



Environment
Agency

A satellite image of the Earth, showing the Atlantic Ocean on the left, the continent of Europe in the center, and the continent of Africa on the right. The image is taken from a high angle, showing the curvature of the planet. The colors are vibrant, with deep blues for the ocean, greens and browns for the landmasses, and white for snow or ice in the northern regions.

“Greening” our pension fund investment strategy

Howard Pearce

**Head of Environmental
Finance and Pension Fund
Management**

November 2009

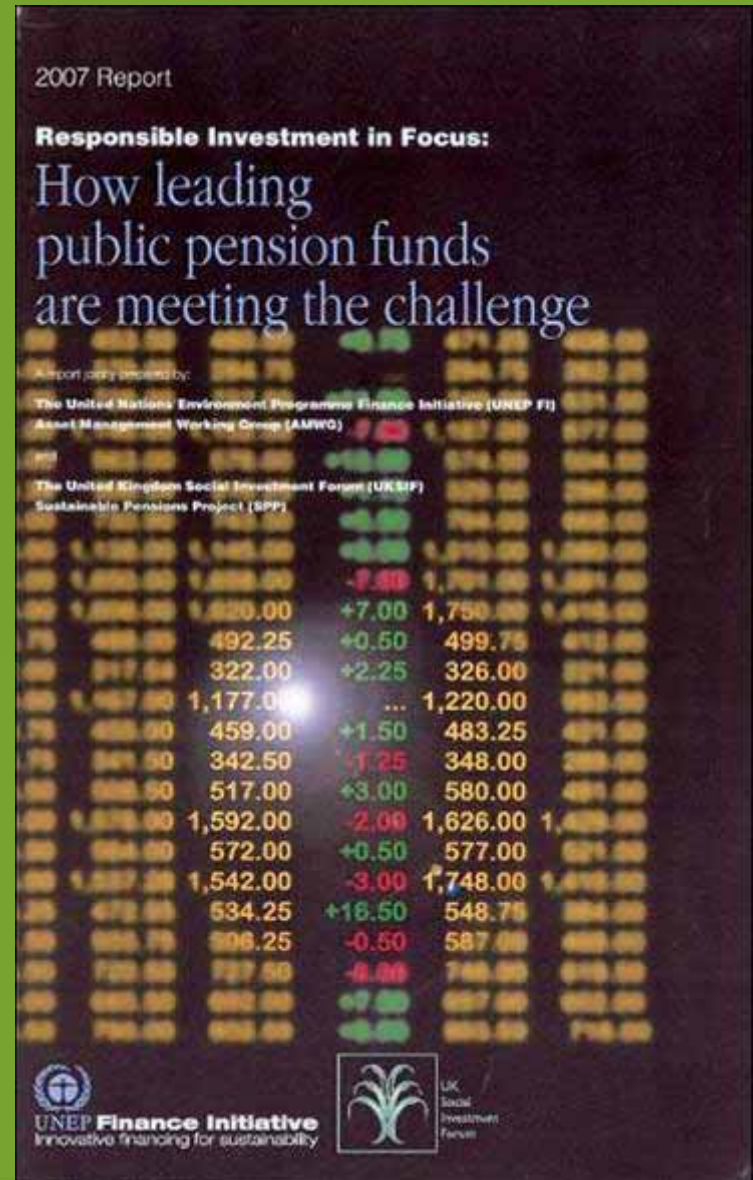
Today's presentation

⇒ Our active pension fund

⇒ Our investment strategy

⇒ Our progress so far

⇒ Our next steps



Our active pension fund

- ⇒ Statutory member of LGPS
- ⇒ £1.5bn assets belong to 21,000 members
- ⇒ 12,000 staff (93%) & 9,000 ex-employees
- ⇒ Costs staff 5.5 - 7.5% and employer 16.5%
- ⇒ Key remuneration benefit – av. pension £9k
- ⇒ Fund will pay pension benefits to 2150
- ⇒ Need for strong long term investment returns

Financial and strategic governance

Environment Agency

**£1.2bn budget on
environmental
protection and water
management**

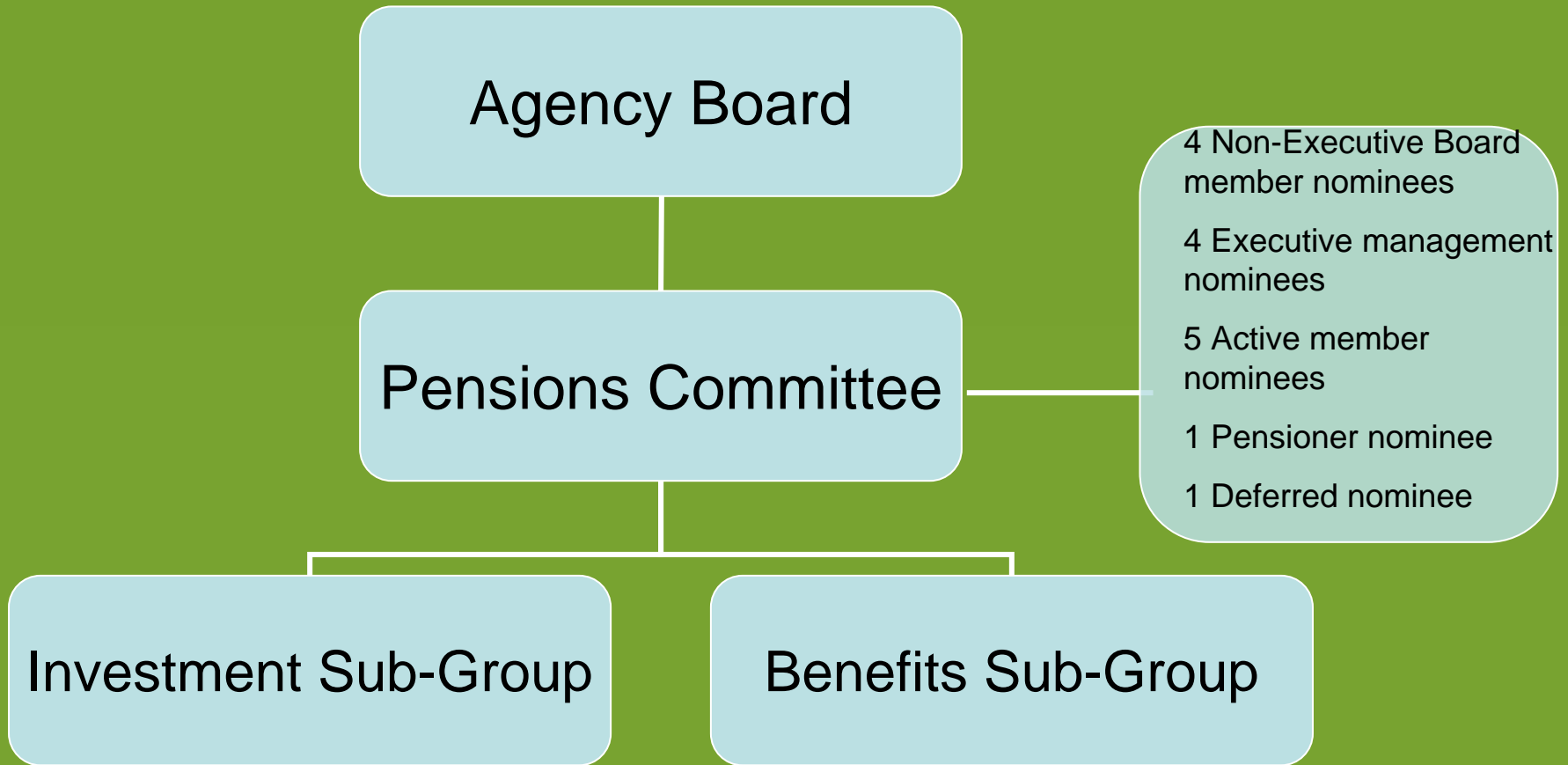
**Corporate Strategy
and environmental
policies**

