Environment Agency
Pension Fund

Our approach to responsible investment

EAPF submission to the UK Stewardship Code

May 2023

Contents

Interactive PDF

Use the top bar and buttons on the left to navigate to each section

Welcome from the Chair

"I was honoured to accept an award on behalf of the Fund for the role the EAPF has played in the foundation and development of the Transition Pathway Initiative (TPI)."

Robert Gould

Chair of the Environment Agency Pensions Committee

I take great pride in chairing the Environment Agency Pension Fund. Every year presents new challenges and 2022 was no exception.

Global events contributed to market volatility, inflation, increased risks of cyber security and significant cost of living increases for our members. And we got yet more stark warnings about the state of our planet.

Despite all the challenges, the Fund remains in rude health – fully committed to serving our members and fully funded.

Over the last year we completed a triennial valuation, reviewed our investment beliefs and strategy and continued to find some great new impact investment opportunities.

We said a fond farewell to some long-standing Pensions Committee members but successfully recruited their replacements who will contribute fresh thoughts and ideas. I must pay testament once again to the high level of commitment and engagement from all our Committee Members and I hope you enjoy the article on what being on the Pensions Committee meant for one of our longest serving Members.

This is our third Stewardship Code report.

Last year after we published our report, we produced a 2 page summary for our members. I know it was well received as I also shared it with the Environment Agency Board. So this year we have included the summary in this report.

The TPI provides rigorous, independent and free analysis to asset owners, to highlight which companies are making an effective transition to a low-carbon economy – data which is fundamental to us reaching our net zero target.

The TPI is just one of the initiatives we support. In this report you can read about many others and see lots of examples of how our investments are driving positive change.

Best wishes,
Robert

Our approach to responsible investment

"We believe that in the long term we will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long term sustainable success of the global economy and society."

EAPF facts

39,000 members

£4.1 billion in assets

103% funded[1] Fully funded for the last 7 years

Strong investment returns[1]

6.5% return in 1 year

7.6% per year over 3 years

7.0% per year over 5 years

Investments in:

1,250 companies listed on stock exchanges

120+ private companies

400 bonds with companies

23 UK Government bonds

[1]Figures as at March 2022. All other figures as at December 2022.

Joining up to drive positive change

- Launching the TPI Global Transition Centre at the London School of Economics.
- Voting and engaging on diversity issues.
- Taking part in shareholder resolutions on the Living Wage.

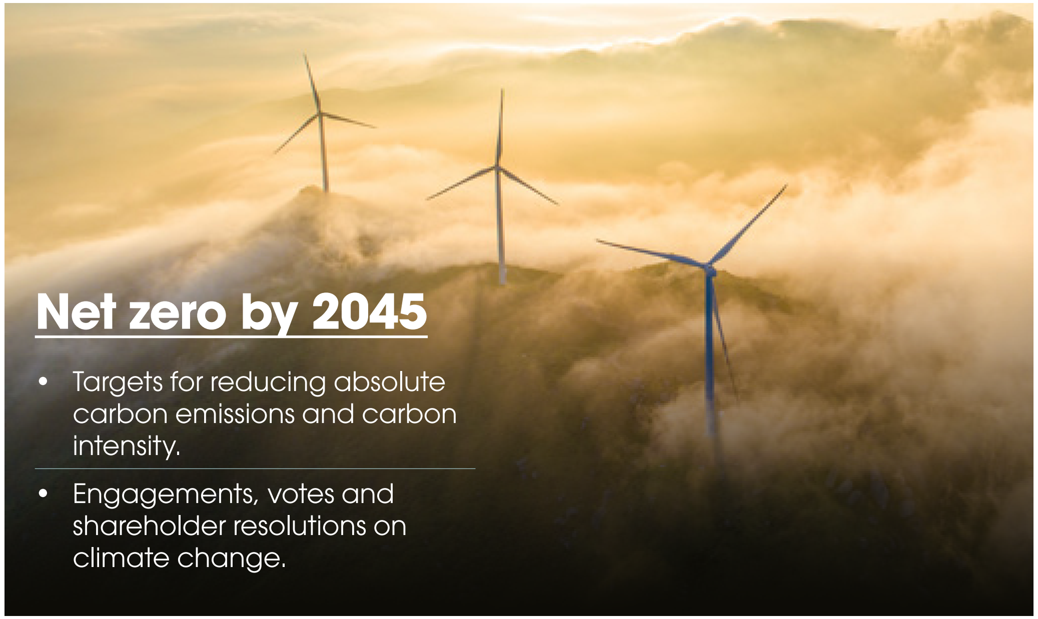
Investing in sustainability

Investing in companies which generate green revenues, climate change solutions and societal impact across all asset classes.

- Low carbon industrial buildings.
- Clean energy for rental properties.
- Energy efficient water and waste water pumps.
- Getting more women into tech.

Leading on biodiversity

- 4% allocation to invest in natural capital.
- Investing in nature-based solutions.
- Supporting pension funds to be deforestation-free.



Net zero by 2045

- Targets for reducing absolute carbon emissions and carbon intensity.
- Engagements, votes and shareholder resolutions on climate change.

A best in class approach to responsible investment

- EAPF rated A++ compared to an industry average of B.
- Awards for approach to climate change and impact investing.

1. Stewardship and what it means

Stewardship and what it means

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

EAPF is an asset owner. We employ asset managers to invest on our behalf in line with our investment strategy. And we employ service providers to advise the Fund or carry out some functions for us.

Environmental, social and governance issues can present significant financial implications for investors. The more the finance sector consider these issues, the more resilient and shock-proof the wider financial market is.

The UK Stewardship Code sets high standards for asset owners. We have met these standards for the last 2 years.

The Financial Reporting Council will be assessing this report to decide if we continue to meet those standards.

As this document is primarily aimed at our members, we have set out how we meet all the requirements of the UK Stewardship Code in line with our approach of being a responsible investor. To show that we are meeting all of the principles, we reference at the beginning of chapters the numbered sections of the Stewardship Code covered in that chapter.

This report covers our approach from 1 January 2022 until 31 December 2022. All data given is at 31 December 2022, unless otherwise stated.

This report draws on many of our agreed policies, notably:

- Responsible Investment Strategy Statement.
- Getting to Net Zero and Building Resilience.
- Funding Strategy Statement.
- A range of governance policies.

The Environment Agency Pensions Committee has reviewed this document and it has been approved in line with the Scheme of Delegation, as approved by the Environment Agency Board.

What being a responsible investor means for us:

- Considering a wide range of environmental, social and governance risks and opportunities.
- Acting as good owners of the companies, assets and funds in which we invest.
- Share what we learn, seeking partnerships to influence and encourage best practice.
- Looking to work with and influence others.
- Operating in an open and transparent way.

2. Our Fund and how we are run

Our Fund and how we are run

Sections 1,2,3,4,5 and 6 of the Stewardship Code

Our mission

- **Our mission is to deliver a globally successful and truly sustainable pension fund.**
- **We want to provide the best possible member experience.**
- **We want our scheme to be affordable.**
- **And we want our assets to be invested responsibly.**

Facts about our Fund:

- £4.1 billion in assets.
- 3 participating employers: the Environment Agency (EA), Natural Resources Wales (NRW) and Shared Services Connected Limited (SSCL).
- Open defined benefit pension scheme.
- Pension liabilities to 2100 and beyond.
- EAPF is the only Central Government Agency in the Local Government Pension Scheme (LGPS).
- 2 funds – an Active Fund and a Closed Fund[1].
- Part of the Brunel Pension Partnership (Brunel).

[1] Broadly speaking, the Active Fund covers the pensions of current or previous employees of the EA, NRW and SSCL. The Closed Fund administers the pensions of former employees of the old water authorities before they were privatised. For the purpose of this report, we focus on the investment strategy of our Active Fund, due to its dominant size (it represents 94% of the value of our assets) and the more complex investment approach which allows greater opportunity to be a responsible investor. The Closed Fund is guaranteed by the Government. The investment objective of the Closed Fund is to ensure that in due course the Fund's assets will cover its liabilities in as low a risk manner as possible. As such it is invested in index linked Government Bonds and cash only.

Our membership

A spirit of acting in the public good is strong for both our members and our Fund.

All of our members work or have worked in the public sector to help improve the environment. Sometimes this may be in frontline roles which are directly improving water, air or land and sometimes this may be through office-based supporting roles.

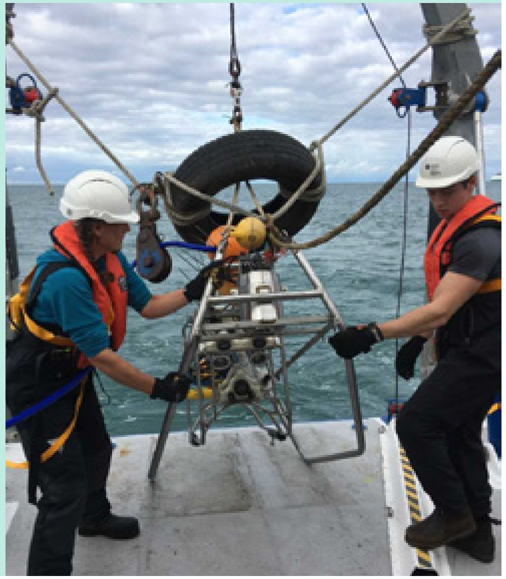
Members are increasingly aware of the power of finance to drive positive change and they want to see the evidence.

Our members predominantly come from a scientific background and/or have a strong interest in the environment. They ask us many searching questions about the real difference their pension fund is delivering, especially in relation to improving the environment.

This in turn informs the questions we ask of ourselves and others. One example of this is making sure that our approach to managing climate change and biodiversity risk is science-based.

Facts about our membership:

- Over 39,000 members.
- On average in 2022 an Active Fund pensioner received pension payments of £11,240.
- 48% of our active membership is female.
- There are over 3 times as many female active members who work part-time, as there are male active members who work part-time.
- We do not have any diversity data on our membership. We use Environment Agency data as the nearest proxy to understand how diverse our active membership is. There were 4.6% (Dec 21) of workers from a Black Asian and Minority Ethnic background working for the Environment Agency.
- 2% of our pensioners live overseas in 44 different countries. The most popular countries (in alphabetical order) are Australia; Canada; France; Ireland; Spain and USA.



Our membership

		Contributing		Deferred		Pensioner	
		31st Dec 2022	31st Dec 2021	31st Dec 2022	31st Dec 2021	31st Dec 2022	31st Dec 2021
Active Fund	**EA**	11,732	10,535	7,625	7,511	7,308	6,711
	NRW	738	760	622	646	692	625
	SSCL	4	4	87	90	22	19
Closed Fund	EA	-	-	712	854	9,500	10,743
	Total	**12,474**	**11,299**	**9,046**	**9,101**	**17,522**	**18,098**

Age profile of active members

	%
Under 20	0.24%
20–24	3.68%
25–29	8.64%
30–34	9.80%
35–39	12.79%
40–44	15.82%
45–49	15.05%
50–54	14.07%
55–59	12.61%
60–64	5.86%
65–69	1.22%
70–74	0.21%
Total	**100.00%**

Age profile of deferred members

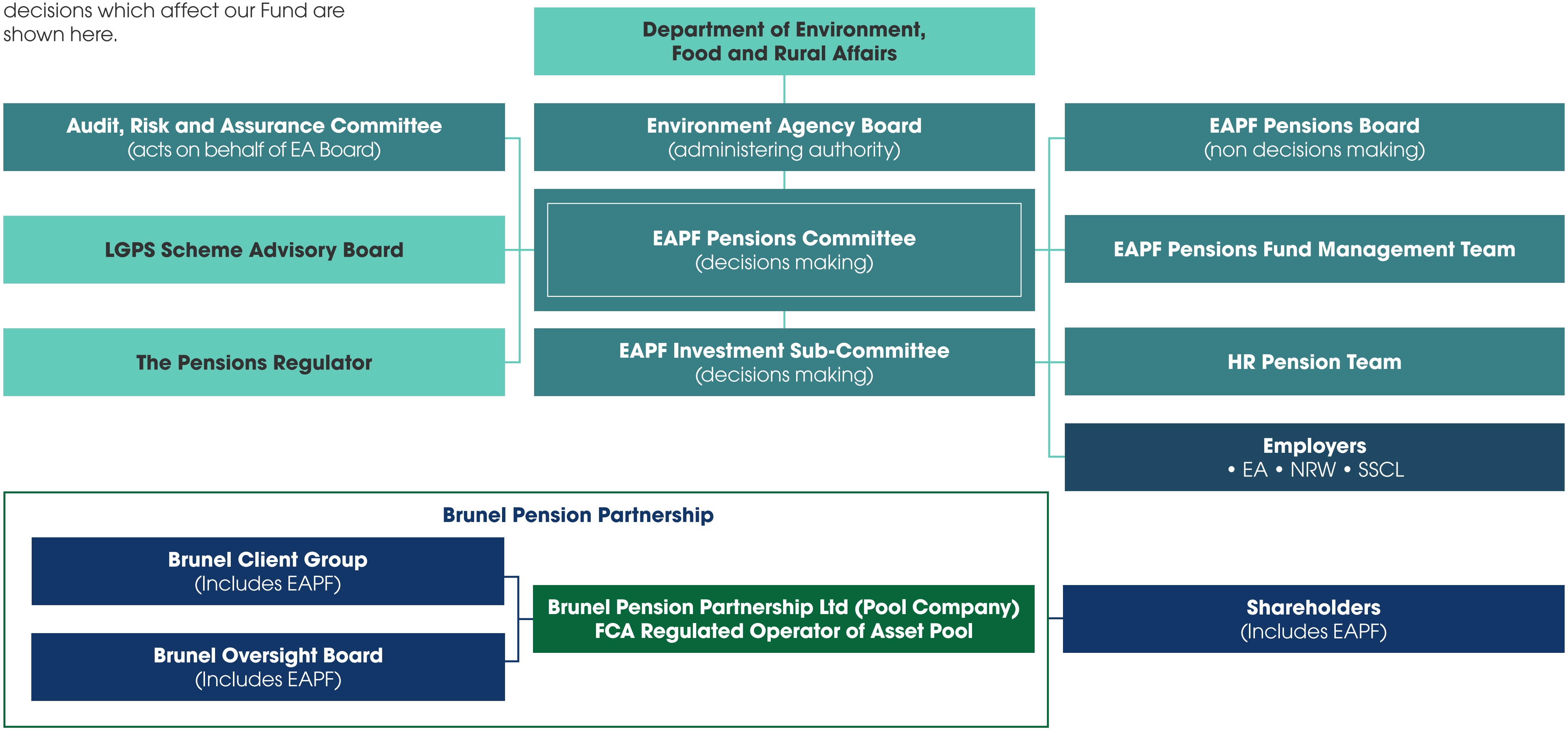
	%
Under 20	0.00%
20–24	0.27%
25–29	1.94%
30–34	4.72%
35–39	10.73%
40–44	17.67%
45–49	17.71%
50–54	18.93%
55–59	18.70%
60–64	7.30%
65–69	1.69%
70–74	0.35%
75–79	0.07%
Total	**100.00%**

Age profile of current pensioners

	No.	%
Child Dependants	311	1.72%
Pensioners and Spouses		
Under 55	252	1.40%
55–59	389	2.15%
60–64	1,897	10.50%
65–69	3,259	18.05%
70–74	3,268	18.10%
75–79	2,870	15.89%
80–84	2,055	11.38%
85–89	1,939	10.74%
90–94	1,339	7.41%
95–99	425	2.35%
100-110	55	0.30%
Total	**18,059**	**100.00%**

How we make decisions

The main parties involved in making decisions which affect our Fund are shown here.



Environment Agency Board

- Non-Executive Board appointed by the Secretary of State for Defra.
- Overall responsibility for the Pension Fund.
- Delegates the management to a Pensions Committee.

The Pensions Committee

- Safeguards the interests of members.
- 14 Members (akin to trustees) approved by EA Board, of which:
  - 7 Employer Representatives: 4 EA Board Members; 2 EA Executive Managers, 1 NRW Executive Manager.
  - 7 member representatives: 5 representing active members and 2 represent retired and deferred members.
- Meets at least quarterly.
- **2 Members stood down from the Pensions Committee in 2022, both due to retirement. One was an employer representative and one was an Active Member Representative.** These were replaced by another employer representative and the Shadow Active Member Representative.

The Investment sub Committee

- Sub group of the Pensions Committee.
- Recommends actions to implement EAPF's Investment Strategy.
- Made up of 4 Employer Representatives (2 Executive and 2 non-Executive Members) and 3 Member Representatives.
- Meets at least quarterly.

The Pensions Board

- Non-decision making body.
- High-level review of Pensions Committee's performance and effectiveness.
- 10 Members of the Pensions Committee (5 employer representatives and 5 Member Representatives).
- Meets annually.

Audit and Risk Assurance Committee (ARAC)

- Identifies, advises and monitors EA's significant risks.
- Receives quarterly reports from Pensions Committee and National Audit Office.
- Chair of ARAC sits on Pensions Committee Member and the Pensions Committee Chair sits on ARAC.

EAPF Management Team

- 13 officers employed by the EA, based in Bristol and led by the Chief Pensions Officer.
- Fund administration is outsourced to Capita.
- Variety of professional backgrounds in team (most of which are recruited from within the EA) covering finance, pension, investment and environmental disciplines.
- **In 2022, a new post in the team was created to lead on managing cyber risk.**
- 4 members of the team work directly on responsible investment although all officers support this in their respective roles.
- Responsible investment forms a key part of the team's objectives and yearly appraisals.
- Team's work on responsible investment also links into the EA's Net Zero 2030 target and the EA's Race Action Plan.

Interview with our longest serving Pensions Committee Member

Colin Chiverton

Active Member Representative from 2013 (to stand down in 2023).

What has been the most rewarding part of being a Member Representative?

Seeing how our pension scheme has, year on year, grown to ensure all of our members' pensions are fully funded for the future. In 10 years as being part of the Pensions Committee, I have seen our pension pot grow from about £2 billion to now in excess of £4 billion. And currently the scheme is more than 100% fully funded being one of the best outstanding performing Local Government Pensions Scheme in the country.

What issues do members raise most frequently with you about their pension?

Many of the issues over the years have been on the administrative aspects of members' personal pensions. This included not receiving quotes in a timely way, how to escalate complaints and unlock some of the blockers. I do have to say every time our colleagues in the pensions team have been superb and always helped where they could.

Do you think the EAPF represents members' views well?

I do and we have worked hard to ensure we are as inclusive and listening to our members views as much as possible. That is not to say that we should sit back, on the contrary. The whole point of the Committee is to make sure our investments provide for future pensions and represent all of our members both in the Active and Closed schemes.

What's been the most challenging issue you have had to address during your time on the Pensions Committee?

The challenges we had as a committee on decisions required for pooling our assets under Brunel Pension Partnership. And then a few years later on our continuation with the pooling. So the biggest challenge to me was the moral dilemma I personally had versus the advice and evidence pulled together by our independent professional advisors as well as the outstanding pensions team. But fundamentally Committee Members have a fiduciary duty to the pension fund so all of our decisions are with that in mind.

What are your reflections of your time on the Pensions Committee?

I am hugely proud of what has been achieved and how the Committee, pensions team and advisors have been so professional and sage in their working together. I have learnt a huge amount and will genuinely miss being part of the Committee, but I will be looking on! And finally one thing for the Committee to remember from me, going forward, is that in all of your discussions and decisions remember 'It is all about our members'.

Recruiting a new Member Representative in 2022

All of the 7 Member Representatives on the Pensions Committee are selected through an open recruitment process.

A skills analysis in 2022 showed us that there was no particular skills gap on the Committee but we were aware that 2 groups were under-represented.

In 2022, we advertised for a new Active Member Representative, encouraging members who were from, or who could build links with, members from a Black, Asian and Minority Ethnic background, or younger people.

Following interview, 2 Members were selected; one as Member Representative Elect and one as Shadow Member Representative.

6 of the 7 Member Representatives in 2022.

A Shadow Member takes part in all discussions and training but cannot vote – this allows them to build up their knowledge while they await the next vacancy and also makes the Fund governance more resilient should there be an unplanned departure.

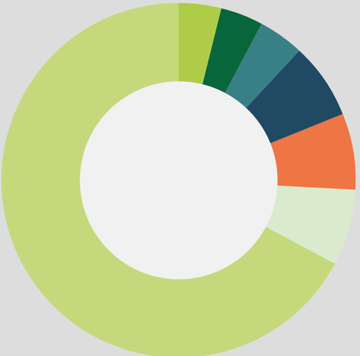
Both Members are under 40 and take up their positions in April 2023. One of these Members is already engaging with diversity initiatives for the Fund.

