amount of greenhouse gases that would be emitted should these reserves be extracted and ultimately burnt, expressed in tonnes of carbon dioxide equivalent.*