Active Pension Fund

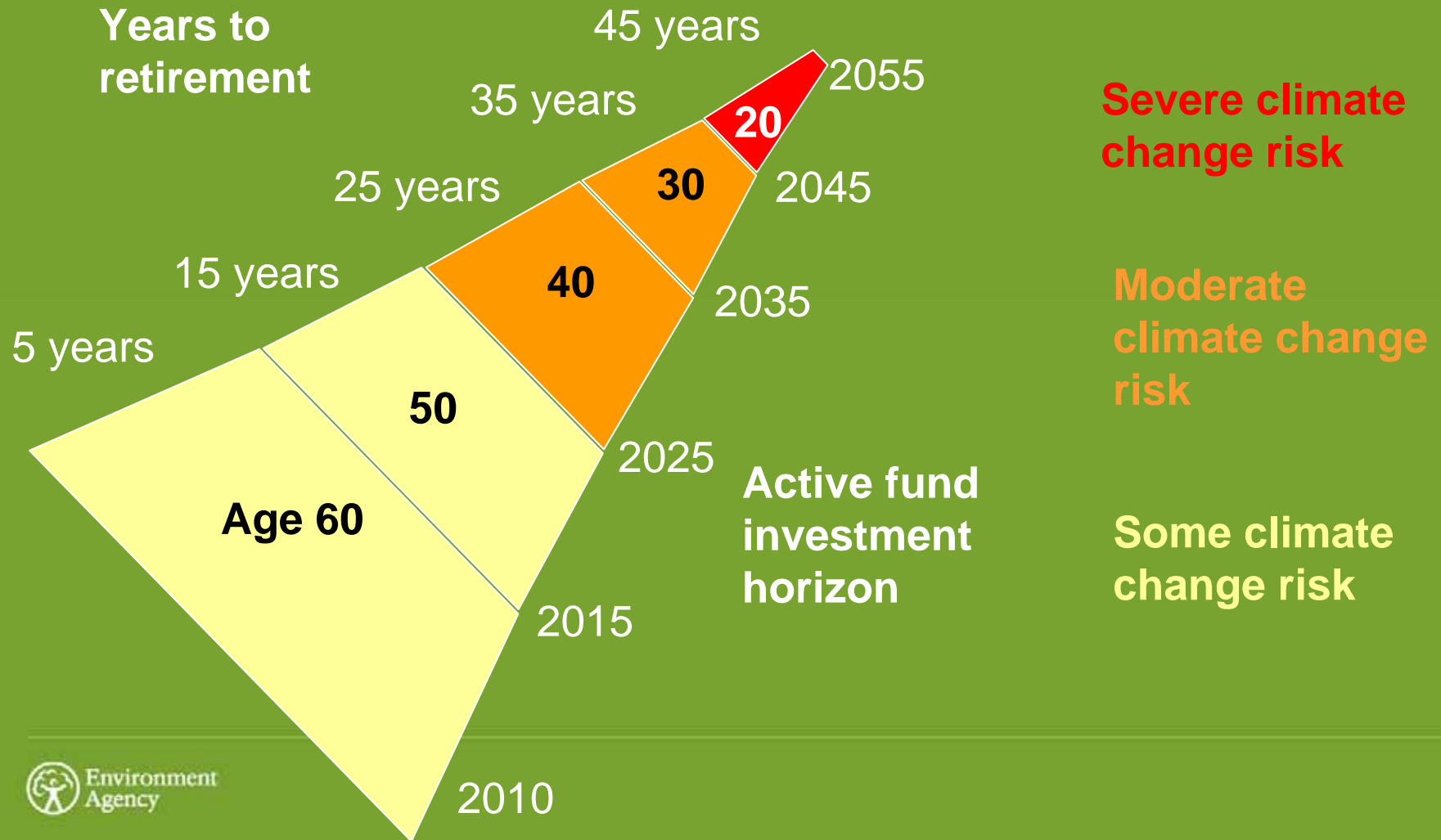
**£1.5bn invested
responsibly to pay
fund members
pensions on
retirement**

**Investment strategy
and environmental
overlay strategy**

Organisational governance



Retirement and climate change



History of “greening” process

Phase 1

1996-2002

SIP and 2 pilots

Phase 2

2003-2009

Overlay strategy

Government’s green agency invests millions in companies that pollute

by MARIE MOULS
Chief Political Correspondent

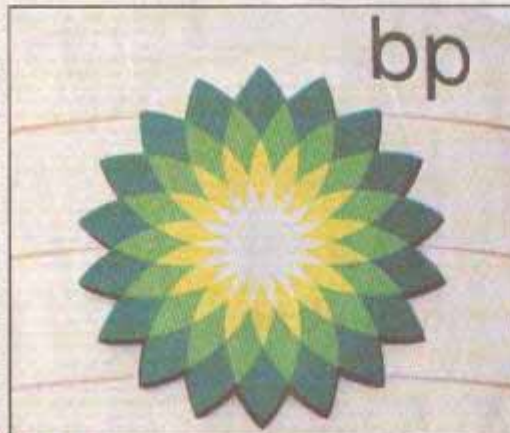
THE GOVERNMENT’S green environmental watchdog has been awarding tens of millions of pounds to oil companies and firms that have been criticised for their records on green issues.

The Environment Agency, which is in charge of food protection, has invested in ten oil firms that have been criticised for contributing to flooding by causing climate change. Last year the agency’s pension fund invested £10m in BP, Shell, BP Energy Services and other oil firms. It also invested in Shell. The firms have been criticised for large sums by the agency for polluting water with petrol or oil products.

The watchdog also invested £10m in Borealis, which has been criticised for green issues for allegedly helping in finance lobbying to the industrial revolution. Borealis has also been criticised for reportedly helping to arrange finance for the thermal gas in Turkey, which would flood several wealthy seaside areas.

MPs and environmental campaigners railed on the Environment Agency’s Michael Heslop yesterday in order the agency to abandon its stock investments.

Prime Minister Gordon Brown said it was “essential” that the body changed “its portfolio of investments” and a “financial reform” in companies that are “regulative” for the public. “This is a challenge,” he said. “We have to ensure that the agency is able to invest in the right firms.”



£46M

BP: Fined £50,000 by the Environment Agency in the UK for pollution from a petrol station, after leaking petrol endangered drinking water in Luton



£18M

SHELL: Fined £20,000 by the Environment Agency in 1998 for spilling 140 tons of a toxic soup into the Manchester Ship Canal from an oil refinery

some firms of companies they have a major responsibility for the climate change that is causing so much flooding which the Environment Agency has a duty to stop and prevent.”

A Labour MP said it was “essential” that the Environment Agency should not pursue an ethical investment policy that ruled out the purchase of shares in companies it investigated, Alan Simpson,

MP for Nottingham, South said: “Investing in the arms companies that are producing so many serious casualties is not a conflict of interest.”

Last autumn BP was fined £50,000, double the highest fine in the UK for pollution, from a petrol station, after fuel leaked into groundwater in Luton. Shell was fined £20,000 by the Environment Agency in 1998 for spilling 140 tons of a

toxic soup into the Manchester Ship Canal.

Last year, a spokeswoman for Shell said the company took its environmental performance “extremely seriously”. She said: “We independently monitor high standards, report on incidents that have happened and what we have done about them every year.”

BE 2009 said: “Our environmental record is a good

one. From time to time we make mistakes and when we do we take action to correct them.”

The agency had an direct investments in Borealis and Paper Group, which has been accused of causing air pollution. It is a private oil refinery which is so many relationships with companies able to demonstrate good environmental performance and risk management.” a spokesman said.

About 11,000 employees contribute to the Environment Agency’s pension fund, which is worth more than £100m and is also funded by contributions from the Government.

Steve Baker, the Environment Agency’s finance director, defended the fund, which is managed by a number of investment managers under the guidance of a committee. He said that the agency did not see

an “ethical investment fund” but was willing to apply some environmental criteria, with out excluding stocks.