> **"The whole point of the Committee is to make sure our investments provide for future pensions and represent all of our members both in the Active and Closed schemes."**

EAPF Pensions Committee and Officers – gender and diversity information

Gender

- Male **52%**
- Female **48%**



Ethnic group

- White other **4%**
- Mixed heritage – Asian and White **4%**
- Black or Black British **4%**
- White – Irish **7%**
- White – Welsh **7%**
- White – Scottish **7%**
- White – English/British **67%**

Supporting Diversity in the EAPF

In 2022, the EAPF Team took part in the Environment Agency's Race for Action. It threw up many challenging discussions and led to us getting involved with the diversity internship programme.

In 2023, we hope to offer an internship in the Pension Fund Team and inspire someone to have a career in the investment industry.

As a Fund, we have undertaken a number of initiatives over the last 3 years to reach out to members from a Black, Asian and Minority Ethnic background. We have a dedicated lead in the BAME network on pension issues, whom we work closely with.

To date, we have not seen any grand divergence in members' views on how the EAPF invests but we will keep this under review. We have plans to do more engagement on this in 2023.

Making decisions, reviewing policies and managing risk

Decision-making culture

Being a public sector fund reflects on the culture, operations and level of transparency of the Fund. For example:

- Along with acting in the best interest of our members, the desire to act in the wider public interest is strong and influences our approach.
- There are no financial incentives for Pensions Committee Members, EAPF officers, or for our members who take part in Fund surveys.
- We are subject to public scrutiny. This includes an annual audit of our accounts by the National Audit Office, the accounts are then laid in Parliament.
- We are very transparent about our investment strategy and which companies we hold investments in. We publish listed holdings online both through downloadable Excel spreadsheets and a platform called Tumelo.
- We are subject to Freedom of Information (FOI) requests. **In 2022, we received 9 FOI requests. Most requested information was on our investment approach.** We have made as much information as we can publicly available. We direct requestors to that, where relevant, and only withhold information that is sensitive and/or commercially confidential.
- We procure goods and services in line with Defra Group Commercial (DGC) procurement prospectus and the National LGPS Frameworks. **In 2022 we appointed an investment adviser company and a governance and risk adviser company through the Frameworks.**

Advisers to the Pensions Committee

EAPF is supported by a core group of key advisers. Many attend all Pensions Committee meetings.

EAPF's advisers in 2022 on stewardship issues were:

- Investment Advisers – Mercer.
- Governance and Risk Advisers – Aon Hewitt.
- Actuarial Advisers – Hymans Robertson.
- Independent Investment Adviser – Investment Adviser and Trustee Services.
- External Auditor – The Comptroller and Auditor General – National Audit Office.
- Custodian – State Street.

To date, we have not put in place key performance indicators for advisers, as we do for our Fund Administrator. This is because, unlike the Fund Administrator, they do not work arm's length from the Fund and they do not have any contact with our membership.

How we manage Advisers' input

Our advisers work directly through officers on Fund issues. Officers can raise any concerns over their performance directly or through the Chief Pensions Officer. There were no issues of concern raised last year in relation to any of our advisers on stewardship issues.

We set out in advance where we will seek advisers' input over the next year. We put this in our business plan which goes to the Pensions Committee ahead of our new financial year in April.

The business plan is agreed annually and considers issues over the next 3 years. It sets out the strategic priorities for the Fund and 5 underlying work plans covering governance, finance, administration, investment and responsible investment.

In 2022, all of the agreed strategic priorities in the business plan impacted on our stewardship approach. These were:

- **Strengthening our governance.**
- **Managing regulatory change.**
- **Reviewing our investment approach.**
- **Providing the best working environment for EAPF team.**

The budget includes the expected costs of each adviser. Sometimes, due to unplanned events, we end up calling on them for additional work during the year. The Pensions Committee is updated on budget every 6 months, or more frequently for any substantial changes.

As part of the annual budget approval discussions, we ask our advisers to leave the room. This allows a free discussion about the value they are bringing to the Fund and allows any Pensions Committee Member or officer to raise any concerns.

How we review Fund policies

We have 18 policies. These are reviewed on average every 3 years and the timing for the review is set out in the business plan.

Officers will review the existing draft, identify any changes needed based on external factors (e.g. new legislation) or internal factors (e.g. where we know we can improve things further). We will also take advice from our advisers.

The draft will then go through the decision-making process.

Any policies which relate to investment will go through the Investment sub Committee first, before being recommended to the Pensions Committee for approval.

Where the draft policies are complex or relate to new issues, there is often a training session held well in advance of the decision.

In rare cases, some decisions may need to go to the EA Board. These are identified in agreed schemes of delegations and mostly relate to governance issues, for example, changes to the Terms of Reference or approval of new Members to sit on the Committee.

The Pensions Committee review progress against the Business Plan every quarter, including progress on reviewing policies.

The Pensions Board undertake a high-level annual review of progress against the strategic objectives and the policies which have been agreed that year.

The policies we reviewed in 2022 were:

- **Investment Strategy Statement.**
- **Funding Strategy Statement - Active Fund.**
- **Funding Strategy Statement - Closed Fund.**
- **Governance Policy and Governance Compliance Statement.**
- **Communications Policy Statement.**

Training

In line with our Knowledge and Skills Policy, all Pensions Committee Members have individualised training plans. These are based on an initial self-assessment, with all training undertaken logged and recorded.

Officers also agree a training plan with their line manager, with staff encouraged to consider achieving professional qualifications.

Some training is provided jointly to all Members and officers. This is because it may be a priority in our business plan, a high risk to the Fund or many Committee Members have recognised the need for training on that subject in their training plans. In other cases, it may be to meet the standards that trustees and officers should know, as outlined in the CIPFA guidance.

Joint training is done in-house on dedicated training days or as part of a formal Committee meeting.

Members and officers also undertake individualised training to meet specific needs. This is typically through attending third-party webinars, conferences or training courses online.

New starters to the Pensions Committee have 4 days of additional induction training in their first year.

Pensions Committee Joint Training in 2022:

- **CIPFA skills framework.**
- **Actuarial Valuation.**
- **Accounts and audit regulation.**
- **Investment strategy.**
- **Governance framework.**
- **Managing complaints.**
- **EAPF investment beliefs.**
- **Cyber security.**
- **Investments – Natural Capital.**
- **Actuarial valuation.**

In 2022, each Pensions Committee Member undertook an average of 10 hours of training.

On average, each EAPF officer undertook an average of 32 hours of training.

EAPF Training Day, September 2022

Engaging with our members on carbon awareness and action on carbon

EAPF was one of the first pension funds to consider team members' own carbon impact, as well as the carbon impact of our investments.

In 2022 we took part in Carbon Literacy training from The Carbon Literacy Project.

The Carbon Literacy Project asks all participants to submit at least one individual and one group action to reduce their carbon footprint.

We decided to ask pension fund members to consider assessing their carbon use. We made members aware of an online carbon calculator, through articles in our digital newsletters to members.

One of our employer bodies, the Environment Agency, had already internally promoted the calculator to staff but we were happy to repeat a positive message.

Our Pension comms led to over 400 active members clicking on the link to the carbon calculator and 54 deferred members and pensioners did the same. These actions can help individuals make small changes in their own life that add up to something bigger for the planet.

EAPF's Chief Pensions Officer, Craig Martin said – "We found The Carbon Literacy Project really helped us challenge our personal choices, which is what led us to promoting a carbon calculator to members. This is a purely voluntary measure but given our large reach to thousands of members, we found that a tool that suggests easy, practical options is a really good starting point to helping us, and our members reduce our carbon footprint".

William Gibb, Civil Service Co-ordinator, The Carbon Literacy Project added – "Successfully addressing climate change involves everyone, at every level of society. **Having informed and inspiring civil servants expressing their Carbon Literacy daily, through their policy and practice, accelerates action across every sector of society.** We are therefore delighted that staff from the Environment Agency Pension Fund are leading by example and joining the 55,000 learners already certified as Carbon Literate."

An EAPF officer with the Carbon Literacy training certificate

Managing risk

At every Pensions Committee and every Investment sub Committee we review all risks to the Fund with an emphasis on the top risks at that time. These are set out in a comprehensive risk register, which is reviewed at every meeting and updated by officers in between each meeting.

The risk register ranks the risks, outlines the actions and timescales to deal with the risk and identifies the change in the risk. A thorough review of mitigating actions is undertaken at year end and informs the next year's business plans.

At some meetings, we will do a deep dive into a top risk. This allows an opportunity for free-thinking, to talk around the issue at length and see if there are any actions we have not yet considered.

Last year the risk issues which dominated discussion included cyber security, provision of service from third party suppliers and ongoing market volatility.

We provide more detail about investment risks and our actions to address them in Chapter 4.

We identify risk primarily from issues highlighted by Pensions Committee Members, officers, our advisers, Brunel Pension Partnership and also wider sources.

We are also an LGPS representative on the LGPS Scheme Advisory Board on Responsible Investment and so keep aware of potential developments that may affect the Fund's approach to stewardship.

How we manage conflicts of interest

The Fund's Conflict of Interest Policy sets out a number of steps to ensure that any perceived or actual conflict of interest is managed. These steps are shown here:

Step 1: Declaration of interests

All Members and officers make annual declarations of interest. Advisers also register their interests.

Last year, 27 Members and officers made a declaration of interest.

Last year, all of the service providers who advised the Committee, or provided training, had registered their interests with the EAPF.

All of the declarations and registrations of interest are available at all times to Committee Members as well as forming part of the pack of Committee papers.

Step 2: Review of interests

The Chair of the Pensions Committee and the Chief Pensions Officer review all annual declarations and consider if there are any potential or actual conflicts, seeking legal advice where necessary.

In 2022, there were no potential or actual conflicts identified which needed managing.

Step 3: All new conflicts of interest will be declared as soon as reasonably practical

In addition to the annual declaration, Members are required to declare any new interests as soon as reasonably practicable, rather than wait until the next meeting. These are then reported to the next meeting. A log is kept of all new declarations made since the annual declaration so that there is a full record.

The Pensions Committee Chair, in consultation with the Chief Pensions Officer and other professional advice as appropriate, will decide on the correct process for managing the potential conflict of interest at the meeting, for example excluding the Member from the relevant part of the meeting if it is deemed necessary.

In 2022, there were 2 additional declarations of interest made during the year. Neither of these raised potential or actual conflicts which needed managing.

Ensuring no conflict of interest with our employer bodies' roles

EAPF may sometimes invest in a company which its employer bodies regulate. Our Policy explicitly addresses this and requires the following:

- Officers responsible for the operation of the Fund are in a different section of the organisation from employees involved in regulating companies.
- The Fund does not select companies we invest in. The Fund, with the assistance of third party advisers, selects investment portfolios. The chosen asset managers then select the companies to be included in those portfolios.
- In undertaking its stewardship activities, EAPF will act in line with its Responsible Investment Strategy Statement. It will not be influenced by the regulatory actions of scheme employers.
- EAPF will not discuss with its appointed asset managers how individual companies are regulated by scheme employers.

Managing conflicts of interest

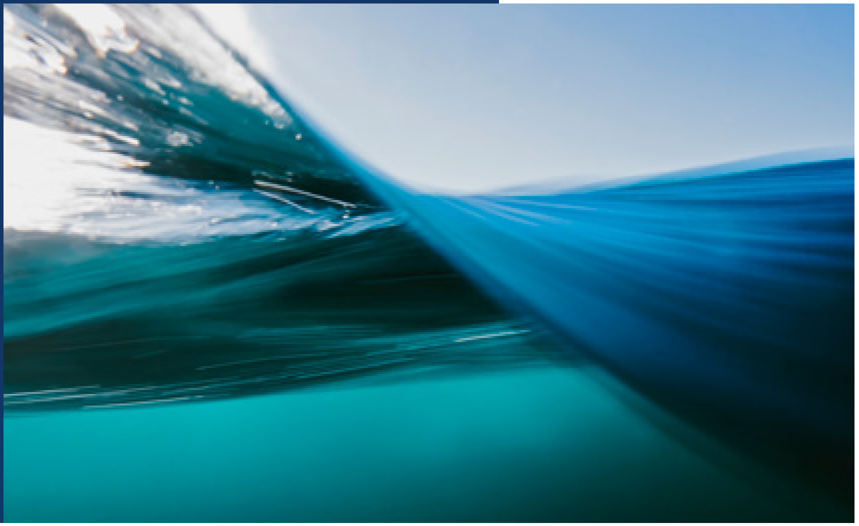
Last year, a press article highlighted that the EAPF held shares and bonds in UK water companies and questioned whether it was a conflict of interest given a scheme employer is one of the water companies' regulators. Following the media report, we also received member correspondence on this issue.

We were confident that there was no conflict. Our media response highlighted our exposure and the steps in our Conflict of Interest policy to make sure we are not directly involved in selecting which companies we invest in. In this instance, we were two steps removed, as the water company holdings were held in pooled portfolios, the managers of which were chosen by Brunel on behalf of the 10 LGPS funds in the partnership.

In our subsequent webinars with members, we highlighted our water company holdings, the press article and our approach to manage any actual or perceived conflicts. There were no further questions or correspondence from members on this matter.

The final step we took was to review our policy to make sure it was robust as possible. We decided to provide a far more fulsome explanation of our approach and then asked our external governance adviser to check this and offer their thoughts.

In reviewing the policy, we also decided to incorporate some changes on the internal processes for declaring interests. The revised policy will go to a Pensions Committee in 2023 for approval.



Engaging with members

Every year we engage with members through our website, our member portal, newsletters, social media, and a series of 20 webinars, 2 of which are 'How the EAPF Invests'.

The member webinars are all recorded and available afterwards online.

Last year, 2,374 members signed up to one of the pension webinars.

Of the 423 members who responded to the feedback questionnaire:

- 100% agreed their webinar was interesting.
- 98.8% of participants were interested in attending future webinars.
- 99.5% said they'd recommend the webinar to other members.

In 2021 we held our inaugural members' Annual General Meeting (AGM) to give members the opportunity to raise any issue with the Pensions Committee directly.

We did not hold a members' AGM in 2022.

This was due to a lack of internal resources and a lower than expected take up by members; this may have been because we didn't advertise it well enough; that the timing was wrong (coming after a suite of pensions webinars), and/or that active members in particular feel they can't spare the time in working hours.

We decided to re-arrange the date to early summer in 2023 to allow a bigger break between the AGM and the suite of pension webinars in autumn. This also allows a longer lead in time for advertising the event, hopefully allowing members to plan in their time to attend.

Some members expressed disappointment in the delay and raised their question in writing instead. See Chapter 5 for an example of a question on stewardship we received from a member after learning that the AGM was cancelled.

Members also write to us frequently to raise issues with us.

Last year, the main investment issues members raised with us were our holdings in fossil fuel companies and investments in companies operating in the Occupied Palestinian Territories.

"It is heartening to see the EAPF acting to improve the environmental profile and long-term sustainability of its investment portfolio. An interesting debate about the merits of retaining some investment in oil and gas companies and keeping some influence, rather than divesting completely and losing all influence."

Member feedback from webinars in 2022.

Outcomes from Our Fund's approach to Governance

We have very high levels of membership

Over 98% of eligible employees join the pension scheme.

This compares to an average participation rate in private and public sector pension schemes of 75% and 91%, respectively[1]. Our members tend to be very engaged across all activities of the pension fund.

We have a high-performing, committed and well-informed Pensions Committee

Each Pensions Committee Member has served on average 5 years on the Pensions Committee, with member representatives serving on average 6 years.

Last year, attendance rates at the 14 committee meetings was on average 86%.

In early 2022, our governance advisers undertook an independent analysis of the skills and knowledge of Pensions Committee members. The report found:

- **As a collective group the Pensions Committee has all the required skills for decision makers set out by the Chartered Institute of Public Finance and Accountancy (CIPFA), as well as a number of other desirable skills.**
- Committee Members regularly exceeded the CIPFA minimum standards. The number of knowledge gaps was small.
- There were individual areas to address, reflecting Members varying levels of experience, but where some Members may not feel they have met the minimum criteria in certain areas, these same areas are well-covered by the Pensions Committee as a collective group.
- The Pensions Committee and ISC Chairs met or exceeded the minimum knowledge in nearly all areas.

The results of the questionnaire provided a useful pointer for topics for our joint Training Day in September 2022 and for individual training plans. It also informed the recruitment campaign for the new member representative, highlighting that there were no particular skills gaps that needed filling.

Good customer service for our members

Over the last few years, we have sought external accreditation to make sure officers are providing the right customer service to our members and to our Pensions Committee Members.

In 2022, we again achieved third-party accreditation that we had met Customer Service Excellence with an increased number of 'compliance plus' scores.

[1] Employee workplace pensions in the UK – Office for National Statistics

Focus on Fiduciary duty

The best long terms interest of our members is a constant focus for all policy reviews and business plans.

The Fund has a long-standing commitment to responsible investment but this approach is regularly reviewed, challenged and sense checked. This takes place in training and Committee meetings to make sure the investment approach is the right one to keep the Fund in a strong position for the long-term.

In 2022, the Committee reviewed its investment beliefs, ahead of a review of the investment strategy in 2023. This involved a questionnaire for all Pensions Committee Members on their views on different aspects of responsible investment, a debate on the findings at a training session and a follow up discussion at an investment committee.

The result of this approach informed the new Responsible Investment Strategy Statement launched in 2023, and a more fulsome explanation of the Fund's approach to its fiduciary duty.

Desire to continually improve

An independent assessment of our governance in 2021 concluded that "the effectiveness of the EAPF governance arrangements is of an extremely high standard."

It identified areas to strengthen governance further. These have all been addressed in the business plans for 2022 and 2023 in the following ways:

1. **Monitor resource in Pension Fund Management Team.** 2 extra team members were recruited in 2022 and more planned for 2023.
2. **Ensure continuity of knowledge and skills.** This was a focus in 2022 as the tenures of some long-standing Members ended. It was addressed by a skills gap analysis and a return to in-house training days.
3. **Review terms of reference and decision making as the transition of assets to Brunel moves to its final stages.** This is in the business plan for 2023, as Brunel now manage the majority of our assets.
4. **More signposting of key information in meetings.** This was addressed in 2022 with the evolution of a standard format for an electronic board pack, allowing consistent referencing during meetings to a common paging system.
5. **Ensure hybrid meetings.** In 2022, we developed the technology, presentation tools and structure so that all meetings could be attended in person or virtually.

Clean bill of health for our accounts and approach

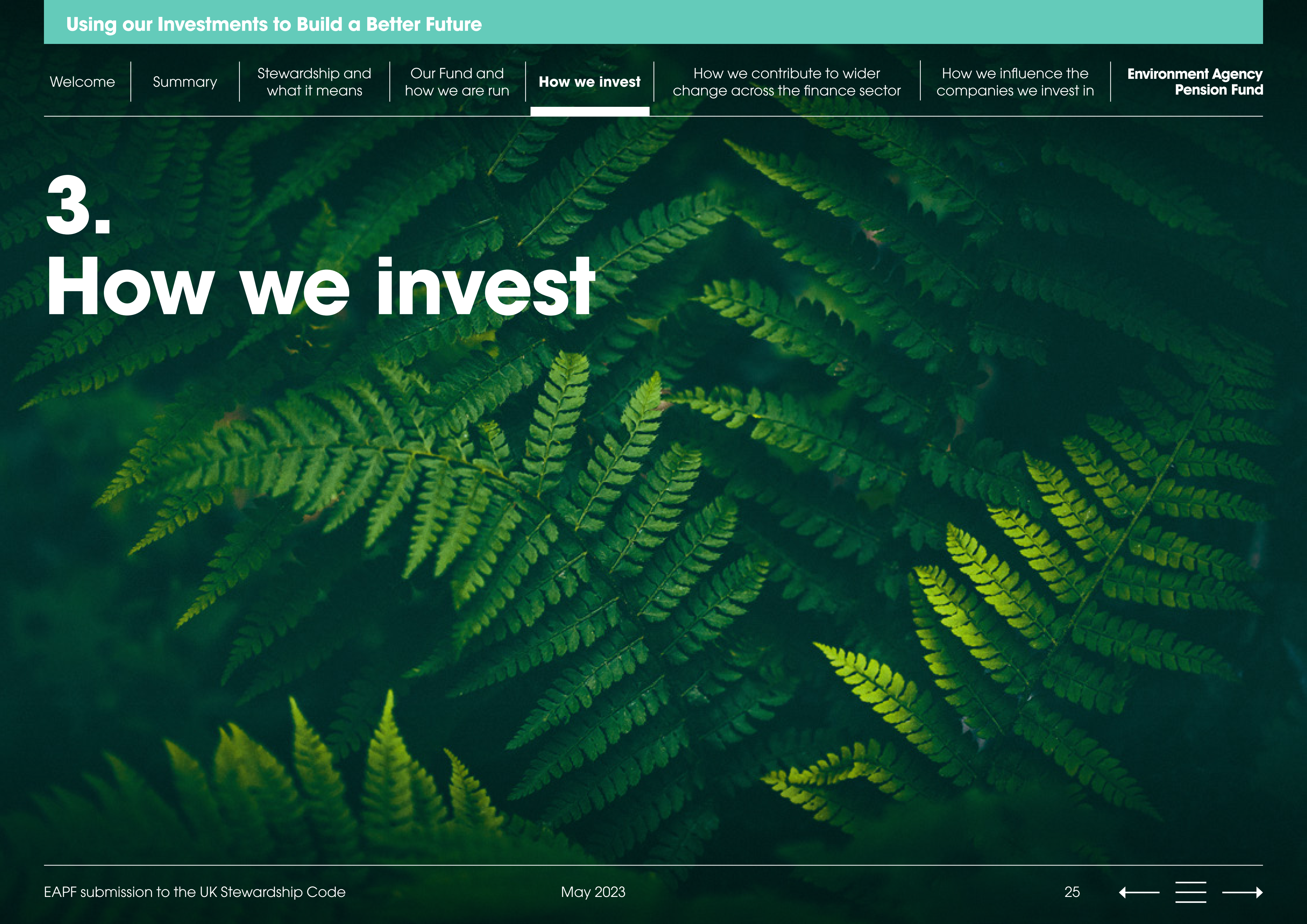
The annual NAO audit in 2022/23 included an analysis of risk of key areas of stewardship, including:

- Valuation of unlisted investments.
- Transfer of investments to Brunel.

The NAO concluded that these did not represent significant risks of material misstatement and that the Annual Report and Financial Statements gave a true and fair view of the financial transactions of the Fund during the year.

"The best long terms interest of our members is a constant focus for all policy reviews and business plans."

3. How we invest



How we invest

Sections 4, 7 and 8 of the Stewardship Code

Setting a strategic direction at Fund level

We have long-since recognised that environmental, social and governance issues can positively and negatively impact on the Fund's financial performance. Over time we have developed our understanding and adapted our approach.

Since 2016, we have had an agreed policy on how to address the impact of climate change on our investments.

In 2022, we set out to understand the investment risks and opportunities from natural capital.

The Pensions Committee sets the strategic approach of how we invest. A summary is given on this page of what this means. More details on each aspect is given in this chapter, unless otherwise stated.

Setting a strategic direction on responsible investment involves the Pensions Committee:

- **Agreeing our high level investment beliefs.** This includes our approach to environmental, social and governance issues. We review these every three to five years, or following a material change to the members of the Committee.
- **Setting a Strategic Asset Allocation (SAA).** This takes into account our beliefs and our funding strategy, which defines what returns we need as an open defined pension scheme with liabilities potentially running into the next century.
- **Agreeing an investment strategy.** This is a public document which sets out in detail our investment approach. It is known as an 'Investment Strategy Statement'.
- **Managing investment risk.** This will consider wider economic risks and risks relating to the performance of our portfolio.
- **Appointing and monitoring asset managers who can deliver our responsible investment strategy.** These funds will all be managed by external asset managers.
- **Monitoring the performance of our asset managers and ensuring they implement our investment strategy.** This covers both asset managers we have selected directly and those which are selected by the Brunel Pension Partnership.
- **Reviewing wider aspects of responsible investment.** At every Pensions Committee and Investment sub-Committee there will be a report on key developments in the industry, emerging risks and initiatives which the EAPF is, or could get, involved with (see Chapter 4 and Chapter 5).
- **Receiving regular training to ensure EAPF remains at the forefront of thinking on responsible investment** (see Chapter 1).

2022 was a key year for setting our strategic direction

The review of our investment beliefs started with Pensions Committee members filling in a questionnaire.

The collective views were considered at a session in the EAPF Training Day in September, alongside wider training on how to future-proof our investment approach and what may need to change and how.

The Training Day also included a wider session on EAPF governance policies and how they all fit together. One outcome from this was a desire to reduce the number of policies, including reviewing whether the Fund needed a separate Responsible Investment Strategy as well as an Investment Strategy Statement.

This all fed into November discussions in Investment sub Committee, which considered:

- Review of the current investment strategy.
- Principles for setting the new investment strategy.
- Integration of responsible investment.
- The current market environment and investment outlook.
- Other issues for example future government changes for the LGPS.

The Investment sub Committee agreed in principle to some changes.

The Triennial evaluation concluded in late 2022 and showed a funding level of 103%. Our Funding Strategy was agreed in December 2022.

The final SAA was approved by the ISC in early 2023, reviewed externally by a law firm and then approved by the Pensions Committee in March 2023.

Our investment beliefs

Long-term investors	We are long-term investors: we implement our funds investment strategies that require productive assets that contribute to economic activity, such as equities, bonds and real assets. This may include the delegated responsibility to provide sustainable and sufficient return on their assets.
Responsible investors	We are responsible investors: we believe that in the long term we will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long term sustainable success of the global economy and society.
Best practice governance	We adopt best practice collective governance with appropriate oversight, prioritisation, delegation and decision making at the right level, and clear accountability.
Decisions informed through experts and knowledgeable officers and Committee	We make informed decisions based on extensive expertise including trained and insightful members, experienced and professional officers and high quality, knowledgeable advisors.
Evidence and research at heart of investments	We take an evidence and research based approach to investment: continually learning and reappraising from academic research, investment professionals, and our peers, and seek continual development in our understanding of investment.
Leadership and innovation	We are prepared to be innovative and demonstrate thought leadership in collective investment, within the requirement of prudence and our joint fiduciary duty.

Right risk for right return	We will seek right risk for right return. We will make our collective investments work as hard as possible to meet our Funds' objectives: we will provide the right structure of sub funds and managers within asset classes. While we take account of market and economic levels in our decision making, we will avoid making decisions on purely a short term basis.
Full risk evaluation	We will be comprehensive in our consideration of our Funds' risks assessed on their liabilities and contributions; consider financial and non-financial risk as appropriate; offer a pooled structure to accommodate the need to diversify risk, but also recognise the limits of that diversification – as long term investors we accept that our investment success depends substantially on the sustainable growth of the economy.
Responsible stewardship	We will enable our funds to exercise responsible stewardship of the assets they hold, and act as a collective responsible voice in the broader investment community.
Cost effective solutions	We will seek the most cost-effective solutions to achieving our Funds' objectives and implementing these principles collectively: we recognise the impact of costs on the funds, but we are prepared to pay for active management and other services when we believe that the costs incurred are likely to be justified by the benefits. We will seek to gain leverage from our collective status within the Brunel Pension Partnership through reduction in fees and avoidance of cost through increased resilience and sharing our peoples' strengths, knowledge and expertise.
Be transparent and accountable	We believe in the importance of being transparent and accountable, to ensure correct decisions are taken and to minimise risk. This applies both in our own operations, those we work with, and our investments.
Collaborate	We will collaborate with others whenever possible, to share ideas and best practice; to improve effectiveness and to minimise costs.

Our Funding Strategy

The Fund has a legal responsibility to pay members' pensions over the very long term.

Our funding aims are:

- To achieve sufficient long-term returns for the Fund to be affordable for our employers now and in the future.
- To minimise the risk of having to increase employer contribution rates in the future.

We want to build an investment portfolio, based on our investment principles, which has a high probability of exceeding the asset outperformance target assumed by our Actuary. We want to limit the probability of the funding level falling below 90% at any of the next three actuarial valuations (currently expected to be in 2025, 2028 and 2031).

We estimate that there is 78% likelihood that an appropriate overall return of +3.1%, over the expected return on gilts, will be sufficient to meet our long-term needs.

The Fund's Actuary is responsible for performing a formal valuation of the Fund every 3 years in order to assess the extent to which our investment assets cover accrued liabilities and to inform the development of an appropriate funding strategy. This strategy takes account of and informs our approach to responsible investment and our approach to managing the risk from climate change.

Our Strategic Asset Allocation (SAA)

The SAA is set every 3 years in line with our triennial valuation which in turn informs our funding strategy. As part of this the impact of climate change on certain asset classes is considered. The next SAA review and triennial evaluation is due in 2025.

We also monitor the SAA annually to consider the potential for lower returns, changes in market conditions, amendments to the benefit structure of the scheme, the demographics of the Fund, and possible bulk transfers out; all of which potentially impact on the funding level, and consequently the most suitable investments and the appropriate allocation to them.

Significant weight is given in our SAA to equities (and in particular sustainable equities), which we consider appropriate given the long term nature of our liabilities profile and our investment objectives. This is spread across a diverse range of managers with different approaches and styles.

Certain asset classes are not considered suitable for our Fund, particularly if they are not compatible with being responsible, long-term, evidence-based and innovative investors. For example, where returns are based on short-term speculation or trading, or where it is not clear how they generate an underlying return.

EAPF Target Strategic Asset Allocation as at 31 December 2022

Given our healthy funding level and market conditions, in 2022 following the year end we continued with our de-risking strategy by agreeing a new SAA. This saw a reduction of return seeking assets by 2.5%, with a corresponding increase in Risk Reducing Assets. **New allocations were made to Natural Capital and Secured Sustainable Finance.** Additionally, the Fund took the opportunity to reduce its equity overweight and to invest the proceeds into Fixed Income.

The following tables show the Target Strategic Asset Allocation and the geographical distribution of our investments at the end of the year.

EAPF Target Strategic Asset Allocation

Asset Classes	31 Dec 2022 (%)
Return Seeking Assets	60.5
Global Equities	36.5
Private Equity including Targeted Opportunities Portfolio	4.0
Property	5.0
Infrastructure, Timberland and Farmland	7.0
Multi Asset Credit	8.0
Risk Reducing Assets	**39.5**
Private Debt	5.0
Corporate Bonds	22.0
LDI	11.5
Cash	1.0
Total	**100.0**

Geographical distribution by % of holdings in asset class

	Listed Equities	Multi Asset Credit	Private Markets	Corporate Bonds
United Kingdom	5.8	63.5	14.8	97.2
North America	66.3	19.8	27.1	1.5
Northern hemisphere – developed			13.2	
Europe (excluding UK)	18.8	16.2	41.6	1.3
Emerging markets and other areas	0.8	–	3.3	–
Asia Pacific (excluding Japan)	3.7	0.3	–	–
Japan	4.5	0.3	–	–

Our Investment Strategy

The Investment Strategy sets out our beliefs, SAA, objectives, targets, approach to managing risk and expectations of managers. It also includes our approach to how we will use our investments to help drive positive outcomes (this is explored in Chapter 4 and Chapter 5).

Our Investment Strategy emphasises the importance we place on investing in products that are good for the environment and society, tackle climate change and enhance biodiversity.

It also sets out our approach to fiduciary duty with regard to responsible investment. It acknowledges our primary duty is to provide pensions to members of the EAPF and that we must maintain a secure and well-funded Pension Fund. It distinguishes between those issues which we believe present a material financial risk (such as climate change and nature-related risks) and non-material risks which help us act in the best long-term interest of members, where we will seek an equivalent return that may be achieved from other assets.

Our responsible investment targets form part of the Investment Strategy, notably:

- Get to net zero carbon emissions from our investment portfolio by 2045 and halve emissions by 2030.
- To always have at least 33% of our investments in sustainable assets.
- By 2025, 17% of our investment portfolios will be in climate solutions which build a clean, biodiverse and climate-resilient future.

The big picture story on climate change in 2022

- **The UN highlighted the increasing emissions gap to keep to 1.5 degrees warming.**
- **The COP 15 Global Biodiversity Framework agreed a framework to address irreversible biodiversity loss.**
- **The Inflation Reduction Act in 2022 provided investment opportunities in the USA.**
- **There was increasing vocal opposition to incorporating ESG into investments, in particular in the USA.**
- **The world continued to experience more extreme weather-related events linked to global warming.**

Net Zero by 2045 – what that means for our investment portfolio

In 2021, we set a target to get to net zero 2045.

We used the Institutional Investors Group on Climate Change (IIGCC) Net Zero framework to set the target, informed by Mercers Analytics for Climate Transition (ACT).

In 2022 we reviewed our progress. Due to changes in our equity portfolio, emissions in our listed equity portfolio rose both in terms of absolute emissions and carbon intensity.

We also changed the baseline for emissions from 2010 to 2020 in line with the IIGCC net zero framework.

Both factors resulted in greater future reductions being needed. **We have to decrease absolute emissions by 59% in our listed portfolio by 2025 and by 83% by 2030 and carbon intensity by 54% and 81% respectively.**

Using ACT data, we also analysed how exposed we were to companies that were well positioned to aligning to a low economy versus those that were not. This showed we had a strong exposure to green assets across all our listed mandates.

The ACT analysis also identified work we needed to do across other asset classes to get to net zero, including which companies we need to target to reduce our emissions. Our work on this is explored in Chapter 4 and Chapter 5.

To support our net zero work, we have one Paris-aligned benchmark in place – in our Brunel FTSE Russell Paris-aligned portfolio. We would like to move to more Paris-aligned benchmarks as these become available.

We are also exploring options through pooling to stop participating in new debt finance to companies which contribute significant greenhouse gas emissions and are misaligned with a low carbon transition pathway (as identified by the Transition Pathway Initiative) unless there are climate change covenants in place.

Along with reducing emissions, we are investing significantly in climate solutions which help society reduce emissions, adapt to a changing climate and/or enhance biodiversity.

We are invested in sustainable forestry in North and South America, which put nature and people at the fore and which may provide accredited offsetting opportunities for others. More information about this is in Chapter 4.

Managing Investment Risk

Investment risk will include high-level risks impacting the economy, and EAPF-specific issues linked to the performance of our portfolio. We believe climate change and nature loss both present material financial risks to us.

Investments risk is considered in detail at the Investment sub Committee. We identify risks using information from a range of sources, including investment consultants, asset managers, investment networks we are involved in, governments and media.

Investment risks form part of the wider Fund risk register, and where appropriate may be discussed more broadly by the Committee.

In 2022, investment risks which the Investment sub Committee considered included:

- **War in Ukraine** The Fund considered EAPF exposure to Russian investments and ensured that members had clear communications on this.
- **Market-volatility** Rising inflation, including increased energy prices, increasing interest rates, a sell-off in equity markets and an increase in gilt yields all had an impact on short-term performance from an asset perspective. However, the increase in yields was expected to have indirectly seen a fall in the value of the liabilities leading to an increase in the Funding Level. Following constant and close review, the Fund agreed that the long-term strategy was sound and no immediate strategic changes were needed ahead of the 2023 Investment Strategy review.
- **Nature-related risks** The Fund had a training session on what they were, their inter-relationship with climate change, and more broadly with planetary boundaries. These discussions led to them being part of the new Responsible Investment Strategy Statement.
- **Climate** and the impact should global warming exceed 1.5 Celsius. This again was considered in the new Responsible Investment Strategy Statement.
- **LGPS pooling** throughout the year, we monitored the development of Brunel at every Investment sub Committee, considered how and when assets should be transitioned in line with our investment strategy and the implementation of our vision on responsible investment.
- **Cyber security** the risk of cyber attacks on our investments was just one element of a wider deep dive by the Fund into cyber security risk management over the year.

Keeping our assets safe

We have been using State Street Bank and Trust Company (State Street) as the Pension Fund's Custodian since 1 April 2018. State Street are independent from the asset managers. They hold our assets in safe custody and undertake a number of roles to do this. They settle all investment transactions, collect dividend income and interest, provide data for corporate actions, liaise closely with the asset managers and report on all activity during the period.

State Street is a strong company that is rated by Standard and Poor's as 'AA-' for long term/senior debt and 'A-1+' for short term/deposits. The Fund's assets are not held in the name of State Street and so are segregated from those of State Street Bank and Trust Company, safeguarding them in the event of company failure.

Where appropriate, cash held by the Fund at State Street in Sterling, Euros and United States Dollars are invested in State Street Liquidity Funds, which would not be affected in the event of a failure by State Street. The State Street Liquidity Funds (GBP/USD/EUR) are rated 'AAAm' by Standard and Poor's and are invested in short term money instruments to preserve capital and liquidity.

Only small amounts of cash are left on deposit at State Street. Regular service reviews are held with State Street to monitor service commitments, plus custodial monitoring is reported to Officers by an independent organisation. Other procedures and controls are reviewed by an independent reporting accountant via the Service Organisation Control (SOC1) Report.

We have been reviewing the approach to cyber security of the Fund and that of our key suppliers, including State Street.

Appointing asset managers

We use external asset managers who can deliver our responsible investment beliefs across all asset classes. We do not manage any assets in-house.

We increasingly use managers appointed by the Brunel Pension Partnership, in line with the Government's approach for pooling in the LGPS. If the appropriate portfolio is not available through Brunel to meet our Investment Strategy, we may appoint managers directly (we refer to them in this report as 'directly-appointed managers').

We review our asset managers across an asset class periodically.

In 2022 we reviewed our listed equity managers collectively ahead of our SAA review later in the year. For this, we considered the mix of styles, exposure, approach to responsible investment and financial performance of our equity asset managers to make sure we had the best fit for our longer-term aims.

Monitoring the performance of our asset manager

The Investment sub Committee has responsibility for implementing the Investment Strategy. As part of this it monitors quarterly financial performance, the implementation of our responsible investment approach and management of investment risk. It provides a high-level report to the Pensions Committee every quarter.

Our investment consultants provide the Investment sub Committee with a quarterly report on financial performance against agreed benchmarks. In addition, we have appointed an independent performance measurer to give us an extra layer of assurance. The reporting allows comparison each quarter, over periods of 3 months, 1 3, 5 and 10 years, as well as reports from inception per manager and at whole fund level.

To monitor asset managers performance on responsible investment, one of the things we use is Mercer's ESG ratings. Mercer derives its ESG ratings from assessment criteria that vary according to asset class and are relative to what Mercer believes is 'best practice' ESG integration. The approach asset managers adopt to stewardship is one of the factors assessed in Mercer's ESG ratings framework, thereby impacting their overall ESG rating. ESG1 is the highest rating, with ESG4 the lowest.

Where relevant, we also use quarterly reporting from Brunel. This includes a detailed breakdown of stewardship activity updates, portfolio narrative and metrics including risks for each portfolio.

In addition to quarterly reporting, we undertake annual reporting of how we are progressing in relation to our responsible investment targets, broken down by manager. This is undertaken by our investment consultants.

We report in our annual report the percentage return we derive from each asset manager and their performance relative to the chosen benchmark, along with progress against our responsible investment targets.

The different ways our assets are managed

Some of our asset managers have a direct link with the companies in the portfolio. This is common for our listed sustainable equity active holdings.

Some of our asset managers oversee portfolios where there are underlying managers who have a direct link to the company. For example, our Real Assets mandate is managed as a portfolio of listed and private investment funds.

Our holdings may be in segregated accounts, which means that they are held directly in the name of the Environment Agency Pension Fund. Or sometimes our holdings are in pooled funds, where the holdings are held collectively with other unit holders, in the name of the managed fund. This is common for the portfolios which Brunel manage on our (and our partner funds') behalf.

We may invest in portfolios where the asset manager picks specific companies for the portfolio in line with the stated aim of the portfolio. These are called 'active funds'. For an active mandate, we expect the asset manager to make the call about what should or shouldn't be in our portfolio, in line with our responsible investment approach.

In 2022, 84% of our listed equities were in active funds.