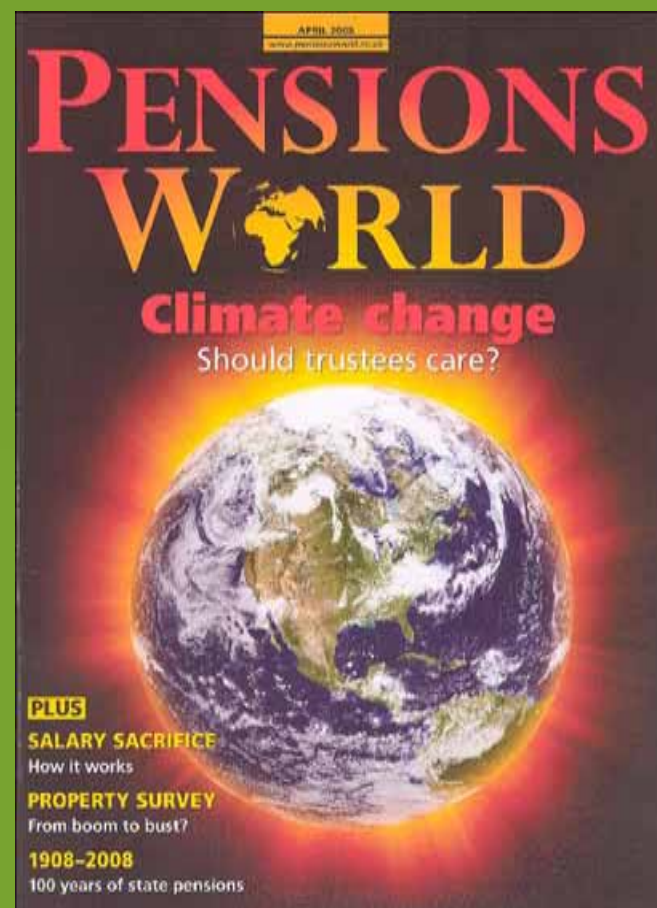
“Like any private fund, the overriding duty is to maximise the return on the fund - that is the overriding criteria,” he said. “We are not saying there shall not invest in oil companies. But we do have the opportunity to apply best environmental practice.”

“Greening” our investment strategy

- ⇒ Fiduciary duty and environmental issues
- ⇒ “Green” investment and financial performance
- ⇒ Investment strategy asset allocation
- ⇒ Environmental overlay strategy
- ⇒ Fund manager selection & new contracts
- ⇒ Joint research with fund managers
- ⇒ Collaboration with other investors
- ⇒ Benchmarking against other pension funds

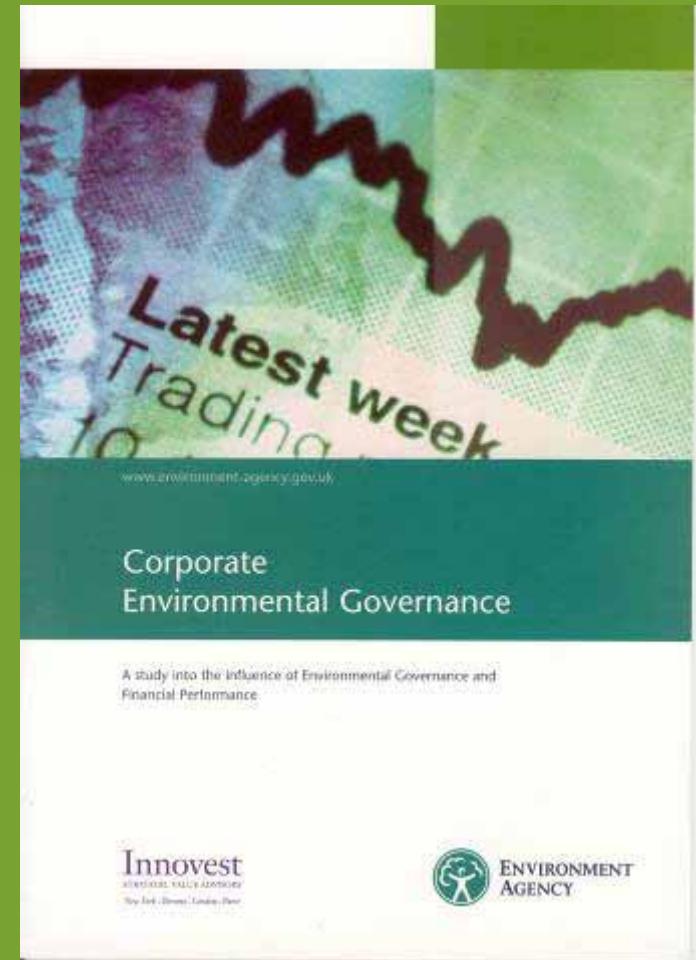
Our fiduciary duty & environmental issues

- ⇒ “Taking account of financially material environmental risks and opportunities, that can affect current and future financial returns, is entirely consistent with acting in the best long term financial interests of pension fund beneficiaries”
- ⇒ “Knowingly ignoring and not taking account of financially material environmental risks and opportunities is a potential breach of a fiduciary’s duties”



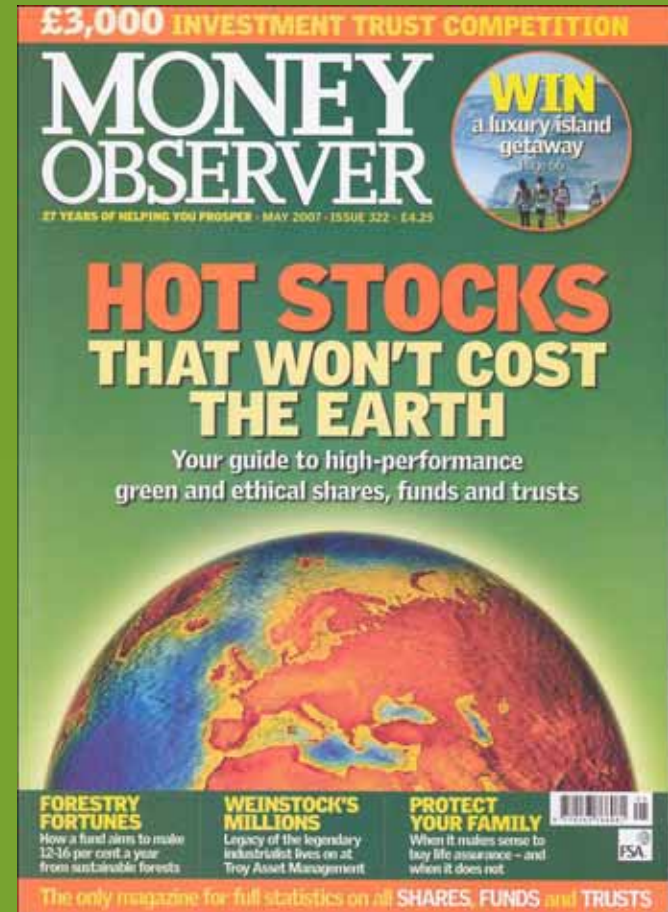
Environmental governance and financial performance

- ➔ Good corporate environmental governance helps to deliver better financial performance
- ➔ Strong evidence from over 70 studies in last 5 years and 15 case studies



Green investment market

- ➔ Businesses with good environmental record can offer good financial returns
- ➔ Leading companies in environmental services sector growing revenues at 10% pa



Green investment market

- ➔ Sustainability and environmental issues – risk & opportunity for investors
- ➔ Asset owners and fund manager surveys forecast growth in interest and importance



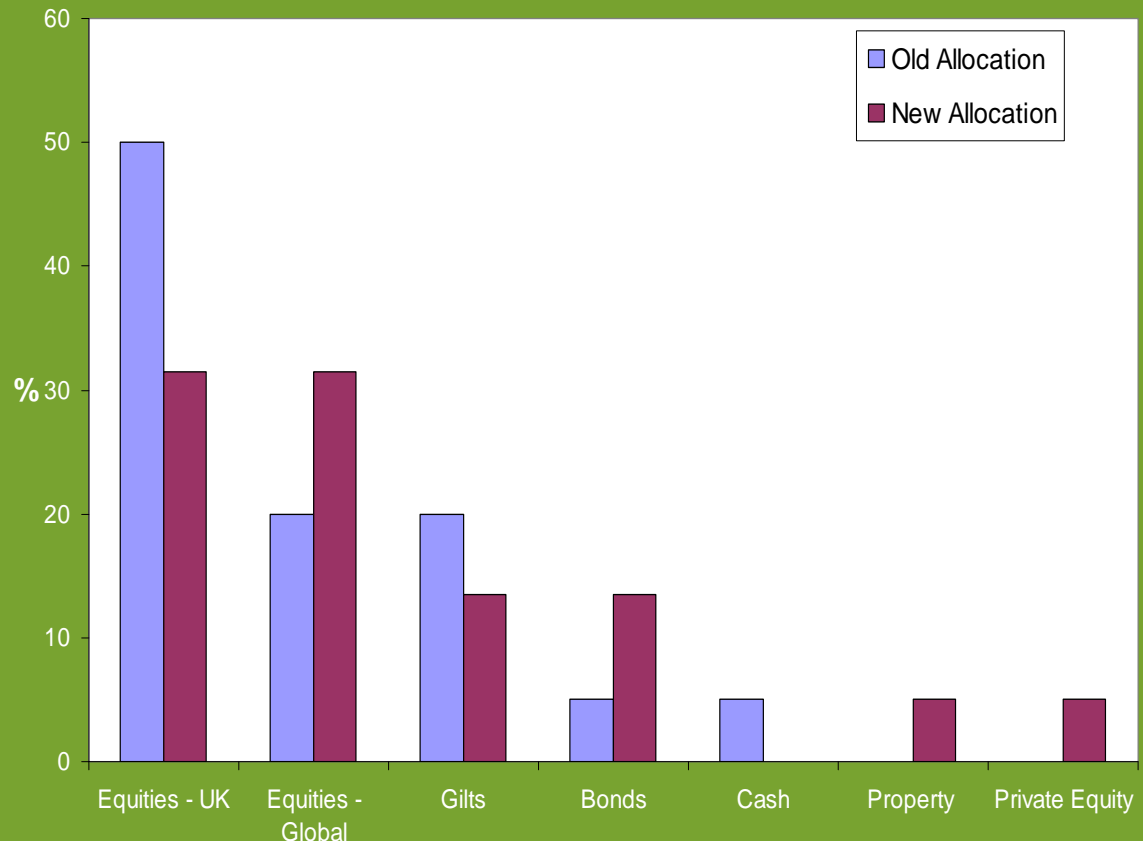
Our investment philosophy

- ➔ Businesses that manage environmental risks, impacts, and opportunities are more sustainable
- ➔ Good for environment and economy and good for shareholders and investors

Our strategic asset allocation

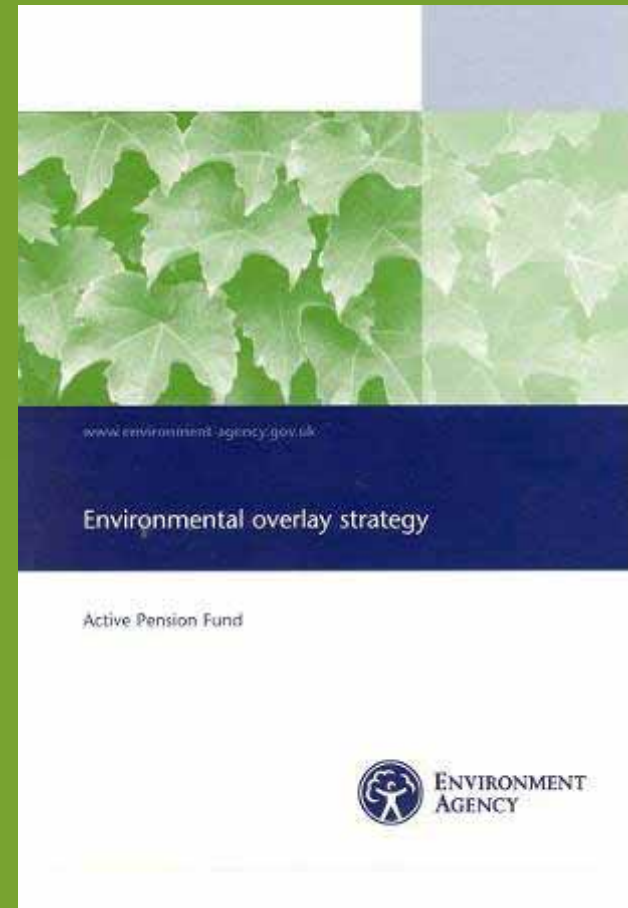
Prudent strategy

Less equities and more fixed income with diversification into new asset classes to reduce overall fund risk and benefit from their financial returns



Our environmental overlay strategy

- ➔ Applies across all asset classes and investment activities
- ➔ Appoint fund managers who integrate environment risks and opportunities into their investment processes
- ➔ Monitor and report financial and environmental performance



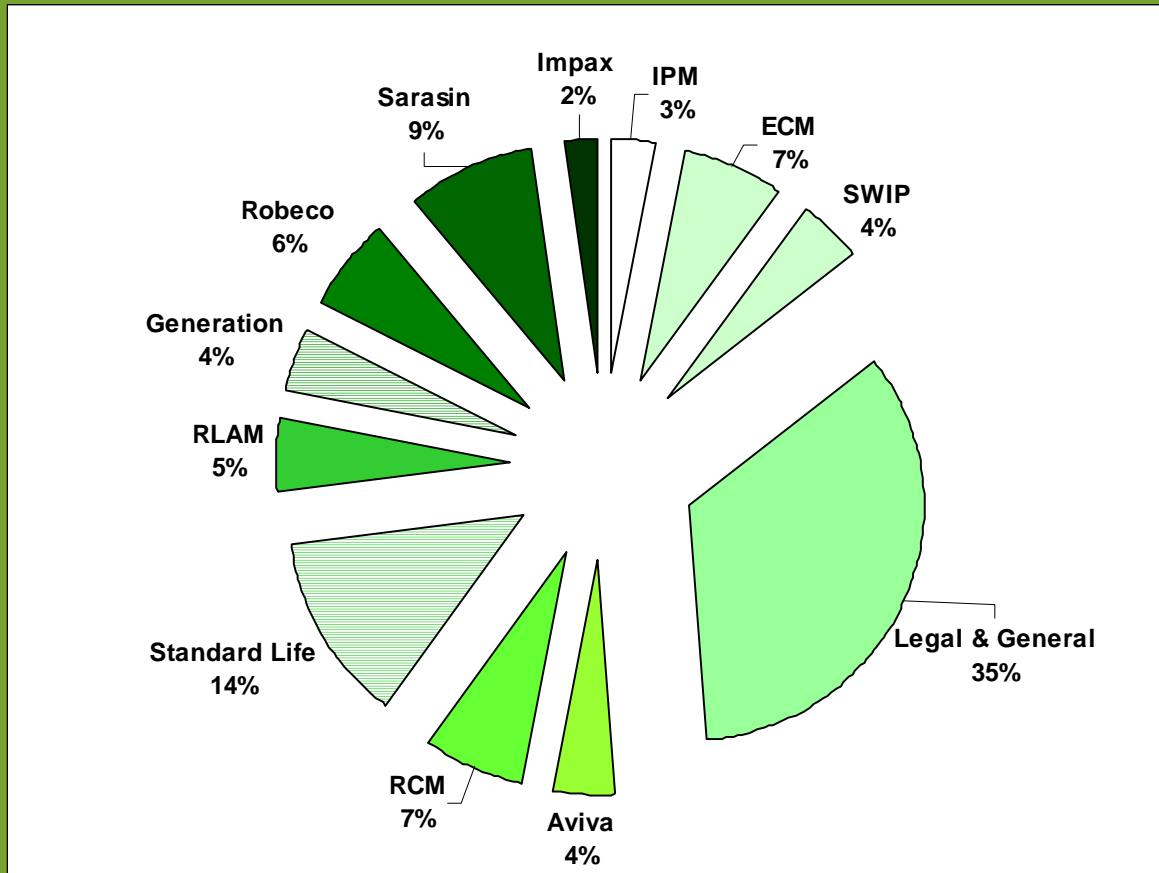
Collaboration and activism

- ⇒ Member UKSIF & Environmental Investors Network
- ⇒ First LGPS signatory to UN PRI & only UK pension fund in UNEP report on good practice in RI
- ⇒ Founding member UK and EU Institutional Investors Group on Climate Change
- ⇒ Founding signatory Carbon Disclosure Project & Forestry Disclosure Project