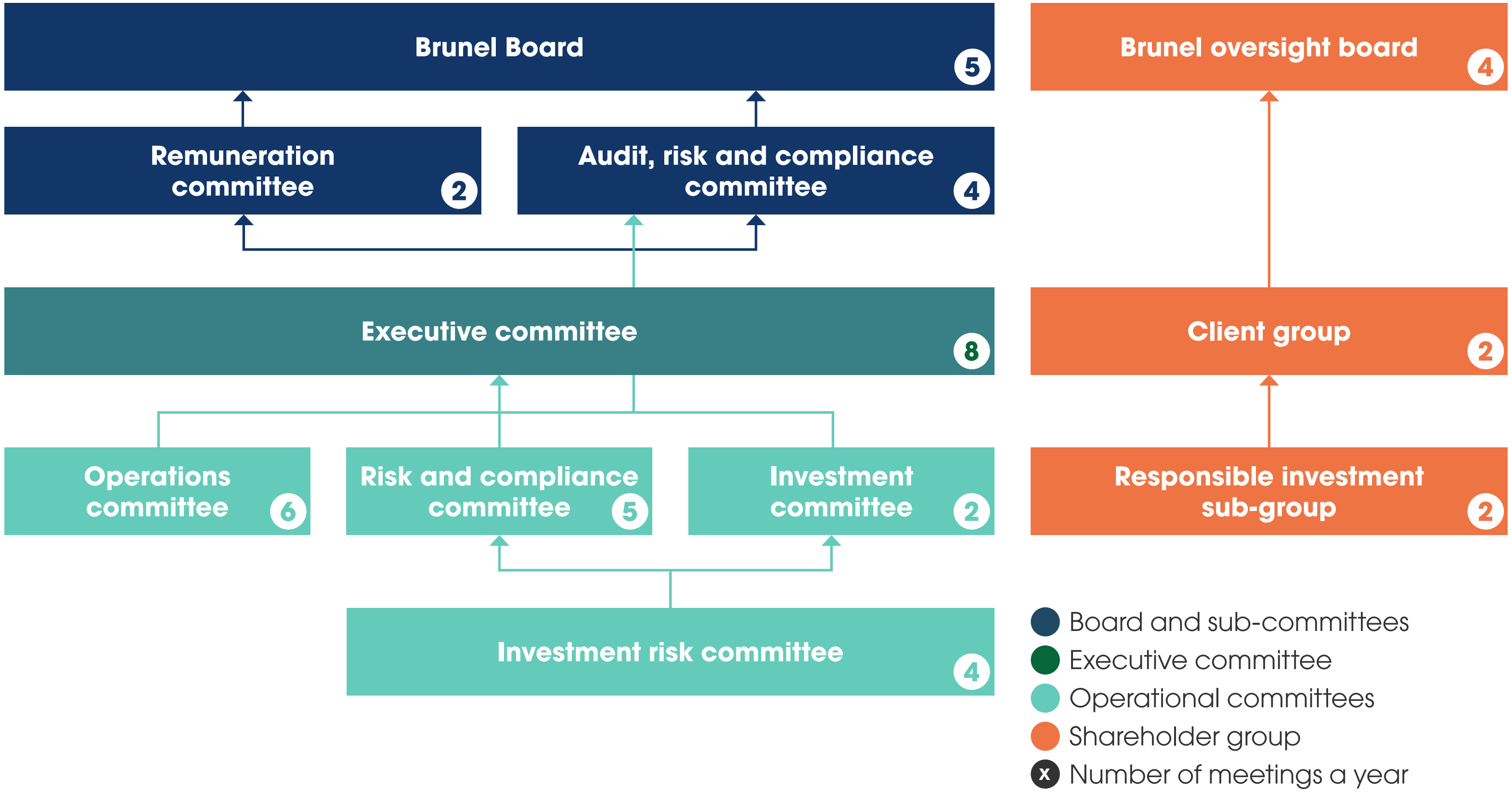
The rest of our listed equities were in passive funds, where the portfolio replicates a benchmark index. These are also called 'tracker' funds. The chosen index will specifically set out which companies should be in or out of the portfolio, with limited or no choice for the asset manager to divert from this. We are invested through Brunel in a FTSE Paris Aligned Index. This ensures that the overall emissions from the portfolio will be aligned with the Paris Agreement on Climate Change.

The Fund will consider all the above issues to balance risk and return, ensure the Fund is well diversified and chose the right managers who will meet our investment strategy and our responsible investment aims.

84%

In 2022, 84% of our listed equities were in active funds.

Ensuring Brunel implement our Investment Strategy



EAPF as a shareholder and client of Brunel Pension Partnership

There are 10 shareholders in Brunel with equal shares. Details can be found here.

All 10 shareholders are also the sole clients of Brunel.

Each Pension Fund has their own investment strategy to meet their respective aims and funding strategies. Brunel has to offer investment portfolios to implement these investment strategies. We are invested in 8 Brunel portfolios.

The Funds agree the specifications for a portfolio. Brunel then chooses the right investment manager for the portfolio and monitors performance, reporting back regularly to clients. 58% of our assets (£2.4 billion) are managed by managers appointed by Brunel.

Each Fund is part of the governance arrangements at Brunel and takes their own decisions which portfolio(s) to invest through and when to make any changes.

In 2022, we invested in 2 new Brunel portfolios: Infrastructure and Private Debt.

Governance

To make sure that Brunel is delivering what we need as clients, we take part in the following governance bodies:

- On the Brunel Board indirectly through the externally-recruited shareholder NED.
- On the Brunel Oversight Board, which is chaired by the Chair of the Environment Agency Pensions Committee. This meets quarterly.
- On the Client Group at officer level. This group meets at least monthly, providing oversight to Brunel's activities, and communicating the requirements and priorities of the partner funds. It can raise any emerging concerns or needs.

- On the Responsible Investment sub Group, where the EAPF is a vice chair. This group also meets monthly and has detailed discussion on responsible investment issues. This provides an opportunity to:
  - Raise stewardship interests.
  - Share best practice with Brunel and amongst partner funds.
  - Provide insights on concerns, issues, and member perspectives.
  - Shape priorities of Brunel and their engagement provider.
  - Review reporting output.
  - Knowledge share and receive a deeper dive into topics of interest.
  - Access expertise.
  - Consult on policy design and development.

Brunel arranges client workshops for officers and Committee Members where a deeper awareness or education on a particular topic is useful. **In 2022, workshop topics included Paris-aligned benchmarks, the Brunel climate change stocktake and emerging markets.**

Sometimes we invite the Brunel team to attend EAPF committee meetings. Last year Brunel attended 1 Pensions Committee and 1 Investment sub Committee.

Brunel shares our very strong commitment to responsible investment. We provide input into their key policies, including Brunel's Responsible Investment Policy, Climate Change Policy and Stewardship Policy. Policies are designed for the long term (5 year+) but are reviewed annually.

The Brunel Board regularly scrutinises their responsible investment approach which is overseen operationally by the Executive Committee. Operational accountability on a day-to-day basis is held by Brunel's Chief Responsible Investment Officer, who is supported by a dedicated Stewardship Manager to ensure high levels of coordination and implementation.

Brunel's approach to managing conflict of interest in relation to stewardship approach is on their website.

Further detail on the governance structure in place with Brunel can be found in Brunel's Annual Report and Financial Statements.

Staff

There are 58 (FTE) employees in Brunel. Their profiles are available on their website. Responsible investment is a component of staff's annual objectives which informs annual appraisals.

Risk management

Brunel expects its managers to clearly demonstrate how environmental, social and governance risks and opportunities are embedded into their investment process and their wider evaluation of risk and return.

To best identify and respond to market-wide and systemic risks, Brunel engages with a wide range of stakeholders, including government authorities, trade bodies, unions, investors, and NGOs. Brunel consultation responses are published on their website: Policy advocacy.

Portfolios

Brunel have been in the process of rolling out over 20 investment portfolios to their clients to meet our respective investment strategies.

We agree our requirements for the portfolios we want to invest in with the 9 other partner funds and incorporate them into the portfolio specifications. These are then implemented by Brunel who appoint the managers for the pooled portfolios, and oversee the application, reporting back to the partner funds on a quarterly basis via assurance reports

For each portfolio, Brunel will undertake a number of steps:

- Understand the investment requirements of the funds to determine the portfolio specification.
- Review the market.
- Design the tender process and agree the selection criteria.
- Assess and select managers.

Client Group are kept fully informed of each step in the process and we have an opportunity to feed in our views at several stages in the process. We will be asked to formally agree the portfolio specification at the start of the process, and the proposed portfolio at the end of the process once the combination of managers selected to manage the portfolio are determined.

Once the asset managers have been chosen, the respective clients formally agree to transition their assets into the portfolio. For EAPF, this will require a decision from the Investment sub Committee to make both the provisional and final commitment. The Investment sub Committee will be briefed throughout the development of the portfolio by officers and advisers. When taking the final decision, members to the Committee will receive professional advice on the suitability of the allocation to ensure it is in line with our responsible investment approach.

Selection of managers

Brunel selects managers of behalf of the Funds which can deliver the agreed portfolio.

The effective management of environmental, social and governance risks will be a key factor in their choice. How this will be done may differ in each portfolio, depending on the asset class, geography and risk objective. Some of the key issues that Brunel considers when appointing managers is set out to the right.

Monitoring managers

Brunel monitors managers performance on a quarterly basis and gives them a rating. This includes their approach to stewardship. Brunel ensures that managers are tracking the agreed guidelines, benchmarks and risk parameters.

Brunel also reviews portfolios on an annual basis to ensure that products remain fit for purpose and are still aligned to client's strategic objectives. EAPF feed into this review and we receive a report for assurance purposes.

Should clients require any changes or an additional portfolio to implement our investment strategy, we can request exploring the development of new products and amendment to existing portfolios.

Further detail is included in Brunel's Responsible Investment Policy.

Issues which Brunel consider when selecting Investment Managers:

Philosophy	Policies	People
Board-level leadership	Commitment	Diversity and inclusion
Corporate culture	Policy framework	Human capital
Investment	Pricing and transparency	Numbers and retention

Processes	Participation	Partnership
Investment	Thought-leadership	In it together
Reporting	Innovation	Culture fit
Stewardship	Contribution to investment industry	

Ensuring Directly-Appointed Managers implement our Investment Strategy

We invest in 5 portfolios where we have directly appointed the asset managers. These are in listed equity and real assets.

We also invest as Limited Partners in 34 Private Market funds (26 Managers). These are in impact private equity and private debt funds as part of our Targeted Opportunities Portfolio.

Investing for Impact

Our Targeted Opportunities Fund (TOP) is where we can have real world impact.

We set it up in 2014 to increase our allocation to investments in private markets which delivered strong sustainable and financial outcomes.

The reason we may invest directly in private market asset managers, rather than through Brunel is due to one or more reasons:

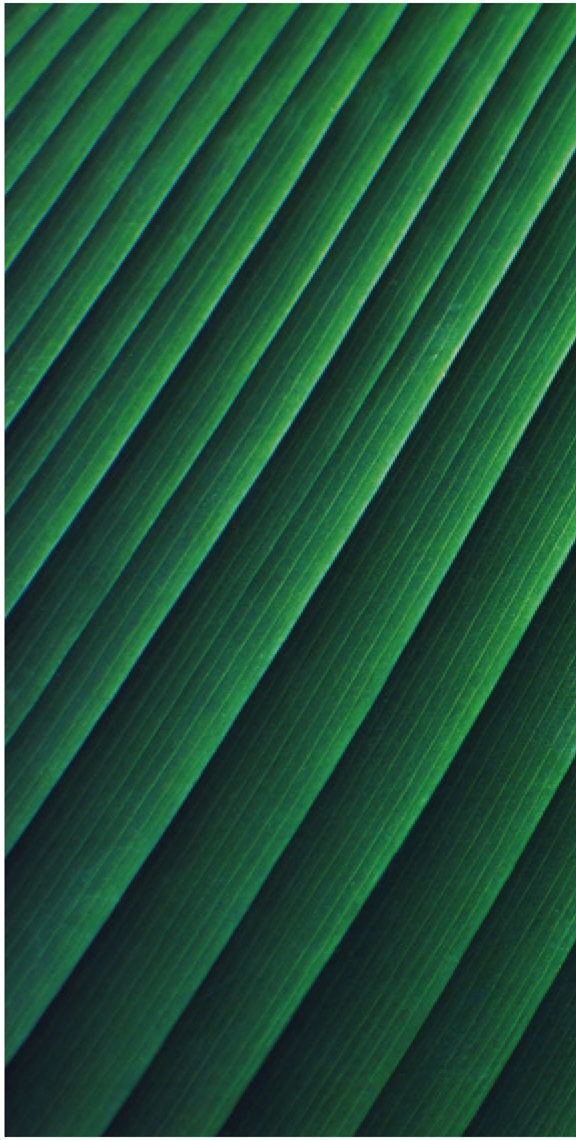
- They may be legacy managers we had before pooling was introduced and whose offering aligns very closely with our investment approach.
- They manage investment portfolios which fit our investment strategy but which are not currently available through Brunel.
- They manage portfolios where it is not currently cost effective to switch

This Chapter includes a number of case studies from our TOP Fund, highlighting the strong social and environmental benefits it generates in all parts of the world.

As of 31 December 2022 the Fund had just under £200m invested in TOP (4% of our total fund).

In 2022, we invested in 4 new TOP Funds through managers we appointed directly. These private market impact funds invested in:

- **Early stage Food and Agriculture companies developing technology based solutions to Biological destruction, chronic and infectious disease, and economic hardship.**
- **Climate technology, using tech solutions to tackle the climate crisis.**
- **Sustainable businesses with a focus on resource efficiency and pollution control.**
- **Companies who wished to transition to a low carbon economy.**



For directly appointed mandates, our expectations of managers are discussed in detail as part of the selection process and laid out formally within the investment management agreement (IMA) as the investment guidelines. This will include:

- The investment universe available to the manager.
- The benchmark against which performance will be measured.
- Investment objectives including risk, return, investment strategy and any non financial objectives (e.g. specific impact objectives).
- Environmental, social and governance considerations.
- Shares excluded from the investment universe (individually or particular types of shares).
- Our overarching Responsible Investment Strategy.

In private markets, our investments are implemented typically through Limited Partner (LP) structures, which set out the investment objectives and constraints through the Limited Partner Agreement. EAPF will normally have a seat in the Limited Partner Advisory Committee (LPAC), through which adherence to the guidelines is monitored, and EAPF's expectations of the manager can be directly communicated. In 2022, EAPF attended 10 LPAC meetings.

We meet asset managers at least once every year to discuss their performance, returns, changes in policies and strategies, notable issues and consider responsible investment themes we wish to explore. **Last year we asked all the managers in particular to report on:**

- **How their approach is helping us to achieve our 2045 net zero target.**
- **The impact of physical risk on their portfolio.**
- **Their consideration of biodiversity risk and opportunities.**
- **Their internal approach to improving diversity among staff and commitment to the Asset Owner Diversity Charter (see Chapter 4).**

Investment Case Study

Low carbon industrial buildings

Asset Class: Private Equity (Targeted Opportunities Portfolio)

Location: UK

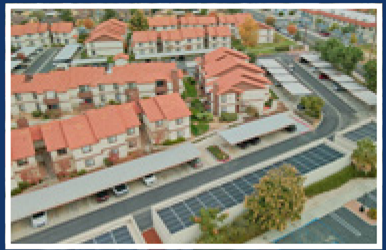
Buildings currently contribute around 40% of the UK's total carbon footprint. It is critical to decarbonise them if we are to achieve the UK's ambitions of reducing our carbon dioxide by 100% by 2050, compared to 1990 levels.

The rise of e-commerce has fuelled the demand for logistic warehouse capacity. Our asset manager Bridges has invested in Verda Park in Wallingford, which has recently been completed to create one of the UK's most sustainable industrial developments.

The ground-breaking development provides space for small and medium-sized enterprises, while contributing positively towards the decarbonisation of the built environment and supporting employment in the local area. It delivers a lower carbon alternative to traditional warehouses with the added benefit that the very high sustainability standards protect tenants from energy price inflation and support improved wellbeing for employees in the workplace.

It is located within the 'Arc of Innovation', which stretches from Cambridge across to Oxfordshire, and forms part of the 'Golden Triangle', encompassing the universities of London, Cambridge, and Oxford.

The development has been designed to the highest sustainability standards – including EPC A+, BREEAM 'Excellent' and Net Carbon Zero in accordance with the UK Green Building Council Framework definition. This is being achieved by careful consideration of material use, producing less construction waste, generating renewable energy on-site, and using energy- and water-efficient features in the buildings.



Investment Case Study

Providing resilient clean energy to renters

Asset Class: Private equity (Targeted Opportunities Portfolio)

Location: USA

Our asset manager Lombard Odier Investment Management invests in Virtual Power Plants (VPP) through a company called PearlX. This is delivering environmental and social benefits to people and communities in California and Texas.

VPP is a local network which generates clean energy and provides users with access to back-up power if needed.

PearlX novel investment strategy focuses on people who rent their properties. The VPP generates solar power serving multifamily communities and in return residents receive a discount on electricity bills.

Over the next year, the investment will provide service to 2,000 rental units and add 15,000 MWh of annual electricity generation to the grid, avoiding 10,000 tonnes of CO2 emissions annually[1]. This is equivalent to adding 12,000 acres of mature forest in the USA.

In terms of social impacts, PearlX is seeking to serve more than 35,000 rental units with access to resilient electricity over the next five years, enabling families living in the units to save on average $250 per year in electricity bills.

EAPF's involvement in this investment made it into the press in the USA which you can read about here.

[1] Per EPA calculator for Kilowatt-hours avoided at https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator#results

Image of Cerafiltec membranes installation for the upgrade at an existing waste-water treatment facility.

Investment Case Study

Global waste-water reuse

Asset Class: Private equity (Targeted Opportunities Portfolio)

Location: Global

Circularity is an asset manager that invests in growth-stage businesses enabling resource productivity. Circularity believes that today's economy relies on a wasteful and polluting 'linear' take-make-dispose model of production and consumption. Circularity's investment strategy focusses on supporting businesses which can drive superior financial returns through retaining the value of products and resources over multiple use-cycles – in doing so delivering measurable positive environmental impact.

Circularity's portfolio includes Cerafiltec, which manufactures ceramic ultrafiltration membrane solutions to facilitate water re-use. With more than 110 projects in 35 countries worldwide, the company's technology is used for the treatment of drinking water, as well as wastewater for re-use, desalination, and industrial applications.

Today's freshwater industry is overwhelmingly linear with only a fraction of wastewater reused due to challenges including cost, energy intensity and the ability to adequately filter out pollutants. The EU estimates that just 2% of all wastewaters treated across Europe is reused[1].

Ultrafiltration membranes are a key enabler for both increased water quality and re-use through the removal of microplastics and industrial pollutants in addition to expanding clean water access and reducing greenhouse gas emissions.

[1] European Commission, https://ec.europa.eu/environment/water/pdf/water_reuse_factsheet_en.pdf

Investment Case Study

Energy efficient water and wastewater pumps

Asset Class: Private Equity
(Targeted Opportunities Portfolio)

Location: Africa

Our asset manager Ambienta has been investing in companies whose products and services contribute to improve resource efficiency and pollution control since 2007. In 2021 Ambienta acquired the majority stake of Caprari, an Italian manufacturer of energy efficient electric water pumps for irrigation, clean water supply and wastewater collection. Pumps are estimated to consume 10% of global electricity production, therefore energy efficient options as those offered by Caprari have positive effects on energy demand on top of the positive impacts in specific applications such as irrigation and wastewater treatment.

Providing fresh water for a resilient food production

The increasing frequency and severity of droughts brought by climate change threatens the security of food production. In this context, irrigation shifts from being a way to increase productivity to a fundamental means to avoid losing the entire crop. Caprari's submersible pumps allow thousands of farmers around the world to efficiently provide water to prevent crop losses to droughts and to support yield.

Collecting and treating wastewater

Domestic and industrial wastewater can contain a wide variety of pollutants: organic components, pathogens, heavy metals, solvents, or toxic sludge. Some could be absorbed back into nature, while others, like chlorine bleaches, can become persistent water pollutants. Today, only 20% of global wastewater is treated before being discharged, a major environmental problem. Caprari's wastewater pumps enable the proper collection and treatment of wastewater, a critical component to prevent uncontrolled release of harmful substances into the environment.

Caprari pumps efficiently delivering water for irrigation in East Africa

Investment Case Study

Getting more women into the Tech Sector

Asset Class: Private Equity (Targeted Opportunities Portfolio)

Location: UK

One of the companies our asset manager Palatine invests in is Back2Work Group, which is the leading, national adult learning and pre-employment training provider.

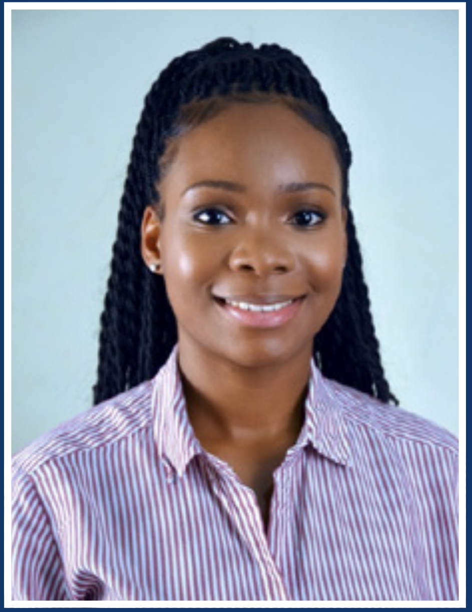
Back2Work specialises in delivering intensive training courses to help the long-term unemployed return to work, retrain or reskill. The business supports more than 10,000 people with training every year. In June 2021 Back2Work acquired Just IT Training, a provider of IT and digital apprenticeships and skills 'boot camps'.

Mickelia Morris benefitted from a Just IT Training, Skills Bootcamp in Software Development and here we share a small selection of her positive experiences.

"Before starting the Skills Bootcamp, I had no prior tech experience and I had never written any code. Once I tried Codecademy; which was suggested to me at one of the Just IT webinars, I instantly enjoyed it. I love the instant gratification you get from creating something or to just solve a problem. I wanted to do the bootcamp because I wanted to learn more about this industry and learn the fundamentals of web development which I would say I have succeeded in doing.

The bootcamp has helped increase my confidence when speaking to groups of people, especially when speaking about my own work and projects. I feel the bootcamp has given me the tools and information to really kickstart my career in tech, I now know how to continue my learning independently and confidently apply for certain roles based on what I have learnt so far, which would be an entry level role or an apprenticeship."

Mickelia also describes the positive contribution of female role-models in technology and the importance of early training for girls and women.



Investment Case Study

Re-use of pallets

Asset Class: Listed Equities

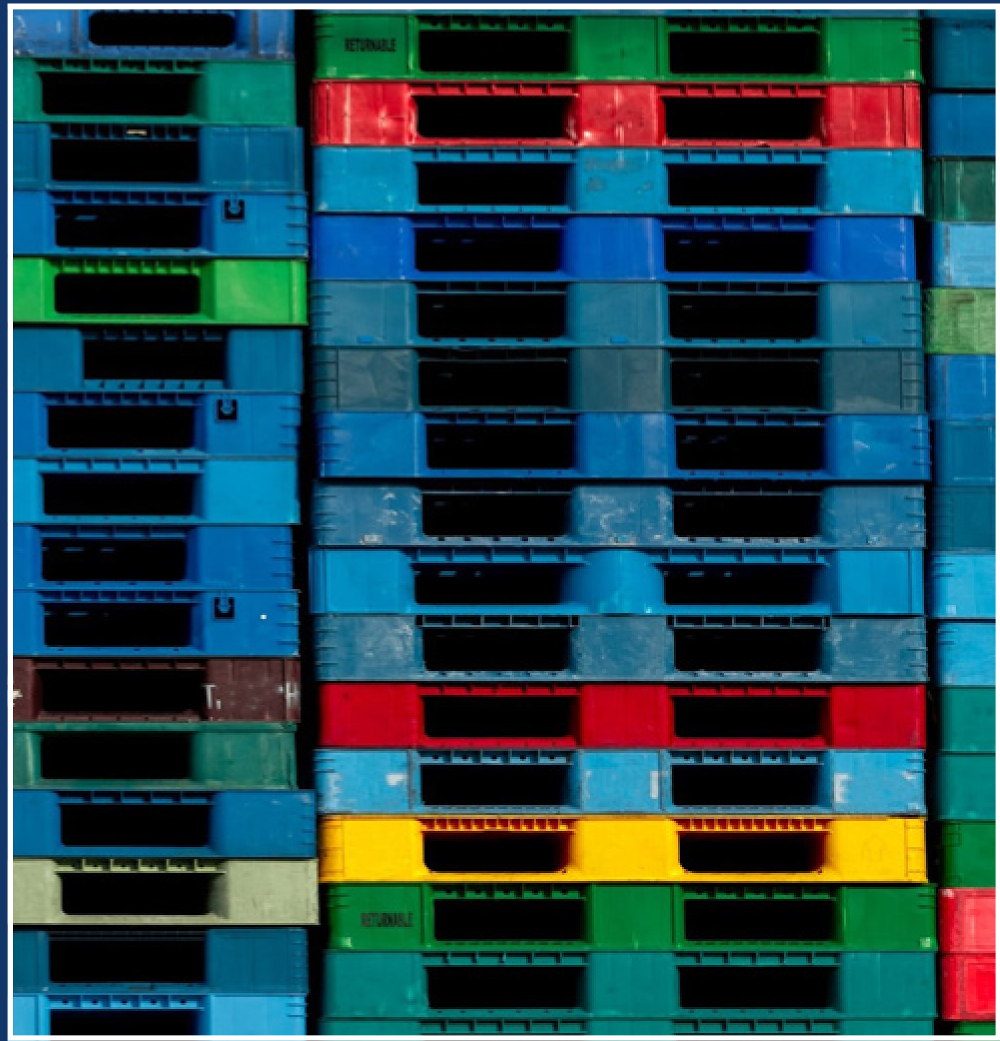
Location: Australia

Impax Asset Management invests in the opportunities arising from the transition to a more sustainable economy.

Through Impax, we are invested in a company which supports a circular economy and helps prevents waste.

Brambles is an Australian logistics solutions company at the centre of global supply chains. The company is a leader in the share and re-use of pallets and containers, primarily serving the consumer goods, fresh food and beverage markets.

The company’s pallets are collected, cleaned, repaired and reused in a circular model, reducing waste that would be created through pallet disposal. In 2020, Brambles estimates that 1.4 million tonnes of materials and waste were prevented from going to landfill through its operations.



Investment Case Study

Solar panels across a logistics portfolio

Asset class: Real Assets

Location: Australia

Our asset manager Townsend Group, is invested in the Charter Hall Prime Industrial Fund (CPIF). The Fund holds a portfolio of prime industrial and logistics properties in key markets across Australia.

The Case for Installing Solar Panels on Logistics Assets in Australia

Harnessing solar power is an important component of transitioning to a low-carbon economy. Given that, on average, the country has approximately 9.8 hours of sun per day[1], the opportunity within Australia is significant. At the end of 2022, there were already over 3.4 million solar panel installations across the country, with a combined capacity of over 29.7 gigawatts.

The logistics sector offers a unique opportunity that not all real estate asset types do, as the assets typically have large flat roofs that are ideal for hosting solar panel systems. Furthermore, the roofs of modern logistics assets are typically high enough off the ground to ensure the panels aren't impacted by shade and are developed to be pitched at a certain angle to ensure the sun's rays are caught throughout the day[2].

Owners of logistics assets which are either partially or entirely powered by solar panel-generated electricity benefit from lower operating costs and a lower carbon footprint. In addition, sustainably powered assets are becoming increasingly more attractive to prospective tenants, who are seeking to meet corporate-level emission reduction targets.

The Fund's Growing Solar Capacity

By the end of 2022, CPIF had installed solar panels on the roofs of 52 assets (out of 119) within the portfolio. In total, the portfolio has the ability to generate 22.7 megawatts of capacity, which is enough to power approximately 9,080 average households for an entire year. In Q4 2022, solar panels with an additional 500 kilowatts of capacity were installed, taking total installations over the past 6-month period to 3.2 megawatts. The Fund has a target of installing an additional 15 megawatts of solar panel capacity across the portfolio by 2025 and is currently on track towards achieving this.

The solar power installed helps to reduce tenants' carbon emissions and electricity costs. Where tenants do not operate over the weekends, the electricity generated is either stored on-site for use at busier times or sold back to the grid.

Rooftop solar panels installed at Charter Hall asset (East Logistics Park, Queensland, Australia)

[1]Source: Global Solar Atlas (2023) [2]Source: Prologis Research (2023) [3]Source: www.betterhomelab.com

Outcomes

Responsible investment is at the heart of our approach

Over the course of 2022, we reviewed our investment beliefs, approach and strategic asset allocation.

As a result we proposed changing the name of our investment strategy to our Responsible Investment Strategy Statement (a move implemented in 2023). This is in recognition that we mainstream environmental, social and governance issues in all aspects of our investment approach, and that our responsible investment policy shouldn't sit in a separate document.

Much in the new strategy builds on existing approaches in highlighting the investment opportunities in sustainability, transition to a low carbon economy, adapting to climate change and investing for the long-term.

It includes a more fulsome explanation of our approach to fiduciary duty.

And it includes a new systemic risk and asset class allocation – natural capital.

Our investments continue to consistently deliver strong returns and outperform the market year on year

The Fund has outperformed its benchmark[1] over 1, 3 and 5 years;

- As at 31 March 2022 and based on audited figures, our investments delivered a return of 6.5% against a benchmark of 5.7%.
- Over 3 years, our investments delivered a return of 7.6% against a benchmark of 7.2%.
- Over 5 years, our investments delivered a return of 7.0% against a benchmark of 6.2%.

The Fund has been fully funded for the last 7 years

The success of our investment approach has contributed to the Fund being fully funded at 31 March (our financial year end) since 2016. This means our assets are estimated to be greater than our liabilities. At the formal valuation of 31 March 2022 the funding level was 103%.

Even with the market volatility of 2022, the actuaries estimated that our funding level had increased further by the end of the year.

Our funding level has contributed to the EAPF having one of the lowest employer contribution rates across the LGPS.

[1] Annual Report and Financial Statements 21-22 (page 53) for our Fund Benchmarks in each asset class

A significant amount of our investment across different asset classes is in sustainable and climate solutions

Historically we have reported annually on what percentage of our assets were assessed as sustainable and climate solutions. We did this by analysing the value of our holdings against the FTSE Environmental Markets Classification System and also by using some in-house bespoke measures.

It is no longer practical to report in this way because a large proportion of our holdings are now managed through Brunel who use a different method. Brunel use FTSE Green Revenues, which is increasingly being adopted in the industry to assess how sustainable a company is based on the revenues they generate that year.

This means that this year we are using a hybrid approach for our different investments with different methodologies for calculating which proportion of them are sustainable and climate solutions investments. The different types of investments are:

a) Holdings with Brunel.

b) Holdings with our directly-appointed listed equity managers.

c) Holdings in private markets and real assets.

As a result, this year it isn't possible to give a total percentage of our portfolio that is invested in sustainable and climate solutions. In the future we hope this will change, as we get more comparative data across all the asset classes.

The methodology we have used this year is to the right. For previous methodologies please see our Annual Reports and Financial Statements.

a) Holdings with Brunel

While not identical, the EU Taxonomy and FTSE Russell's Green Revenues Classification System are broadly similar in structure and highly aligned on core activities. This allows us to identify companies involved in the green economy and quantify the share of their revenues that is likely to qualify under the EU Taxonomy.

We have 3 listed equity portfolios through Brunel. The weighted average of green revenues[1] in these portfolios are 4.3%, 11.6% and 12.4%.

Of these, we classify a subset[2] as climate solutions. The weighted average of green revenues from companies in these portfolios are 1.8%, 7.5% and 5.1% respectively.

Our corporate bond portfolio companies have sustainable revenues of 3.3%, with climate solutions accounting for 2.1% of that total.

b) Holdings with our directly-appointed listed equity managers

The assets held by our 3 directly-appointed listed equity asset managers have been assessed against the proprietary Impax Environmental Markets Classification System (EMCS). This is based on the weighted revenues of the companies.

Of the total value of companies we hold in these portfolios, approximately 30.8% is in companies where a proportion[3] of their revenue is from activities that can be classified as sustainable under the EMCS.

Of the total value of companies we hold in these portfolios, approximately 28.4% is in companies that generate revenues from climate solutions based on classifications in the Impax Climate Opportunities Taxonomy[4].

Note the sustainable and climate solutions assessments are based on separate independent classifications, and one is not a sub-set of the other.

[1] Percentage of revenue generated by companies in activities which have been classified by FTSE as sustainable.

[2] We define climate solutions from the following FTSE classifications: Energy Equipment, Energy Generation and Energy Management and Efficiency.

[3] For sustainable activities the mean revenue figure across all companies is 68%.

[4] Impax Climate Opportunities Taxonomy - proprietary information provided by Impax Asset Management. For Climate Opportunities the mean revenue figure across all companies is 69%.

c) Holdings with private markets and real assets

For these asset classes we undertook our own in-house assessment, combined with analysis from some of our asset managers.

We broadly followed a green revenues model but because of a comparative lack of data, the methodology was not exactly the same and a simple comparison cannot be made across the asset classes.

We also added a category 'Property-sustainable'[1].

These results are based on the total value of the investments we have made or committed to make with managers. We also make an assessment of the percentage of investment for these asset classes that the Fund has in 'Climate Solutions'.

The results for the 3 measures were, of the total value of companies we hold in these portfolios, approximately 36.5% were in Sustainable Investments, 18.4% in Climate Solutions (a subset of sustainable investments)[2] and 13.8% Property-sustainable.

Our investments have a relatively low carbon footprint however we don't know the whole picture

The good news is that based on the Weighted Average Carbon Intensity (WACI) our Aggregated Portfolio (which includes our listed equities and corporate bonds) is 34% below the benchmark[3].

Based on the Carbon to Value (C/V) Intensity, which apportions carbon emissions per million pounds invested, we are 37% below the benchmark.

We are around 4 times less exposed to both fossil fuel reserves and future emissions from reserves when compared against the benchmark.

The bad news is that less than half of the companies in our portfolio disclosed carbon data suitable for analysis. The statistics above are based on scope 1,2 and upstream scope 3 data and some of this had to be modelled. This does not tell the whole story and shows a need for far better disclosure of carbon data by the majority of companies we invest in.

[1] The 'Property-Sustainable' category may be used for real estate holdings that have low exposure to income-generating assets (e.g. strategies focused on repositioning, refurbishment, and development projects) and clear social and/or environmental impact objectives (e.g. targeting carbon reduction versus standard new build, EPC B or above, BREEAM Very Good rating or above, or investment in lower-cost and affordable housing, sustainable SME workspace, healthcare, and schools). This category may also be used for funds that have a GRESB 3 star rating or above.

[2] We define climate solutions from the following FTSE classifications: Energy Equipment, Energy Generation and Energy Management and Efficiency.

[3] MSCI ACWI for listed equities and iBoxx Sterling Non-Gilt All Maturities Bond Index for corporate bonds.

On the whole, we get value for money from asset managers but we need more evidence

Once a year we conduct a value for money assessment of all our asset managers.

This assessment is done in line with the Financial Conduct Authority's 'seven pillar' approach and covers:

- Quality of Service.
- Performance.
- Costs and Fees.
- Findings and recommendations.

Key findings in 2022 report showed we had achieved good Value for Money, with competitive fees. However, we needed more evidence to get a clear demonstration of value.

We will repeat the exercise in 2023.

We can be a catalyst for investment for others

We have a long tradition of investing in funds which focus on sustainability. This has given us a reputation as a cornerstone investor.

When we invest in a new fund in our Targeted Opportunities Portfolio, we often receive enquiries from other investors about our due diligence on that fund. We may also receive press coverage on the decision to invest.

We are happy to share our experience. We hope by doing this, we are helping to generate more interest in sustainability and that more investment options are offered by asset managers.

A best in class approach to responsible investment

Mercer's, our investment advisers, undertook an independent assessment of our approach to responsible investment in July 2022 and gave us the top rating available.

The assessment looked at our beliefs, policies, processes and portfolios. It then graded the degree to which environmental, social and governance considerations are integrated into these and benchmarked us against our peers. The process also identified a number of ways Funds can improve their approach.

The EAPF achieved the highest possible rating of A++. The average LGPS score was B+, and more broadly the average pension scheme score was B.

In 2022, we also won 2 awards from Pensions for Purpose: Best Climate Change Policy Statement Award and the Impact Investors Adopters Award.

4. How we contribute to wider change across the finance sector

How we contribute to wider change across the finance sector

Section 10 of the Stewardship Code

Some issues have a wide impact across our portfolio or on the broader economy as a whole. To resolve these wider issues it is often beneficial to collaborate with others.

An example of a wider issue is biodiversity loss. We need to work with others to improve data gaps, push for regulatory change or come up with a common method to measure progress.

On these wider issues, we typically work through investor networks, which in turn may link in with investor networks, industry experts, academics and politicians. These networks are often international in nature.

The groups we work through include:

- Institutional Investors Group on Climate Change.
- United Nations Principles for Responsible Investment.
- Local Authority Pension Fund Forum.
- Pensions for Purpose.
- A4S Accounting for Sustainability.
- Global West Government Funds Roundtable.
- Pensions and Lifetime Savings Association.
- Ceres.

Some issues start at company level (bottom up). For example, we may get involved in an initiative following unsuccessful engagement on a particular issue with a company in our portfolio.

Some start at industry sector, broader economy or policy level (top down). For example, we may become aware of a risk or a data gap and we need to work with others to understand more. This may not immediately impact our investment in a company but could have ramifications in the medium or longer term.

Others may start as a broad area of interest for us, which is in line with our engagement priorities. Then as the work of the initiative develops, we become aware of laggards in our portfolio on that issue and engage with the company on this.

On some issues we have some expertise to contribute, on others we are there to learn.

In general, most of these issues take many years to tackle.

In this Chapter we give examples covering all of these scenarios, from examples of initiatives we supported in 2022.

In the next Chapter, we focus on how we engage with companies in our portfolio.

Climate change: understanding transition risk

The traditional way to assess a company's carbon emissions was to look at its carbon footprint from the previous year.

Increasingly, investors need to look forward and understand how the company is managing its carbon emissions and what track that puts the company on. A company whose future emissions are aligned with a 1.5 °C degree scenario carries far less transition risk than one aligned with a 3 °C degree scenario, for example.

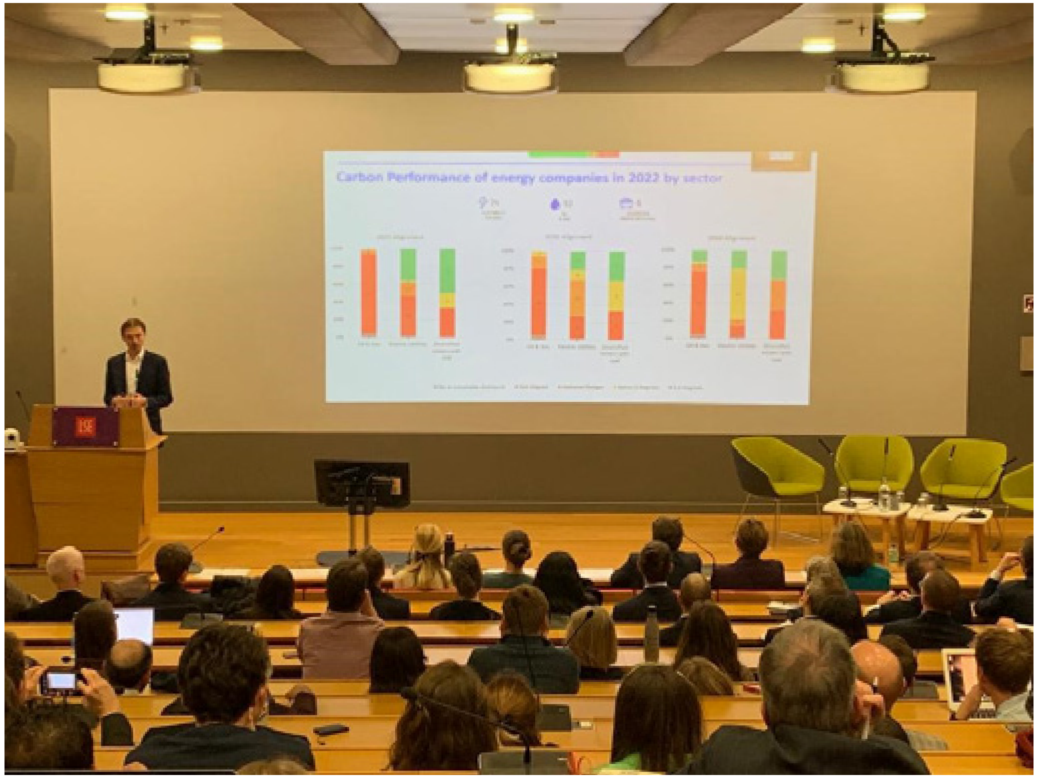
The Environment Agency Pension Fund and Church of England Pensions Board co-founded the Transition Pathway Initiative (TPI) in 2016 to provide this information for free to investors. FTSE is a TPI data partner providing information to the London School of Economics (LSE) with information that listed companies have disclosed.

The LSE then undertakes an independent academic analysis, to assess how aligned a company is to a low carbon economy and compares their progress on managing carbon with peers in their sector.

Today 133 investors globally have pledged support for the TPI representing over $50 trillion assets under management combined.

In 2021, the TPI turned from a voluntary initiative by asset owners into a not-for-profit limited company, which oversees the research by the LSE. EAPF is the vice-chair and Treasurer of the new limited company.