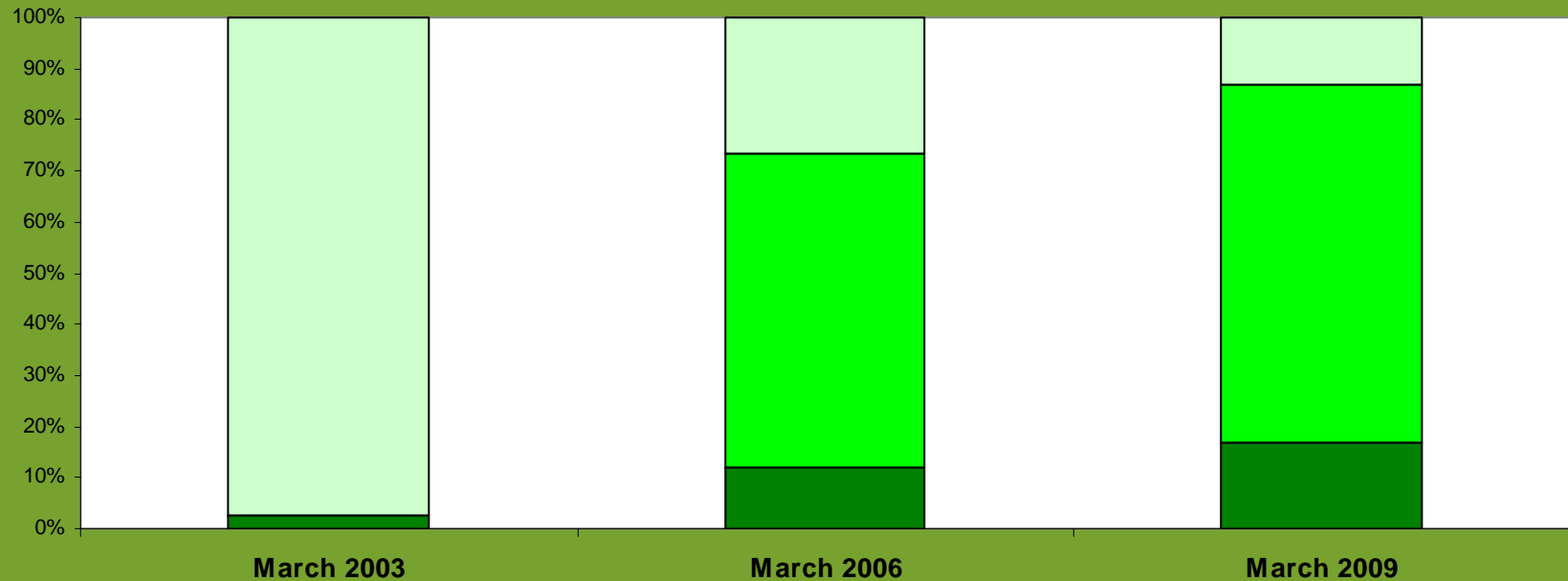
Progress so far

- ⇒ Overall fund and fund managers “greenness”
- ⇒ Financial performance - public equity, private equity, and property funds
- ⇒ Environmental performance – foot-printing and clean technology

Active fund – investments by “greenness”



Our overall fund “greenness”



- Some engagement & voting
- Active engagement, voting, environmental footprinting and best in class selection
- Fully integrated ESG

Public equity managers - financial performance

⇒ First appointment

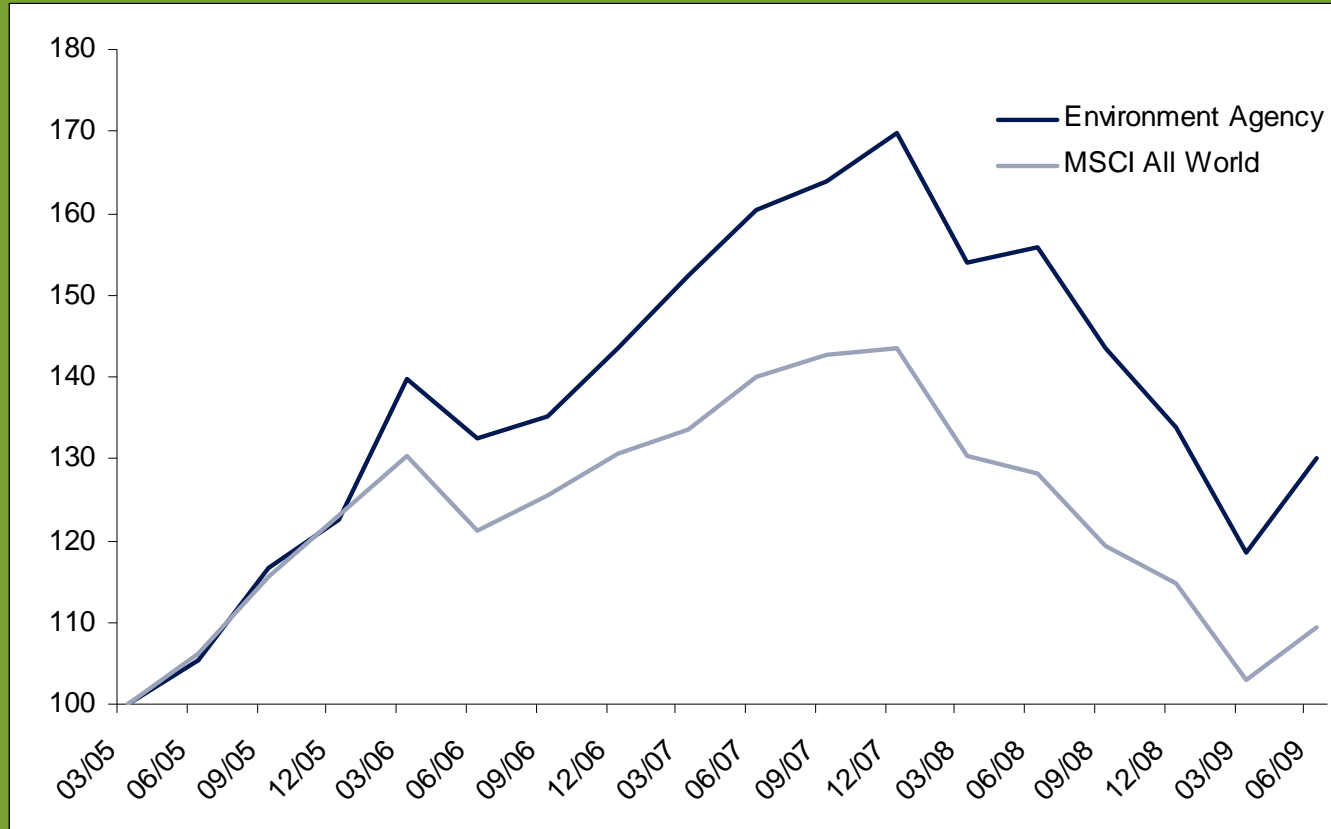
⇒ Sarasin Partners +15% since inception

⇒ Recent appointments

⇒ Generation Investment Management +14% since inception

⇒ Impax Environmental Markets Fund +18% since inception

Sustainable public equity



Our voting on shareholders environmental resolutions

2006	2007	2008	2009
32	54	93	80

Public disclosure on our website

Global private equity manager

30% in clean tech funds

Case study for other pension funds.



ROBECO

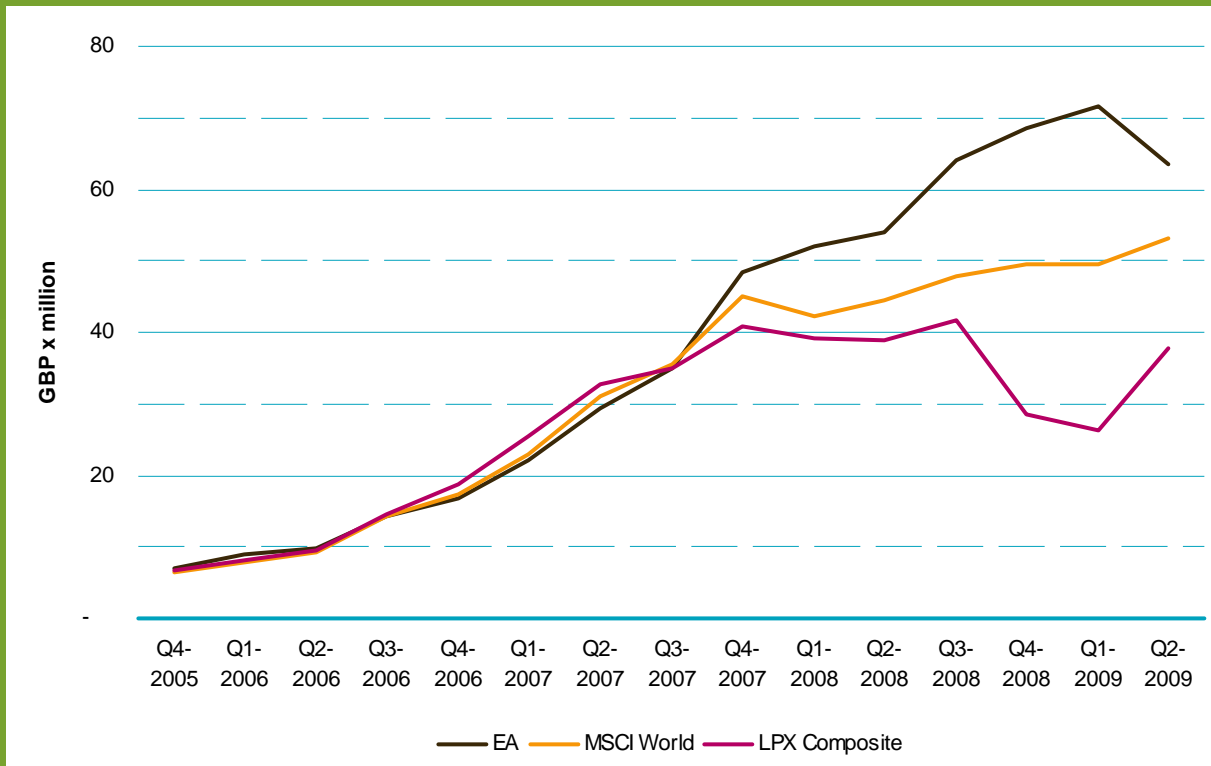
Responsible Investment in Sustainable Private Equity