In 2022, following a significant increase in funding from new parties, a TPI Global Transition Centre was launched at the Grantham Institute in the LSE. This will significantly scale up the number of companies TPI can analyse from currently around 600 to a few thousand in due course.



Launch of TPI Global Transition Centre at the Grantham Institute, London School of Economics, October 2022

Climate change: managing physical risk

We know that the climate is already changing. This will result in greater exposure to hazards such as flooding, sea level rise, wildfires and heatwaves.

It is very hard for investors to understand how exposed underlying companies in their portfolio are to a warming climate. It is likely to depend on a huge number of factors including; location of company, its underlying assets and its supply chain, the actions the company has taken to manage business continuity, the local infrastructure and government actions and ultimately how the climate is changing.

EAPF co-chaired IIGCC work in 2021 to set out what information investors would like from listed companies to understand a company's exposure to material physical risk.

In 2022 we co-chaired discussions on what a climate resilient investment framework should look like.

In 2023 IIGCC will be developing this work, alongside the Coalition for Climate Resilient Investment.

The aim is to help investors make sure their portfolios align with the resilience ambitions in the Paris Agreement.

In 2022, we were invited to speak at a number of conferences on how investors can manage the physical risks from climate change. This advocacy work is very valuable to share experience and make new contacts.

Climate change: tackling biodiversity risk

Last year, the EAPF developed its approach further on biodiversity. This is part of our policy to tackle climate change risk and invest in climate solutions.

We now have a handful of investments where we have hard data to show we are enhancing biodiversity.

We are sharing our experience in the advisory forum for the Taskforce for Nature-Related Financial Disclosures (TNFD). By being part of this group we hope that we can be an early adopter of formally reporting our impact on nature, and understand which metrics we need to include and where we may be exposed to biodiversity risk across all asset classes.

In 2022 we started working with Global Canopy which is developing guidance for pension funds on being deforestation-free.

We want to be an early adopter of this guidance.

We have also had experiences in the last 2 years where people have (sometimes mistakenly) accused our investments of damaging biodiversity. Through this we have learned the types of information we need from asset managers to understand the real position.

EAPF Experience of Investing in Nature Based Solutions

Nature based solutions sequester carbon. That means they soak up and absorb carbon, helping to limit climate change.

Trees, soil, salt marshes, oceans and peat bogs are just some of the natural capital solutions the world already has that can sequester carbon.

As an investor though, it's not that simple.

We need the nature-based solution to deliver a financial return in line with similar assets, otherwise we are not meeting our fiduciary duty.

We need confidence that the carbon being sequested is calculated accurately, so the correct price is gained for selling that carbon to someone who wants to offset their own emissions. A third party accreditation might provide that confidence but there is a wide range available and we have to be sure that the accreditation is genuinely suitable for that particular investment in that particular part of the world.

For the investment to be credible environmentally, we have to ensure that it is done right – for example the right tree for the right location. And it has to enhance the wider biodiversity. That needs experts to understand things like the quality of soil and water, and diversity of plants and animals at all stages of the investment.

The carbon that is removed has to be permanently removed. This means that the investment has to be protected, not just for 20 or 30 years but forever, so a future developer can't undo what has been done and release the carbon back into the atmosphere decades later. Some parts of the world have regulatory regimes which provide that reassurance, but in others, the investor has to consider how to guarantee that.

We need the investment to store carbon that wouldn't have been removed had it not been for the investment – this is called showing additionality.

We need the location to be resilient to the impacts of climate change – so there is a low risk of it burning down in a forest fire, or being starved of water, or indeed inundated with too much water, undoing some or all of the impact of the investment.

Then there is the social angle – these investments are often on land which offers amenities to local people. There are issues about how local people may access the land, how the land is acquired, the local impact on price of land, what economic activity it may displace and the jobs it may create for local people. In short, the investment has to fit in locally.

And if any of the above were to go wrong, there would be rather a lot of reputational damage.

EAPF are often asked to speak at conferences on investing to support biodiversity.

A Just Transition

The Impact Investing Institute is trying to mobilise capital into investments that support a Just Transition to Net Zero in the UK and other developed and emerging markets.

The initiative is developing a set of criteria for investment vehicles that can deliver all of the following:

- Environmental action.
- Improve socio-economic impacts.
- Increase community voice.

We fed in our views on what we thought investments needed, to be green, fair and inclusive based on our experience from impact investing.

Once the criteria are finalised, if an investment meets them all, they will be given a Just Transition label. This will give investors the confidence that the investment will reduce carbon emissions and mitigate any negative social impacts.

LAPFF facilitates those local authority pension schemes and pools which are members to come together to improve corporate governance. With the approval of member funds, LAPFF will research a topic and then this may develop into wider engagement.

In 2022, LAPFF facilitated a series of meetings with the All Party Parliamentary Group on a Fair and Just Transition, which the EAPF attended.

Mining

The resources extracted by mining are essential for the transition to a low carbon economy but this should not be at any cost.

The Fund continued to engage on mining in 2022, with specific focus on two issues.

First, we are still pushing for due reparation for local communities after a tailings dam collapse in Brazil in 2015, where 19 people were killed and huge human and environmental impacts were felt and continue to this day. We owned shares in BHP Billiton at the time, one of the companies responsible.

We welcome the ongoing efforts of LAPFF to focus attention on the impacts of local communities. LAPFF made a 3-week trip to Brazil in summer 2022 to see the issues first-hand.

More broadly, we want to see mining become more sustainable.

We continue to support the ongoing work by the Investor Mining and Tailings Safety Initiative, led by the Church of England Pensions Board.

In 2022:

- 45% of the mining companies contacted by the initiative (65% by market capitalisation) agreed to at least review the initiative's Global Tailings Standard and its applicability across their operations.
- Investor Roundtables were held in Spring 2022 to examine strategically significant issues to the mining industry.
- The Global Tailings Institute was further developed ready for launch in 2023.

Diversity

EAPF joined the Asset Owner Diversity Charter (AODC) in 2021 to help improve diversity across the investment industry.

In 2022 we wrote to all our asset managers to ask them to fill in a diversity and inclusion questionnaire and we had an excellent response.

Many asset managers recognised that the investment management has structural challenges and there appeared a willingness to take part in external initiatives to tackle this.

Asset managers expressed a hope that by actively building a more diverse and inclusive team, they would become better and more effective investors.

The types of actions we learned they were doing were:

- Participating in internship programmes to promote under-represented talent.
- Using more diverse recruitment processes and specialist search firms.
- Removing gender and racially-biased language in their adverts.
- Setting diversity targets on pools of candidates.

They reported their actions had led to:

- A much wider diversity in the pools of candidates taken through the interview processes.
- A greater number of diverse candidates when hiring for junior roles rather than at senior level, in part due to the industry-wide lack of diversity among senior posts.

Using resources sustainably – plastics

We pledged financial support in 2019 to a multi-stakeholder initiative to design an independent, auditable and accredited standard with the objective to reduce the amount of plastic pellets lost in the supply chain.

In July 2021 the British Standards Institute launched the resulting standard – PAS510. The PAS has strong support from policy makers such as Marine Scotland, as global regulators consider options for a supply chain approach to reduce micro plastic pollution.

Some companies, such as Co-op and Iceland, have incorporated the requirement for verification against the PAS into their purchasing practices.

Take up of the standard has been disappointingly low to date.

This appears to be largely as a result of Plastic Europe, the biggest plastics industry body, promising to launch a voluntary (and in many experts' views, much less robust) certification scheme, which has meant that many companies are waiting to fully understand the requirements of this before committing to being audited against the PAS.

The Investor Forum (the collective investor organisation that led on PAS510) continues to engage to encourage better uptake. For example they joined with Fauna and Flora International (FFI), other NGOs, technical experts and the Co-op to present the PAS to members of the British Retail Consortium in November 2022 encouraging more retailers to take this sustainable procurement approach, which EAPF fully supports.

FFI also released a report with a number of recommendations for how management of plastic pellet use can be taken forwards.

Water

EAPF joined the Ceres Valuing Water Investor Working Group in 2021. We believe poor management of water is a material risk that needs to be addressed by the wider investment community.

In 2022 we were pleased to formally join the Valuing Water Finance Initiative (VWFI). The initiative works with over 70 signatory organisations, representing more than $9 trillion in assets under management to strengthen the financial case for corporate water leadership through engagement. We reviewed draft research reports and provided strategic advice on how to best advance the global initiative.

In 2022, the initiative identified 72 companies with a high water footprint. The aim is to work as a partnership and encourage these companies to value and act on water as a financial risk and drive the necessary large-scale changes needed to better protect water systems.

We have shares in one of these companies in a pooled fund through Brunel. In 2023, we are engaging through the Ceres VWFI and working closely with Brunel and our partner Funds on engaging with the company, in line with the Pool's engagement priorities.

Outcomes

The Fund embraces a wider perspective

Engaging in initiatives opens our minds to new issues.

It makes us aware of the bigger picture and wider concepts such as planetary boundaries, which climate change, natural capital and other environmental issues sit within. We are increasingly mindful too of the social angle.

As a small fund, we have to manage our resources but being part of these initiatives also allows us to learn from others and improve our approach.

Consideration of fiduciary duty remains core and we make sure any engagements are contributing to the best long-term interests of our members.

EAPF has a global impact

EAPF co-founded the TPI which continues to grow in influence. Its data is used by investors to inform their understanding of how well companies are aligned with a low carbon economy. TPI data is used in the Climate Action 100+ Net Zero Benchmark, which has global reach.

TPI data is incorporated into voting guidelines. Brunel is doing this - more information on this is in Chapter 5.

Investors can now also buy investment products which incorporate TPI data to tilt investment in companies which are more aligned to a net zero economy. Through Brunel, we invest in a FTSE Paris Aligned index which does this.

We are leaders on biodiversity

In our 2021 Stewardship Code, we provided a case study on a nature-based solution we had just invested in, in Paraguay. It is a sustainable forestry, where at least 25% of the land is set aside for nature conservation. It forms part of our Targeted Opportunities Portfolio, where we invest in private market opportunities which offer exciting sustainable and financial outcomes.

We have recently joined the Limited Partner Advisory Committee (LPAC) to ensure that we can provide oversight and advice. It is a way we can help to ensure that the investment is delivering on all the above issues, in line with our expectations when we decided to invest.

We have learned lots through this investment and we are asked frequently to present on our approach at conferences.

Our experience also informs our wider investment strategy. It has helped us set a new aim that all our investments in sustainable agriculture and sustainable forestry are net nature positive and deforestation free.

And we have agreed a 4% allocation in our new Strategic Asset Allocation to a completely new asset class – Natural Capital. We do not know of any other Fund that has made such an allocation to this asset class.

The Fund has a voice to raise issues

We think the finance industry is not doing enough to tackle the risks from a changing climate, nor invest in the solutions needed to adapt to a warming climate. Being part of global shareholder initiatives like IIGCC, allows us to raise awareness of this issue and helps support action among investors.

Our networks also help us have a voice into policy makers on our key issues, which we may not have had as an individual Fund.

For example, Brunel has engaged with policy makers on ESG data governance for a number of years. In November 2022, the FCA announced the formation of a group to develop a Code of Conduct for ESG data and ratings, as part of the Government's Green Finance Strategy.

Our concerns around mining reparations were raised by LAPPF at the UN Forum on Business and Human Rights where they talked about the importance of engaging with people affected by mining companies' operations.

The Fund is able to better manage the risks in our portfolio

The more resilient and shock-proof the wider finance sector, the more resilient our investment portfolio is.

Many of the wider initiatives inform engagement with individual companies, which is the focus of the next Chapter.

For example, the work of the Investor Minings and Tailings Safety Initiative has informed which company we no longer invest in – see Chapter 5. We have also shared the feedback from LAPFF's visit to Brazil with our previous asset manager to inform their ongoing engagement with the company on reparations for local communities.

Another example would be our involvement in CDP's Non-disclosure initiative, where we write to companies and encourage them to report through CDP on their environmental impact.

The EAPF led engagement in the 2022 campaign with 11 companies. As a direct result, 4 (33%) of them now report for the first time to CDP. These are all companies which we invest in. This provides our asset managers with greater knowledge and in turn allows them to put pressure to improve their performance going forward.

5. How we influence the companies we invest in

How we influence the companies we invest in

Sections 8, 9, 10, 11 and 12 of the Stewardship Code

Once we are invested in companies, this offers us opportunities, if needed, to try to influence the corporate behaviour of those companies.

In 2022, we held shares in approximately 1,250 listed companies, invested in over 120 companies in private market vehicles and held approximately 400 loans for listed companies.

We also lent money to the UK Government through 23 sovereign bonds.

Due to the number of companies and the limited resources of the Fund, we use a number of routes to engage with the companies we invest in. These are:

- Through our engagement provider.
- Through our asset managers.
- Through Brunel.
- Direct as a Fund.

We engage on a range of environmental, social and governance issues, including diversity, food security, gender equality, human rights, modern slavery and tax evasion.

As a Fund, our priorities when we engage directly are climate change, natural capital, using resources sustainably and water. A fair and just transition to a lower carbon economy underpins this.

This chapter sets out the way the Fund engages with:

- Publicly listed companies.
- Private companies.

How much influence can EAPF have as an investor?

The amount of influence we may have depends on a number of factors:

- **Which asset class we hold the company in** – being a shareholder of a listed company means we have the right to vote at their annual general meeting.
- **Whether the holding is in a segregated mandate or a pooled mandate** – a segregated mandate means we know exactly which shares in a company we own and allows us to bring forward shareholder resolutions in our own right. Our holdings through Brunel are primarily through a pooled mandate, where we have a proportion of the investment with others. Here we need Brunel and the other 9 Funds to support any shareholder resolution we co-file collectively.
- **The percentage of holding within a particular company** – the larger the holding of a group of combined investors usually the greater the influence.
- **The country the investment is held in** - for example we may have greater rights and influence in European and North American companies than in emerging markets.
- **Information known about that company's behaviour** – publicly listed companies have to release an annual company report – they are likely to disclose more than private companies. Some companies report their climate risk and opportunities in line with the Task Force on Climate-related Financial Disclosures, and/or report to platforms such as CDP. The more we understand about the environmental, social and governance risks and opportunities the greater the opportunity to act.
- **The number of backers a company has** – we find that some of our private market companies are small, start-up companies and may be more receptive to suggestions than larger, more established international companies.
- **Government regulation and/or public sentiment** – the regulatory environment and public discourse may facilitate or prevent certain issues getting profile and traction, and may affect the number of other shareholders who hold the same view as ourselves.

Engaging with publicly listed companies

We invest in a wide range of publicly listed companies through Brunel, across all industrial sectors.

Being part of a pool, means that many of our stewardship responsibilities for transitioned assets are managed by Brunel.

To do this, Brunel liaises with its asset managers, understands areas of risks and escalates these if needed.

Brunel takes into account the activities of its appointed engagement provider EOS at Federated Hermes (EOS). EOS engages with a very large number of companies on Brunel's behalf in its segregated active equity portfolios and segregated corporate fixed income portfolio – this covers all but one of our listed equity and bond portfolios with Brunel.

The appointment of a dedicated engagement and voting provider allows Brunel to cover a far wider number of companies and have access to specialised expertise on different engagement themes than they would if they had to do everything direct.

The EOS team is diverse. It has a widespread number of nationalities and languages, allowing it to engage with companies in the local language and understand local practices. Brunel monitors service levels in relation to this contract.

The pool's priority themes for engagement are agreed at the beginning of the year. EOS comes along to a Responsible Investment sub Group meeting and hears clients' respective priorities, allowing Brunel to form a collective view.

In 2022, the Brunel pool's priority engagement topics were:

- **Biodiversity.**
- **Circular economy and supply chain management.**
- **Climate change.**
- **Cyber.**
- **Diversity, equity and inclusion.**
- **Human rights and social issues.**
- **Tax and cost, transparency and fairness.**

These engagement priorities form the basis of EOS's work for Brunel and its clients.

EOS attend Brunel's Responsible Investment Sub Group meetings 4 times a year to discuss their work for the partnership and will focus each time on 1 of the engagement themes in detail.

In 2022, EOS presented to the Responsible Investment Sub Group on how it engaged with companies on climate change, human and labour rights and company Board effectiveness and ethical culture.

EOS measure progress on whether they have achieved their engagement objective with a particular company using a four-stage milestone system. They set an objective and milestones at the start of an engagement and plot progress against this.

We get an annual report from EOS on the engagements they do on the Fund's behalf. We publish this on our website.

If after consultation with their asset managers and engagement providers, there are still areas of concern, Brunel may decide to escalate engagement, for example through collaborative action with other shareholders on voting or shareholder resolutions.

In 2022, EOS engaged on our behalf with 476 companies on 2,016 issues. These related to environmental, social, governance, strategy, risk and communication topics.

They typically engaged with companies on more than 1 topic at the same time.

Tackling sexual harassment

We hold shares in Microsoft.

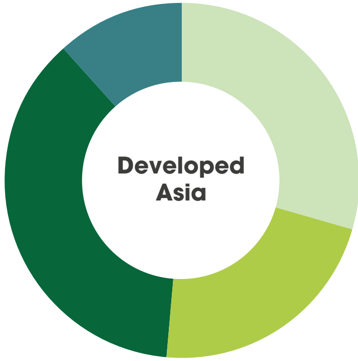
Microsoft found its own culture under scrutiny when it announced plans to buy Activision Blizzard in January 2022 – Activision Blizzard were reported in the press for allegations of sexual assault and mistreatment of women at the company and lacking an adequate process to assess workplace misconduct complaints.

In Q1 2022 our engagement providers EOS engaged with Microsoft on a 2021 shareholder proposal that had gained 78% support, asking the board to report on the effectiveness of its workplace sexual harassment policies.

The company said that its communications on these issues had improved. It also committed to annual public reporting on the implementation of its sexual harassment and gender discrimination policies, including the total number of reported concerns, the percentage substantiated and the types of corrective actions taken. EOS encouraged it to integrate its policies and practices at Activision Blizzard when the acquisition closed.

EOS forwarded to Microsoft their expectations for board oversight of sexual harassment and discrimination issues that EOS had sent to the Activision board. EOS received Microsoft's first report on its workplace culture with an independent review via email in late 2022.

Engagement issues by geographic location



We engaged with 43 companies over the last year

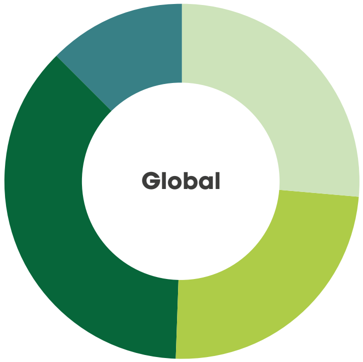
- Environmental **29.6%**
- Social and Ethical **21.8%**
- Governance **37.0%**
- Strategy, Risk and Communication **11.6%**

We engaged with 5 companies over the last year

- Environmental **26.3%**
- Social and Ethical **15.8%**
- Governance **26.3%**
- Strategy, Risk and Communication **31.6%**

We engaged with 50 companies over the last year

- Environmental **27.3%**
- Social and Ethical **24.9%**
- Governance **40.6%**
- Strategy, Risk and Communication **7.3%**



We engaged with 476 companies over the last year

- Environmental **26.4%**
- Social and Ethical **24.3%**
- Governance **36.9%**
- Strategy, Risk and Communication **12.4%**

We engaged with 127 companies over the last year

- Environmental **30.3%**
- Social and Ethical **20.0%**
- Governance **37.1%**
- Strategy, Risk and Communication **12.7%**

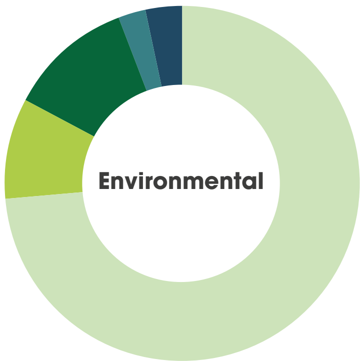
We engaged with 239 companies over the last year

- Environmental **23.9%**
- Social and Ethical **27.6%**
- Governance **36.3%**
- Strategy, Risk and Communication **12.8%**

We engaged with 12 companies over the last year

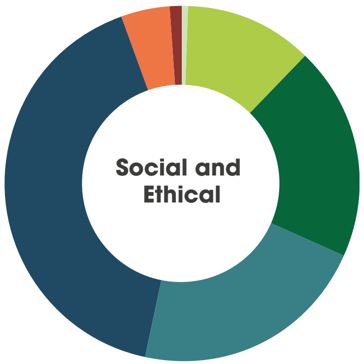
- Environmental **34.2%**
- Social and Ethical **10.5%**
- Governance **39.5%**
- Strategy, Risk and Communication **15.8%**

Engagement issues by theme globally



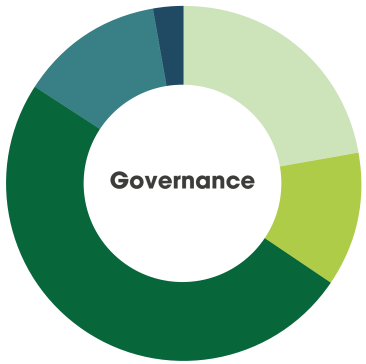
Environmental topics featured in 26.4% of our engagements over the last year

- Climate Change **73.7%**
- Forestry and Land Use **9.0%**
- Pollution and Waste Management **11.4%**
- Supply Chain Management **2.6%**
- Water **3.2%**



Social and Ethical topics featured in 24.3% of our engagements over the last year

- Bribery and Corruption **0.6%**
- Conduct and Culture **11.7%**
- Diversity **21.9%**
- Human Capital Management **19.1%**
- Human Rights **41.1%**
- Labour Rights **4.3%**
- Tax **1.0%**



Governance topics featured in 36.9% of our engagements over the last year

- Board Diversity, Skills and Experience **22.4%**
- Board Independence **12.1%**
- Executive Remuneration **49.7%**
- Shareholder Protection and Rights **13.0%**
- Succession Planning **2.7%**

Strategy, Risk and Communication topics featured in 12.4% of our engagements over the last year

- Audit and Accounting **14.0%**
- Business Strategy **32.8%**
- Cyber Security **2.0%**
- Integrated Reporting and Other Disclosure **23.6%**
- Risk Management **27.6%**

EOS use milestones to measure progress. These are:

- Milestone 1: Concern raised with the company at the appropriate level.
- Milestone 2: The company acknowledges the issue as a serious investor concern.
- Milestone 3: Development of a credible strategy or stretching targets set to address the concern.
- Milestone 4: The company issues a strategy or measures to address the concern.

In 2022, at least one milestone was moved forward in 56% of the engagements.

Status of milestones in 2022 by theme

The chart below shows the milestone stage of engagement objectives by theme.

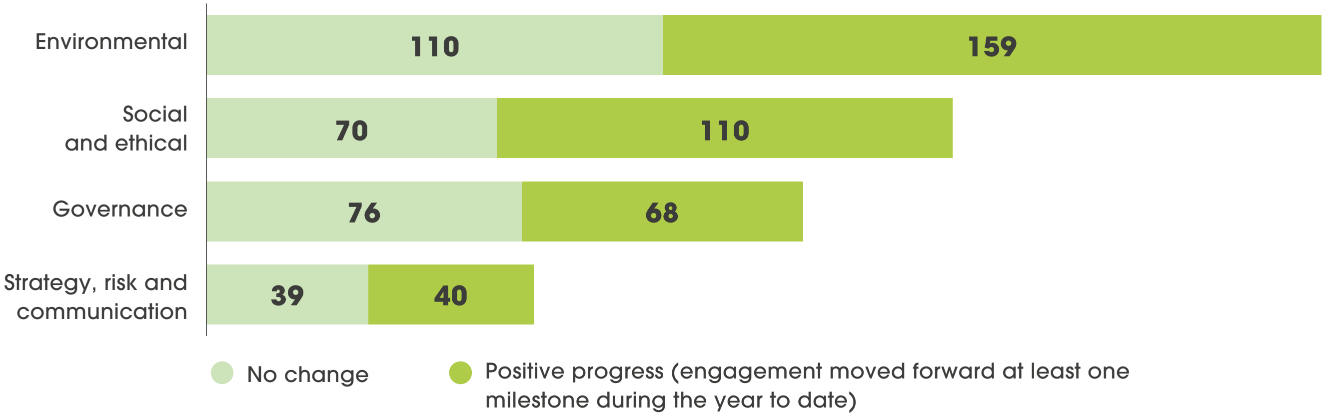
Theme	Total Engagement Objectives*	Engagement objective status (last milestone completed)			Closed engagement objectives	
		Milestone 1	Milestone 2	Milestone 3	Completed	Discontinued
Environmental	269	60	98	62	38	11
Social and ethical	180	36	68	33	30	13
Governance	144	30	40	29	26	19
Strategy, risk and communication	79	8	30	17	16	8
Total engagements	**672**	**134**	**236**	**141**	**110**	**51**

* Includes objectives which were live in the period. Objectives are live when Milestone 1 has been completed.

In 2022, around half of the issues which Hermes raised with companies on our behalf were linked to one of the UN Sustainable Development Goals (SDG). The proportion of these is shown on the next page.

Progression milestones in 2022

EOS made solid progress in delivering engagement objectives across regions and themes. At least one milestone was moved forward for about **56%** of our objectives during the year. The following chart describes how much progress has been made in achieving the milestones set for each engagement.

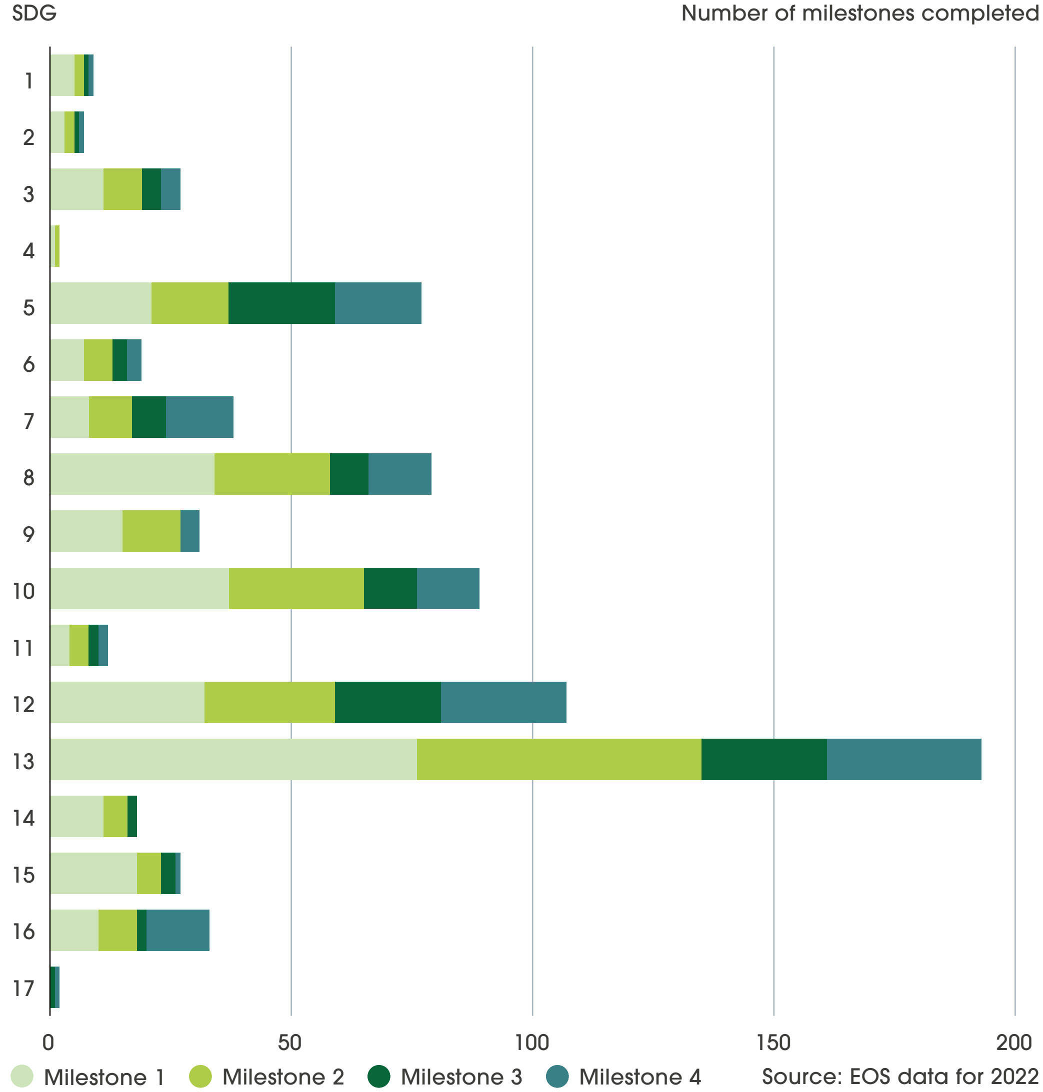


Proportion of issues and objectives engaged in 2022 linking to the SDGs

In 2022, around half of the issues which EOS raised with companies on our behalf were linked to one of the UN Sustainable Development Goals (SDG). The proportion of these is shown below.

SDG	Goal	Proportion
13	Climate action	**35%**
12	Responsible consumption and production	**26%**
8	Decent work and economic growth	**18%**
10	Reduced inequalities	**18%**
5	Gender equality	**15%**
7	Affordable and clean energy	**9%**
16	Peace, justice and strong institutions	**9%**
3	Good health and well-being	**10%**
9	Industry, innovation and infrastructure	**6%**
15	Life on land	**6%**
6	Clean water and sanitation	**3%**
14	Life below water	**3%**
11	Sustainable cities and communities	**2%**
1	No poverty	**2%**
4	Quality Education	**1%**
2	Zero Hunger	**1%**
17	Partnerships for the goals	**0%**

Milestone progress of SDG-linked engagement objectives



Source: EOS data for 2022

The SDG goals where EOS made the most progress in moving the milestone forward were:

- Climate action.
- Responsible consumption and production.
- Reduced inequality.

Quality education was the least numerous and least successful topic for engagement.

Alongside Brunel the EAPF also engage with listed companies through 3 sustainable equity managers. In each of these mandates, we expect managers to engage directly with underlying companies. Given these are long-standing mandates, with a focus on sustainability, the managers are aware of, and share, our engagement priorities. Progress on engagements is provided either in detailed quarterly reports and/or regular meetings with these managers.

In 2022, our 3 listed equity managers had 162 direct engagements with 61 companies, which is 17% of the companies invested in by those managers for our portfolio.

76% of the engagements were either virtual or face-to-face meetings. Topics covered included climate change, biodiversity, single use plastics, lifecycle management of mining and a broad range of social issues.

Engaging on Board Diversity in China

In 2020 and 2021 Impax Asset Management, one of our directly-appointed listed equity managers, met several times with Xinyi Solar, a Chinese solar module component supplier. The plan was to raise awareness of the benefits of improved board diversity.

While the company acknowledged the initial concerns around poor board diversity, Impax voted against Nominating Committee members in 2020 and followed up with further engagement. Initially the company expressed no plans to improve board composition or independence, with no female directors on the board.

The company reiterated that female representation within their wider industry was low and it remained challenging to recruit qualified female employees or directors. Impax remained disappointed with this outcome and again voted against the Nominating Committee members at the 2021 annual meeting, re-iterating to the company the belief in the importance of diverse representation to long-term value creation.

Following the last two years of engagement and votes against the company, the Board appointed their first female director in 2022.

How we escalate concerns about listed companies

We may pick up concerns about a particular company through our advisers, partners, members or press. Our first port of call will be to ask Brunel or our directly-appointed asset manager for more information. For pooled assets, Brunel may liaise with the underlying asset manager to find out more information.

If the issue is not resolved to our satisfaction, then we will discuss with Brunel or the directly-appointed asset manager how things might be taken forward.

In the last year, we have sought more information from our asset managers about:

- **The governance issues at an insulation company.**
- **United Nations Human Rights Council report into business activity in Israel's settlements.**
- **Reparations for local communities impacted by a mining disaster.**
- **The environmental performance of water companies.**

Many of these issues are ongoing and will be raised a number of times with the asset manager.

As a Fund we may attend a company's AGM to ask questions directly of the company's board. This is something we did pre Covid and is something we would like to do again, if we have both the resources and, where appropriate, the wider partnership support of the Brunel partnership.

Voting at listed companies we hold shares in

If we hold shares in companies which are publicly listed on stock exchanges, we have the right to vote at those companies' Annual General Meetings (AGMs). This is an important way to bring matters to the attention of the Board of under-performing companies and may build on previous engagements with the company.

Our aim is for our managers to use 100% of votes available.

We publish a link to all our voting records quarterly on our website. We also publicise our voting records in our Annual Report and Financial Statements.

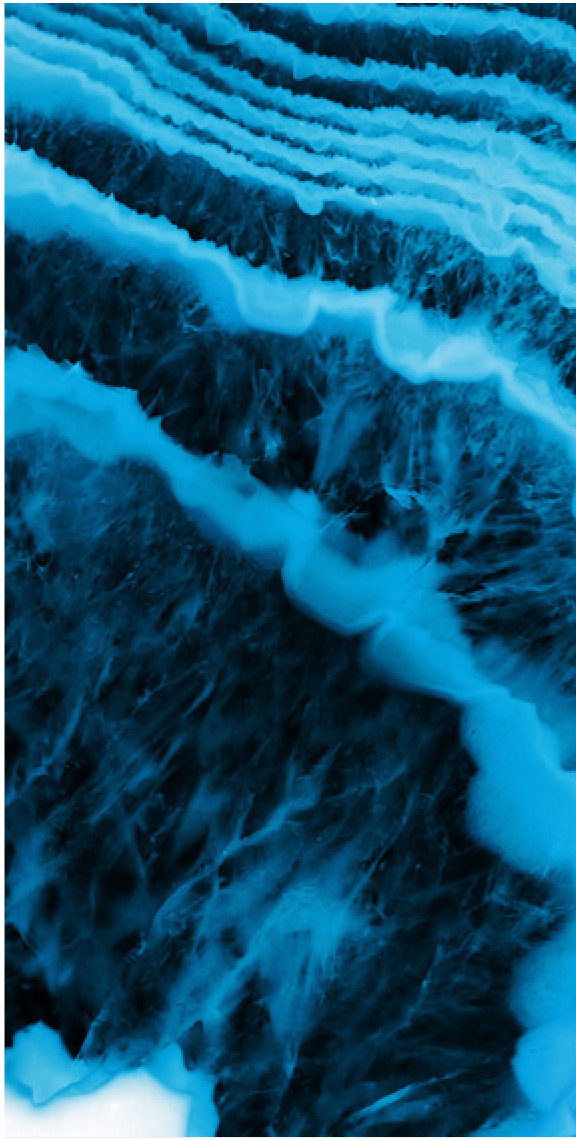
Stocklending

The Fund may engage in stock lending through its investments in Brunel pooled portfolios.

Where stock lending is taking place within pooled funds Brunel will seek to arrange where practical to have the ability to recall stocks to be able to vote.

Within Brunel the decision to stock lend or not within a particular portfolio is made by clients. This is reviewed annually.

In 2022, none of the portfolios we invested in undertook stock lending.



How we vote on assets managed by Brunel

The voting is managed by Brunel's engagement provider EOS.

In 2022, EOS made voting recommendations on 4,227 resolutions at 302 meetings on behalf of the EAPF.

At 225 of those meetings, EOS recommended opposing one or more resolutions, while at one meeting, they recommended abstaining. EOS recommended voting with management on all resolutions at 55 meetings.

EOS' recommendations were guided by Brunel's Voting Guidelines, which are agreed by the partnership.

Brunel generally operates with a single voice but its clients are allowed to vote by exception where they have a specific investment policy commitment. The EAPF has not done this to date.

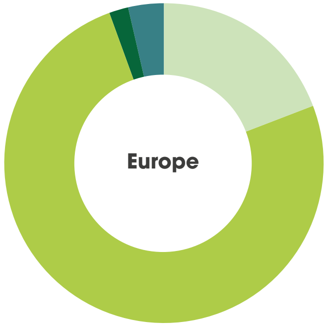
LAPFF also provide updates on individual firms and selectively issues voting recommendations to its members. We can raise these through Brunel.

The voting process itself involves a number of actors and is set out below.

Voting process

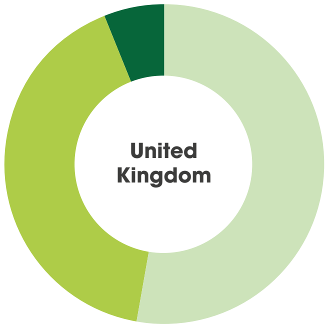
- Notification of an AGM/EGM is sent to Brunel's (and EAPF's) Custodian, State Street.
- State Street will generate the share positions using its digital voting platform, Broadridge.
- Broadridge will issue electronic ballots* to the designated proxy voting provider, ISS.
- ISS will share the electronic ballots and research with our appointed advisor, EOS.
- EOS, with reference to our voting guidelines, will issue a recommendation 'alert' to Brunel and the asset manager/s who hold that company.
  - Where Brunel does not agree with an EOS recommendation, Brunel will discuss with EOS and the recommendation will be updated accordingly.
  - Where the asset manager identifies a different approach to the EOS recommendation they are asked to report quarterly to Brunel. In exceptional circumstances where asset managers do not agree with EOS recommendation, the manager will contact EOS to discuss with the analyst.
  - If a consensus is reached, the voting instruction will reflect that view and Brunel will be informed if there has been a change.
  - Where consensus is not reached, Brunel, after taking feedback from EOS and the asset managers, will direct the voting recommendation.
  - Where there are multiple asset managers who hold a stock and one or more manager does not agree with the recommendation, Brunel, after taking feedback from EOS and the asset managers, will direct the voting recommendation.
- Recommendations become vote instructions and are issued via the ISS and Broadridge platforms to sub custodians, the registrar, and the issuing company where the vote is made.
- Analytics of voting activity and voting records are generated every quarter and published on Brunel's website.

Regional voting overview



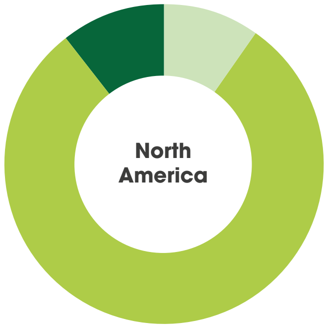
We made voting recommendations at **57** meetings (**1,075** resolutions) over the last year.

- Total meetings in favour **19.3%**
- Meetings against (or against AND abstain) **75.4%**
- Meetings abstained **1.8%**



We made voting recommendations at **17** meetings (**329** resolutions) over the last year.

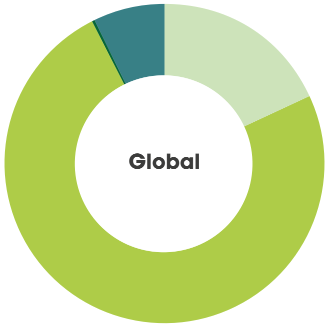
- Total meetings in favour **52.9%**
- Meetings against (or against AND abstain) **41.2%**
- Meetings with management by exception **5.9%**



We made voting recommendations at **162** meetings (**2,187** resolutions) over the last year.

- Total meetings in favour **9.9%**
- Meetings against (or against AND abstain) **79.6%**
- Meetings with management by exception **10.5%**

Global voting overview

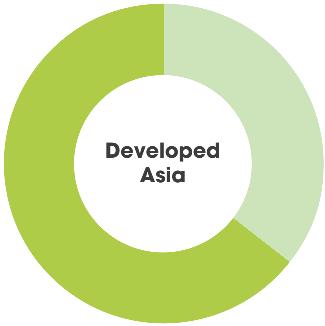


We made voting recommendations at **302** meetings (**4,227** resolutions) over the last year.

- Total meetings in favour **18.2%**
- Meetings against (or against AND abstain) **74.5%**
- Meetings abstained **0.3%**

We made voting recommendations at **8** meetings (**87** resolutions) over the last year.

- Total meetings in favour **12.5%**
- Meetings against (or against AND abstain) **87.5%**



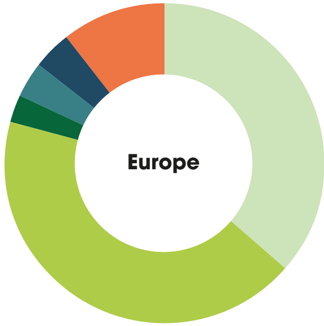
We made voting recommendations at **42** meetings (**443** resolutions) over the last year.

- Total meetings in favour **35.7%**
- Meetings against (or against AND abstain) **64.3%**

We made voting recommendations at **16** meetings (**106** resolutions) over the last year.