A Case Study

The Environment Agency Pension Fund mandate with Robeco Private Equity

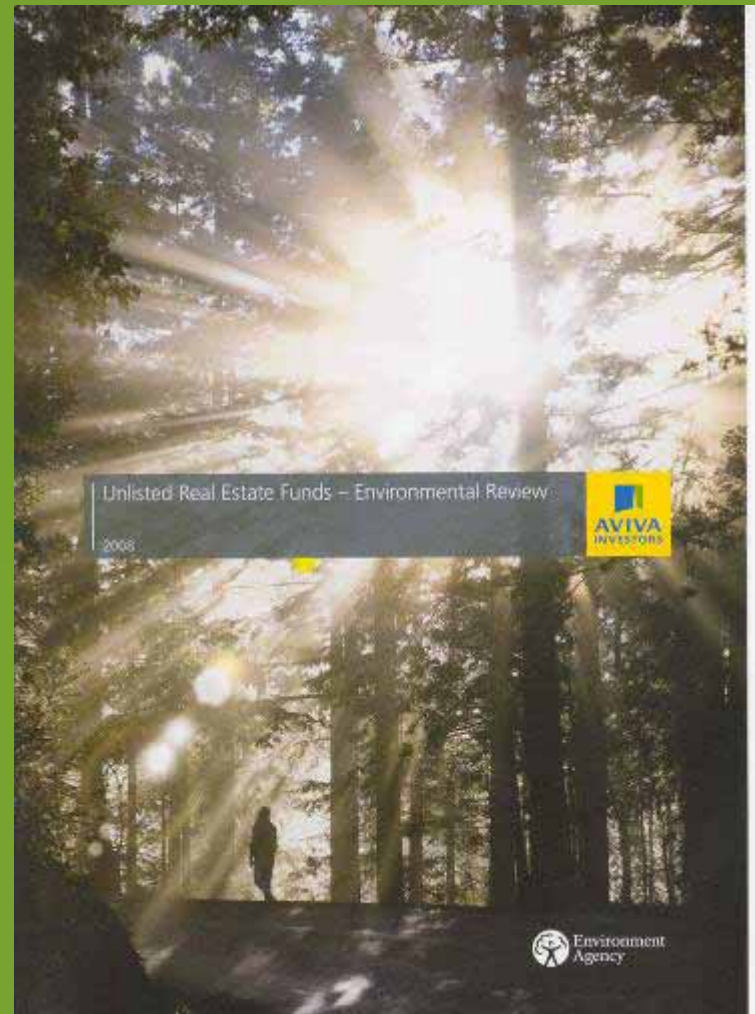


Sustainable private equity



Property fund manager

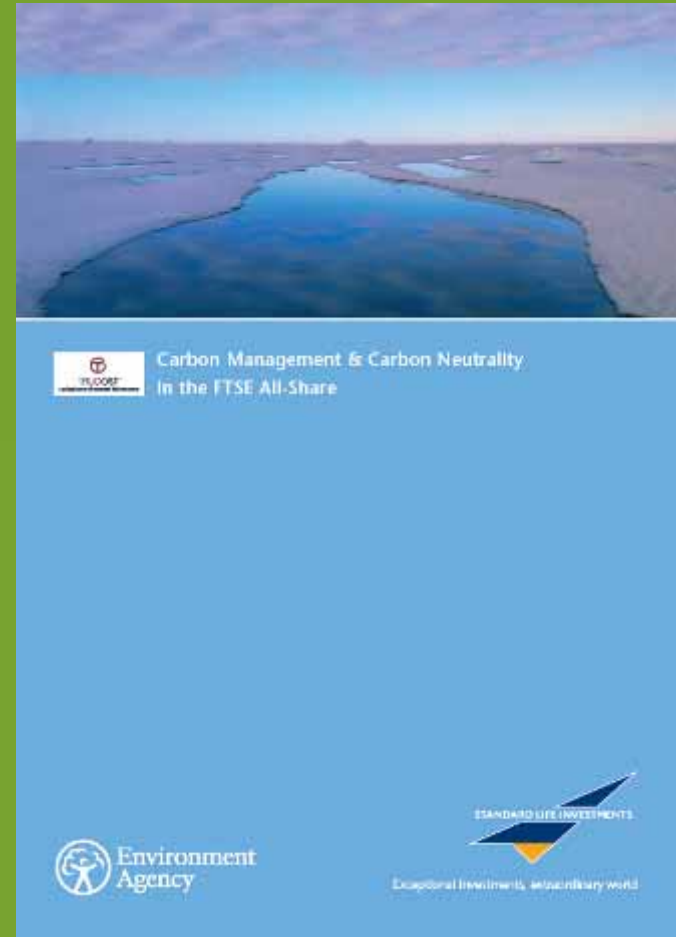
- ⇒ Benchmarked greenness of UK/EU property funds
- ⇒ Best practice property funds – Hermes & Aviva's Igloo Regeneration Fund
- ⇒ Igloo +6% in 08/09



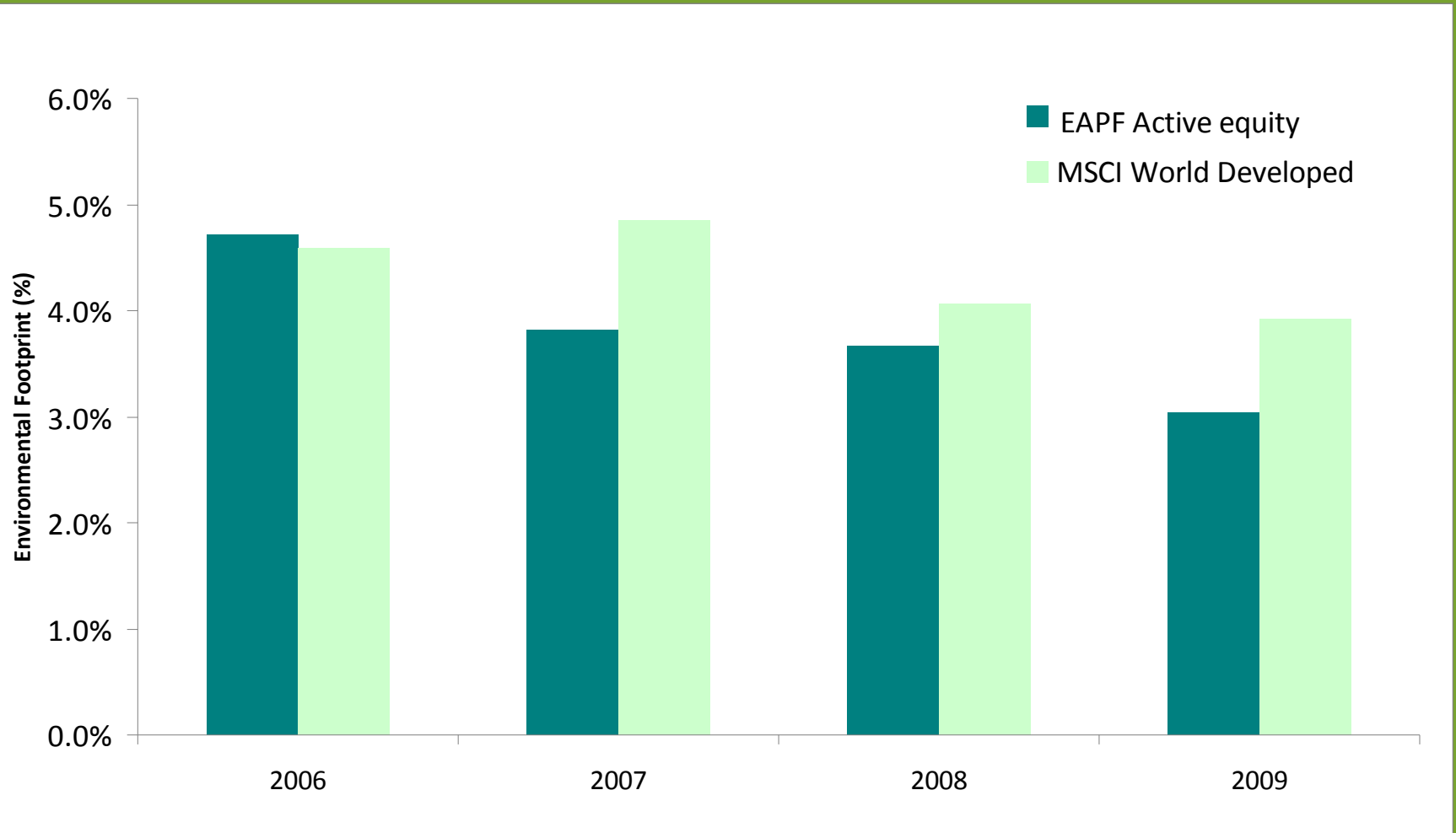
Research with fund manager

Joint report with Standard Life Investments

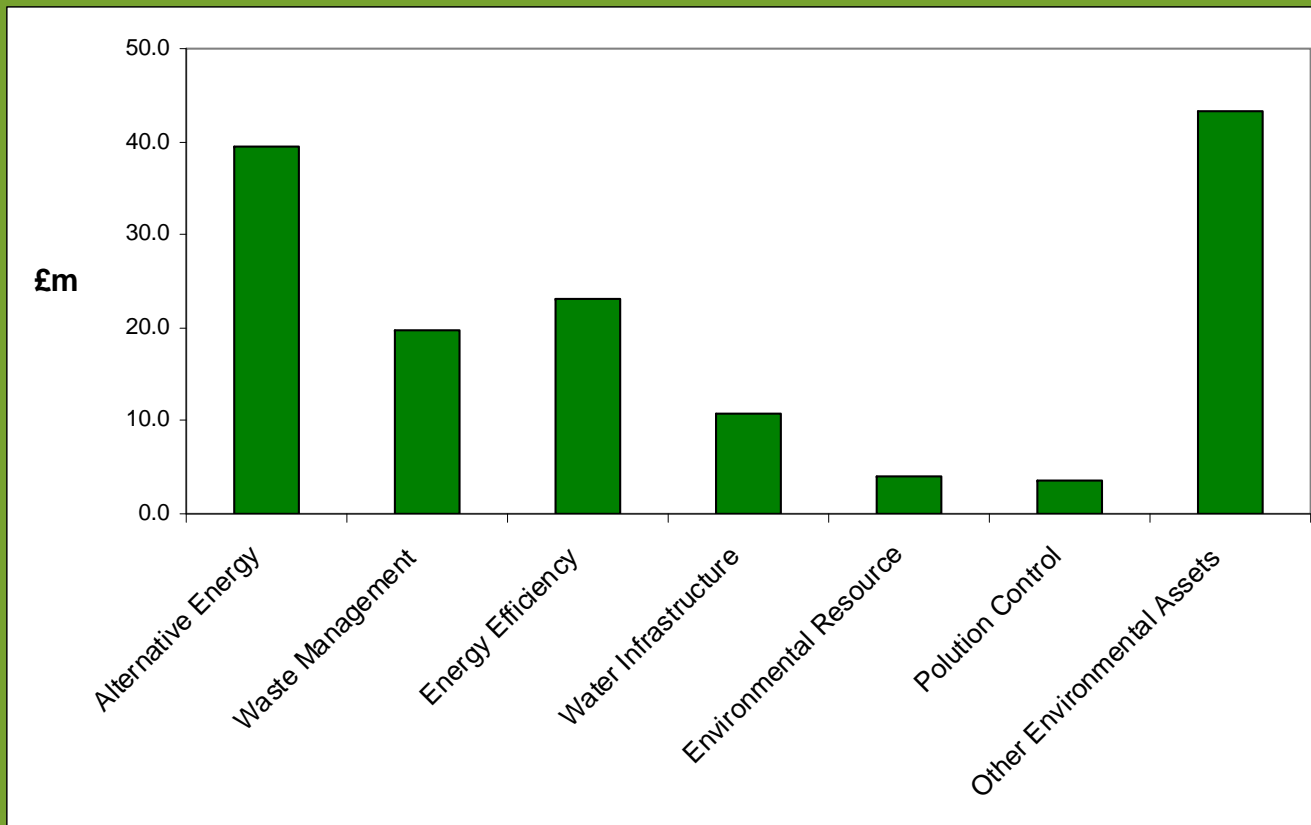
Carbon management and carbon neutrality of 550 FTSE all-share companies to influence other funds and fund managers



Our funds reducing environmental footprint



Positive environmental impact - public and private equity



£150m
invested
across
our
portfolio

Disclosure - Responsible Investment Review

“The aim of the report is to demonstrate to our fund members and other stakeholders that the Environment Agency's active pension fund is managed responsibly, with strategies and policies for the investment and management of the funds assets that are both financially robust and environmentally credible.”



Our benchmarking

Awards	2005/6	2006/7	2007/8	2008/9	Total
UK	1	1	4	2	8
EU	1	2	2	2	7
Global	0	1	1	2	4
Total	2	4	7	6	19

the **ENDS** report

Agency takes lead on responsible investment
The Environment Agency's pension fund has published a report on its implementation of the UN's Principles of Responsible Investment.

IPE

**Getting results from
promoting greener way of
doing business**

**Pensions
Week**

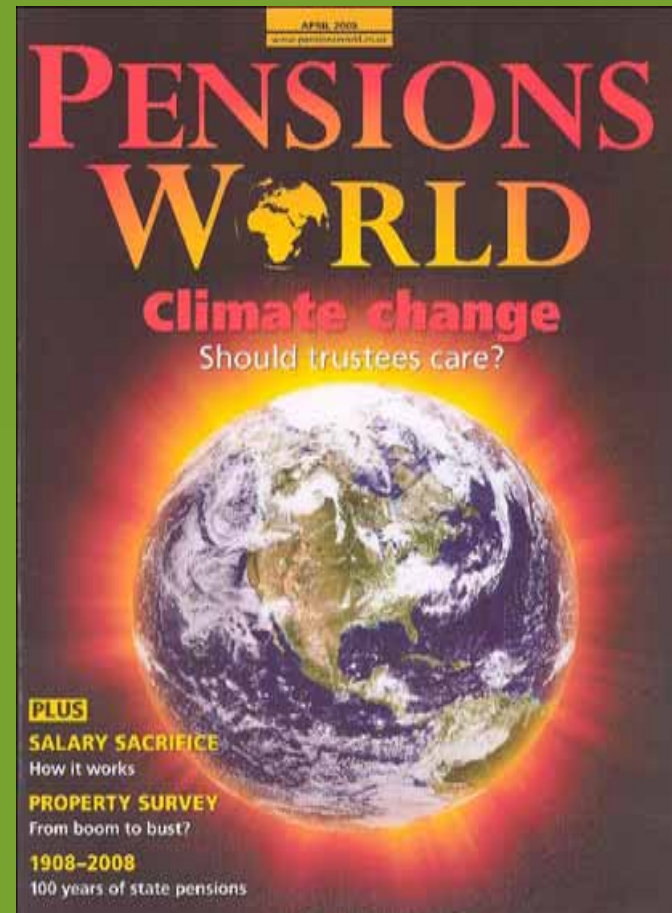
**SRI outperforms for
Environment Agency**

Next steps - Phase 3 - 2010-2015

- ⇒ 2010 triennial valuation of assets and liabilities
- ⇒ Review investment strategy & asset allocation
- ⇒ Refresh environmental overlay strategy
- ⇒ Climate change risks and opportunities
- ⇒ Review fund managers & new investment products
- ⇒ Improve financial and environmental performance
- &
- ⇒ Continue to learn, innovate, evolve

Climate change & pension funds

- ⇒ Environmental issues and climate change are on the investment agenda of leading pension funds
- ⇒ Need to understand and take account of the -/+ financial impacts, risks and opportunities