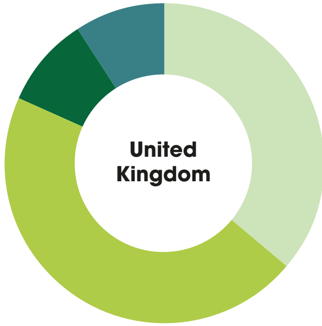
- Total meetings in favour **18.8%**
- Meetings against (or against AND abstain) **75.0%**
- Meetings with management by exception **6.3%**

Regional issues overview



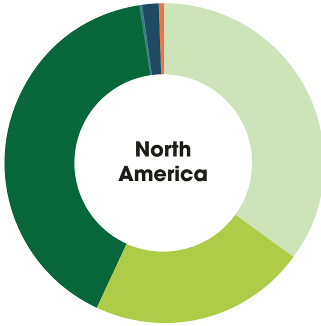
EOS recommended voting against or abstaining on **145** resolutions over the last year

- Board structure **36.6%**
- Remuneration **42.8%**
- Shareholder resolution **2.8%**
- Capital structure and dividends **3.4%**
- Audit and accounts **4.1%**
- Other **10.3%**



EOS recommended voting against or abstaining on **11** resolutions over the last year

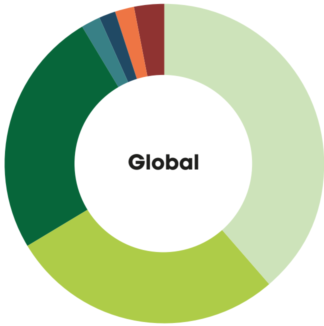
- Board structure **36.4%**
- Remuneration **45.5%**
- Amend articles **9.1%**
- Other **9.1%**



EOS recommended voting against or abstaining on **402** resolutions over the last year

- Board structure **35.1%**
- Remuneration **21.9%**
- Shareholder resolution **40.5%**
- Capital structure and dividends **0.2%**
- Amend articles **1.7%**
- Audit and accounts **0.5%**

Global issues overview

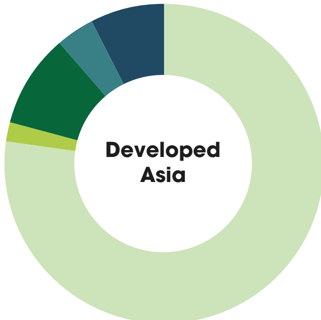


EOS recommended voting against or abstaining on **664** resolutions over the last year

- Board structure **38.9%**
- Remuneration **27.6%**
- Shareholder resolution **25.2%**
- Capital structure and dividends **1.8%**
- Amend articles **1.8%**
- Audit and accounts **1.8%**
- Other **3.0%**

EOS recommended voting against or abstaining on **22** resolutions over the last year

- Board structure **50.0%**
- Remuneration **18.2%**
- Capital structure and dividends **4.5%**
- Amend articles **9.1%**
- Other **18.2%**



EOS recommended voting against or abstaining on **53** resolutions over the last year

- Board structure **77.4%**
- Shareholder resolution **1.9%**
- Capital structure and dividends **9.4%**
- Amend articles **3.8%**
- Audit and accounts **7.5%**

EOS recommended voting against or abstaining on **31** resolutions over the last year

- Board structure **25.8%**
- Remuneration **74.2%**

Using our vote to highlight diversity issues

Last year, we included in our Stewardship Code report some of Brunel's voting guidelines. These were:

- Voting against the financial statements and statutory reports of companies that provide inadequate disclosure on diversity or escalating this to withdraw support for the chair's re-election.
- In the UK, voting against the financial statements and statutory reports of qualifying companies (250 or more UK employees) that fail to disclose their gender pay gap, where required to report by government.
- In the UK, voting against the election of the chair of the nomination committee of FTSE 350 companies where women or men comprise less than 33% of the Board, and against the chair of smaller companies with no female or no male board representation.
- Voting against the chair of FTSE 100 businesses with materially less than 20% female representation in the combined population of the executive committee and its direct reports.

Over 2022, on our behalf, EOS enforced these voting guidelines for ethnic diversity on UK boards and were pleased to see progress by FTSE 100 companies in meeting minimum standards of representation.

Overall in the UK, EOS opposed 19 proposals for concerns about insufficient diversity, including gender diversity, at board level and below. This compared with 37 proposals in 2021.

How we vote through directly-appointed managers

We had 3 listed equity managers in 2022 which voted on our behalf. They all used a voting platform and voted in line with their stewardship approach. These are long-standing managers, whose views on responsible investment have been shown to mirror closely our own over many years. We have shared the Brunel Voting Guidelines with these managers so that it also informs their view.

We expect these asset managers to raise any missed votes with us. If there are any issues with a particular company we are unaware of, we expect managers to disclosure this at our annual meetings with them.

These managers voted on over 3,740 resolutions at 272 meetings in 2022, using 100% of the eligible votes they had.

Most of our managers' significant votes in 2022 focused on governance issues such as executive pay and a lack of transparency of board diversity (98.5%).

Environmental and social issues made up a minority of votes (just 0.3% and 0.6% respectively). This is because typically the vast majority of votes at any AGM are on governance issues which are put forward by the company themselves. Shareholder resolutions are far fewer in number and are often more focused on environmental and social issues.

Also, for those companies we invest in through these sustainable equity managers, the company are likely to be more progressive on environmental issues than the average company. This doesn't mean there is always sufficient progress and the most notable environmental votes for our asset managers included shareholder proposals regarding emission reduction targets.

Shareholder resolutions

Shareholders of listed companies can join together to put forward a resolution. This is another form of escalating an issue which has been a previous engagement topic. If agreed, it may cause the company to act in a certain way.

Being in a pool means that our collective weight and resources to bring forward resolutions is greater. Brunel co-files shareholder resolutions on behalf of the partnership on agreed priority topics. Last year, Brunel co-filed resolutions on climate change issues at HSBC, Berkshire Hathaway (which EAPF does not hold) and on improved pay at Sainsbury's.

Working through large international engagement providers like EOS provides greater depth and expertise, enabling Brunel to add its weight and vote in an informed way on a broad range of global issues.

Progress on all issues takes time. Even after the AGM, and whatever the outcome of the vote, engagement will continue to ensure progress.

Brunel Shareholder Resolution on Living Wage

In 2022 Brunel co-filed a Shareholder Resolution at Sainsbury's with ShareAction, and other institutional and individual investors. The Resolution called for the grocer to be an accredited Living Wage employer and commit to paying all its workers a wage that meets the cost of living.

The resolution did not pass. It did receive a good level of support from minority shareholders (over 16%).

In January 2023, Sainsburys announced pay increases above the real living wage, in line with many other supermarket chains.

Engaging through bond managers with listed companies

We have one bond manager – Royal London Asset Management (RLAM). This is another of our long-standing asset managers, which we now invest in through Brunel.

One of the primary reasons we originally chose RLAM was due to the importance it placed on engagement with companies in the portfolio. Brunel chose them for the partnership because they had the most advanced approach to ESG integration and engagement.

If RLAM wants to escalate an issue, it will meet with company Boards and work in collaboration with other investors.

Engaging with bond managers on water companies

RLAM has chosen some UK water companies to be in Brunel's sterling corporate bond portfolio. Their water company engagement has focussed on droughts, flooding, flood infrastructure and biodiversity. RLAM has also engaged with all water companies to understand investment and lobbying around storm water releases and wastewater discharges.

Going forward, RLAM engagement efforts are targeted on laggards with the most need for change. This involves teaming up with lead investors, which may involve other asset owners from across the Brunel partnership.

Engaging with private companies

We invest in private equity and private debt.

Our primary investment route has to date been through our Targeted Opportunity Portfolio (TOP) where we have appointed the managers directly. Our general focus here is to support younger and smaller companies who offer exciting sustainability credentials. In 2022 we also starting investing in private markets through Brunel in private debt and infrastructure.

The engagement with underlying companies is done by our asset managers. Part of our attraction to certain asset managers has been their targeted investment focus, for example, investing in companies which provide solutions for a circular economy.

Feedback from our private market asset managers is that underlying companies are very amenable to accepting ideas from them on how to improve their environmental and social performance.

The ultimate way we escalate issues – divest

This is a topic we consider regularly and one raised frequently by our members.

The EAPF is a responsible investor, not an ethical investor. We want to use our investments to drive positive change.

We invest across all sectors. We want to see all carbon-intensive companies manage the risks from climate change.

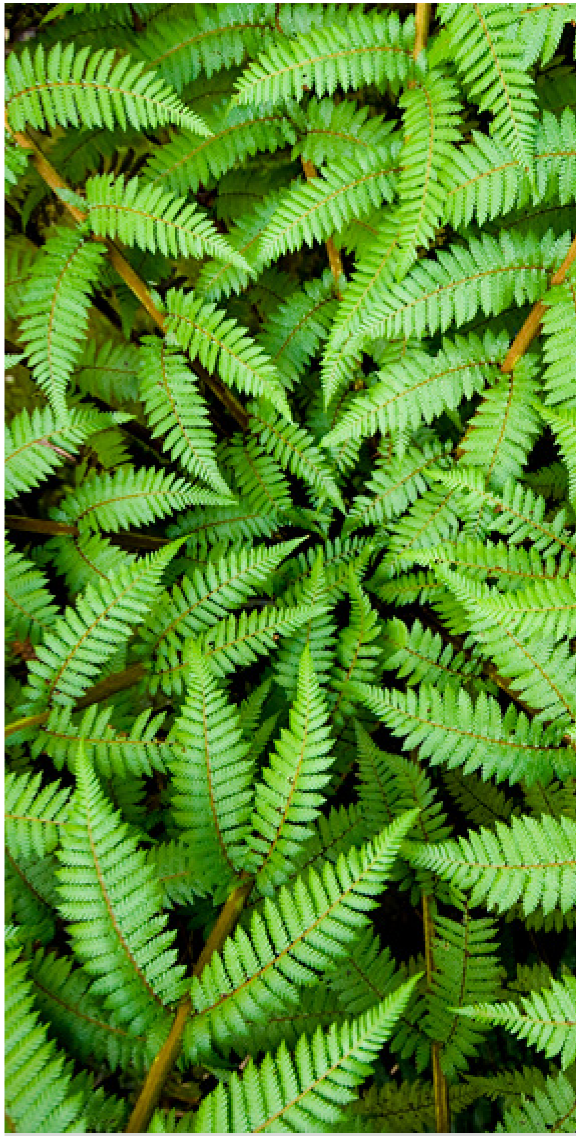
If after engagement individual companies are not on track and/or apparent risk comes to light through the manager's ongoing monitoring, we support our asset managers dis-investing from them.

In 2022 one of our asset managers used the Minings and Tailings Dam Standards Initiative to assess risk from a particular company. Better disclosure of information by the company led to the asset manager regarding there to be greater risk in the company's tailings dam portfolio compared to their peers. The asset manager also assessed there was long-term evidence of wider poor environmental management. This informed the asset manager's decision to divest from the company.

Over the last year, we have been working with our partners in Brunel, as part of the review of the climate change policy, on how to implement selective divestment.

Brunel use data from the TPI, the Climate Action 100+ benchmark, Science Based Targets Initiative (SBTI) and other sources. Brunel's policy is to incrementally increase expectations on companies, agreeing these with clients annually. Brunel strongly believes in engaging with perseverance, but selective divestment does and will continue to be part of the tool kit.

Over the next year the EAPF Pensions Committee will again review its position on exclusions and selective divestment and feed these into discussions with its partners in Brunel.



Climate Change

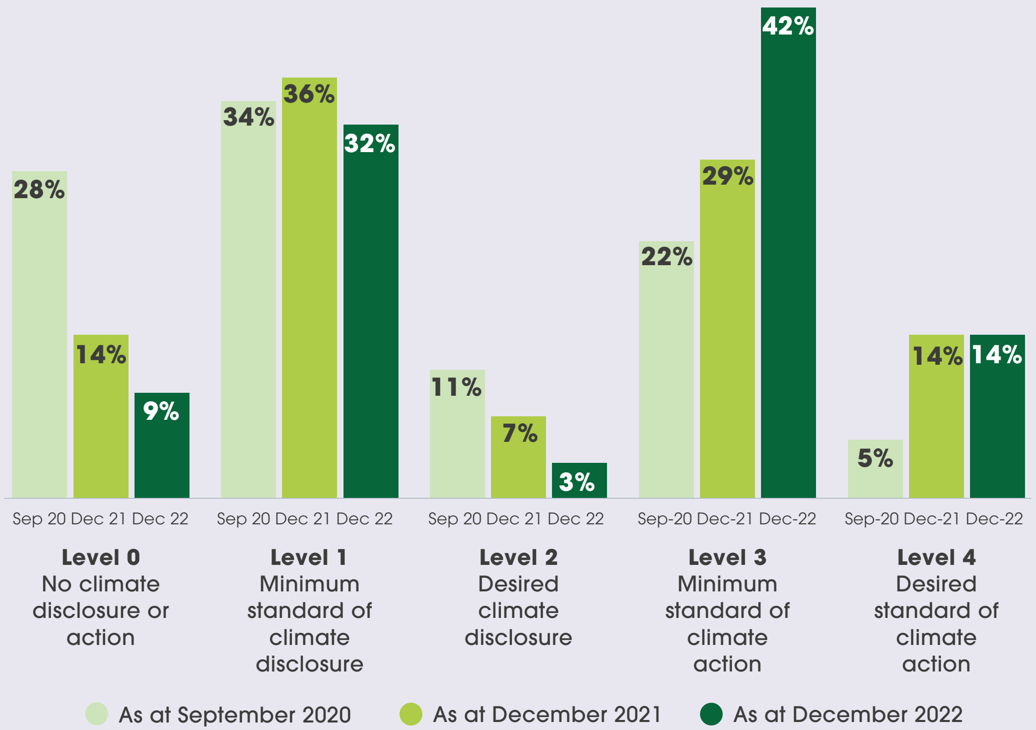
Engaging on climate change through an asset manager

Our Global Sustainable Equity asset manager Generation monitors the levels of climate disclosure throughout their Focus List, from which portfolios are constructed.

Two years ago Generation wrote to all of the companies on the Focus List setting out their expectation that all companies should achieve net zero by 2040.

Generation categorises companies on a climate transparency scale of 1 to 4 with 1 being companies that only disclose greenhouse gas emissions either to the CDP (formerly Carbon Disclosure Project) or in their own reporting, and Level 4 meaning that companies are aligned with Generation's goal of net zero emissions no later than 2040 and are showing leadership on climate action.

We set out progress in the first year in last year's Stewardship Code. We have updated this table with progress in the second year.



Voting on climate change issues through Brunel

Brunel's voting guidelines are that it will vote against the re-election of the company Chair where:

- Oil and Gas, Utilities, and all European companies have not at least reached Level 4 of the Transition Pathway Initiative framework.
- A company has not reached level 3 of the TPI framework for the US and Asia, or where the TPI score has fallen from level 4.
- A company's strategy is materially misaligned with the goals of the Paris Agreement.
- A company's strategy is misaligned to Net Zero ambitions.

Companies scored for the first time will be differentiated and reviewed on a case-by-case basis.

Engaging on climate change through EOS and Climate Action 100+

Climate Action 100+ has been at the forefront of collective shareholder engagement on climate change with 166 focus companies. These focus companies are the most carbon-intensive listed companies internationally.

EAPF is one of the 700 signatories supporting this initiative, representing over $68 trillion assets under management collectively.

In 2022, our engagement providers EOS acted as lead or co-lead for 24 companies. EOS provided us with environmental progress against 17 of these companies. Below is a table of progress for the 6 companies that EAPF hold.

Company name	Sector	EOS CA100+ role	Environmental Objectives progressed
Mercedes-Benz Group	Automobiles	Lead	3
BMW	Automobiles	Co-lead	4
Volkswagen	Automobiles	Co-lead	1
TotalEnergies	Oil and Gas	Co-lead	4
AP Moller-Maersk	Transportation	Co-lead	4
Lockheed Martin	Transportation	Support	4

Lots of progress is still required. EOS for example informed us that TotalEnergies climate strategy in 2022 was below their expectations and they had pre-declared an intention to recommend a vote against the climate change progress report. They also engaged directly with Total's CEO at the company's headquarters in Paris. 89% of the vote at the AGM was in favour of the report.

Only 23% of Climate Action 100+ focus companies have committed to aligning their lobbying activities with the Paris Agreement, despite the importance of policy support for achieving company decarbonisation.

EOS met with BMW, Mercedes Benz and Volkswagen to request more transparency on climate-related lobbying activities. BMW and Mercedes provided their lobbying reports, Volkswagen did not.

As a result, EOS supported a shareholder resolution asking for an explanation of how Volkswagen's lobbying activities helped to address climate risk. The company rejected the resolution (i.e. it wasn't on the list of resolutions at the 2022 AGM) and EOS then voiced its support for a group of investors taking legal action to challenge the decision. This legal action is ongoing.

Taking part in Shareholder Resolutions on climate change through Brunel

The banking sector is a key player in tackling climate change and it has been a priority for engagement over the last 3 years.

In 2020, Brunel co-filed a shareholder resolution at Europe's second-largest financier of fossil fuels, HSBC Bank.

The resolution was subsequently withdrawn as it was replaced by a management-backed resolution committing the bank to phasing out its financing of the coal industry by 2030 in the OECD and by 2040 worldwide.

The bank's coal policy failed to meet expectations and contained significant loopholes, resulting in Brunel co-filing another shareholder resolution for 2022.

In response to the pressure from investors, in February 2022, HSBC announced new climate commitments. HSBC also committed to review and update its coal policy by the end of 2022 and confirmed it would be updating the scope of its fossil fuel targets to cover capital markets.

In October 2022, HSBC was censured by the UK's advertising watchdog for a misleading campaign that highlighted how the bank had invested $1tn in climate-friendly initiatives, while failing to acknowledge its own contribution to emissions.

In December 2022, the bank announced it would stop financing new oil and gas fields.

A question from a member on stewardship

After we cancelled the EAPF AGM in 2022 (see Chapter 2) a member wrote to express their disappointment. They had been particularly interested in a statistic we had given in the member webinar on 'How the EAPF Invests' where we said that the Fund had voted on 8,000 resolutions at company AGMs in the previous year.

The member wanted to know how effective our approach had been and in particular how many resolutions had passed in line with our vote.

The question was surprisingly hard to answer. There is no easy answer to how effective our approach is.

This is because we don't know how many resolutions passed in line with our vote. We don't have the resources to monitor this. We can only select a few key resolutions and track their outcome. Nor are we provided with this information by our engagement providers – this is something we have taken up with our data providers.

We know how we voted. We know we vote in line with a high number of successful management resolutions, and a high number of unsuccessful shareholder resolutions, which focus more on environmental and social issues. We know at most company AGMs, our vote will be used to oppose one or more resolutions.

Last year we only supported all management resolutions at about a fifth of the companies we hold – down from around a quarter the previous year.

Being part of Brunel means we can be part of a larger group, which joins up with other shareholders and have more influence with our vote. Through Brunel we have been a co-filer of a shareholder resolution which was proposed, the company recognised the importance of the proposal, agreed to the change and the resolution was withdrawn. Therefore there was a positive outcome but this wouldn't show in final voting statistics.

Sometimes, we are part of a shareholder resolution, which may have had strong support but not enough for the company to change direction. Sometimes even resolutions which get majority support are not binding on the company. Sometimes a strong shareholder vote may lead to further action by shareholders and may lead to future change by the company.

Outcome

Some changes are happening but outcomes can take time.

Throughout this chapter we have pointed to many case studies of EAPF working directly or indirectly with companies for positive change.

Engagement appears to be increasingly important. More asset managers are engaging with companies. More asset owners want to see this happen.

There is far more regulatory and social pressure on companies to disclose information and to improve their environmental performance.

We have shown many positive examples of change at companies we invest in – for example more companies taking action on climate change, a bank reviewing its policy on lending to fossil fuel companies and greater transparency by companies on its approach to diversity or tackling sexual harassment.

To what degree these changes were down to shareholder pressure is hard to define. Sometimes the company may act in the way that we wanted but this is due primarily to market, consumer or regulatory factors, rather than shareholder pressures. Sometimes these may be all complementary.

In many instances where there is change, we would like the companies to act quicker and go further, especially in addressing the risks from climate change.

It will be hard for the EAPF to get to net zero by 2045, despite many companies in our portfolios being relatively well aligned for a low carbon economy. We need to work in partnership and sustain this pressure throughout this decade in particular.

When investing in climate solutions, it is straightforward to show our members the difference we have made and the outcomes we have helped finance.

Impact investing however is only a minority of our investments. We invest across all sectors and all economic activities.

We need to drive change across all parts of our portfolio by using our voice and vote but it is often hard to give a definitive answer to our members about how effective we have been.

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