Climate change and pension funds

- ⇒ Consensus that climate change is a physical and economic reality
- ⇒ Investment implications – short, medium and long term strategies

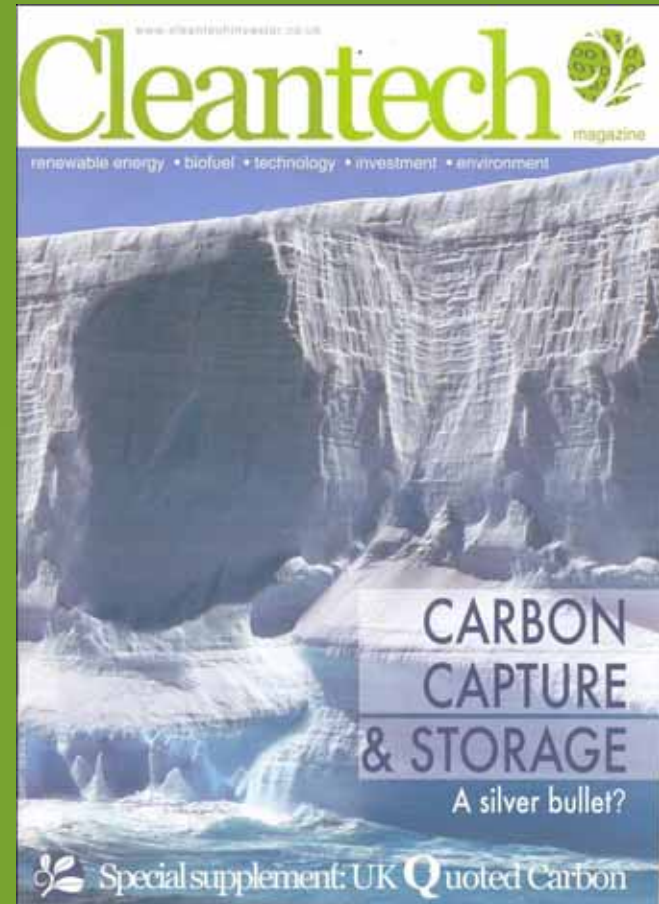


New long term investment themes

- ⇒ Clean tech and bio-technology
- ⇒ Environmental advice and consultancy
- ⇒ Renewable energy and energy efficiency
- ⇒ Materials recovery and recycling
- ⇒ Water treatment and conservation
- ⇒ Eco-agriculture and eco-system services
- ⇒ Sustainable forestry and construction
- ⇒ Public infra-structure and mass transportation
- ⇒ Social services and health care

New investment funds and products

- ➔ Investment opportunities in the “green”, “eco-tech”, “clean-tech” areas are increasing
- ➔ Specialist funds and products for investing in renewables, water, waste, sustainable forestry and eco-system services
- ➔ Leading funds investing to diversify their portfolios

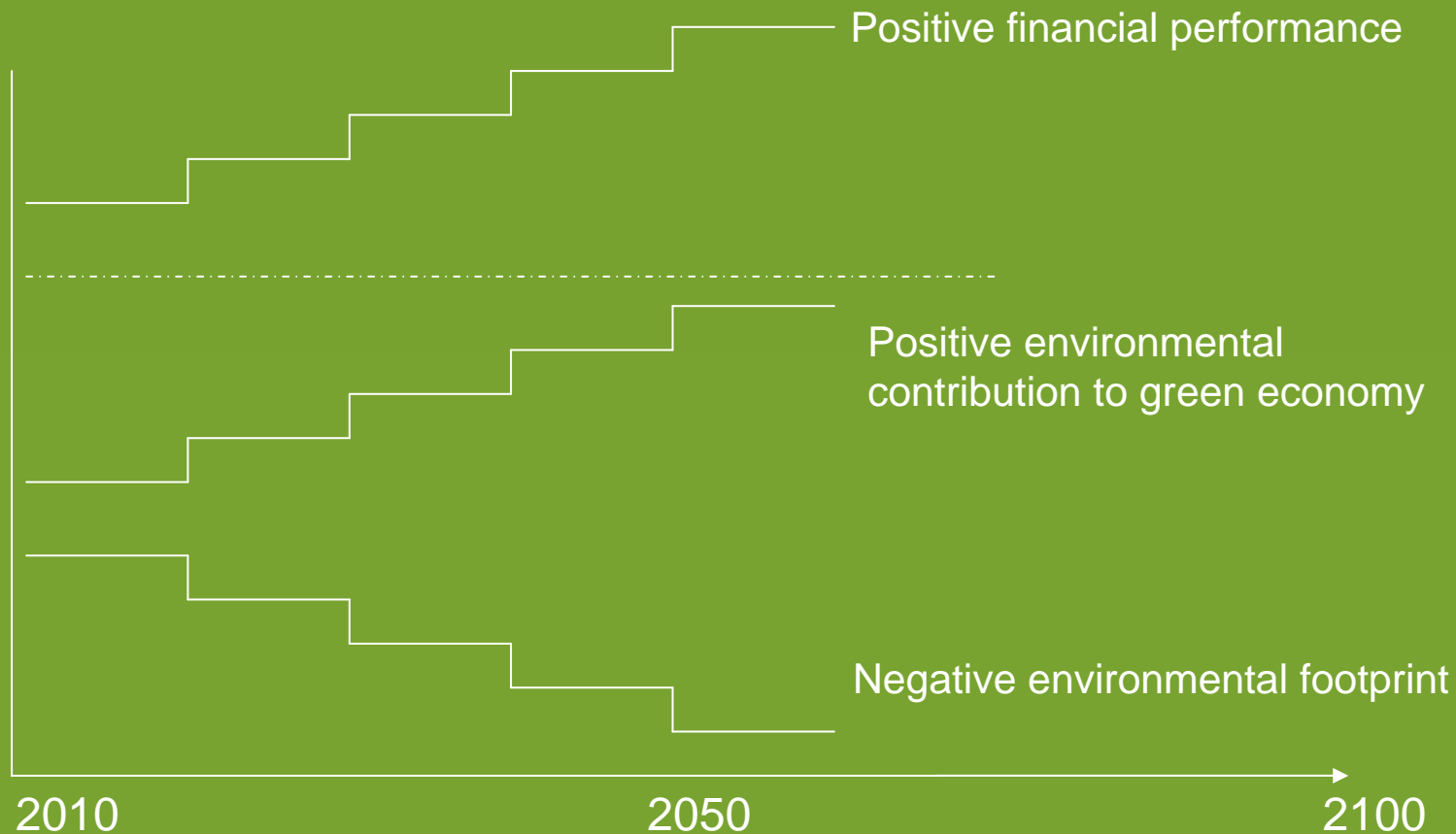


Next steps – continued rigour

- ⇒ Pensions Committee and investment advisors
- ⇒ Thorough research and due diligence
- ⇒ Collaboration with other investors
- ⇒ Financial performance paramount
- ⇒ Environmental benefit preferred

“by 2015 we will assess, whether in light of global “green” economic stimuli, 25% of our pension fund is invested in companies who are contributing to the green economy”

Future long term strategy and performance goals



Influence other funds

FINANCIAL TIMES MONDAY MAY 12 2008

15
FTfm

A pioneer in sustainable investing

RETIREMENT FUNDING

Brendan Maton
talks to a UK
pension fund that
has special insight
into the financial
importance of the
environment

13 November 2009

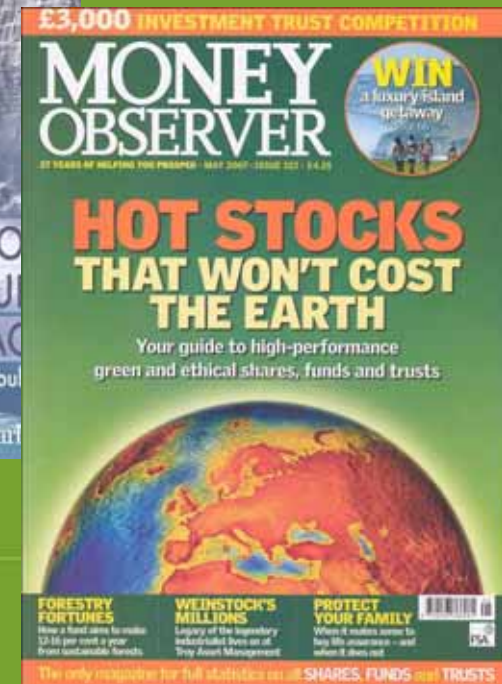
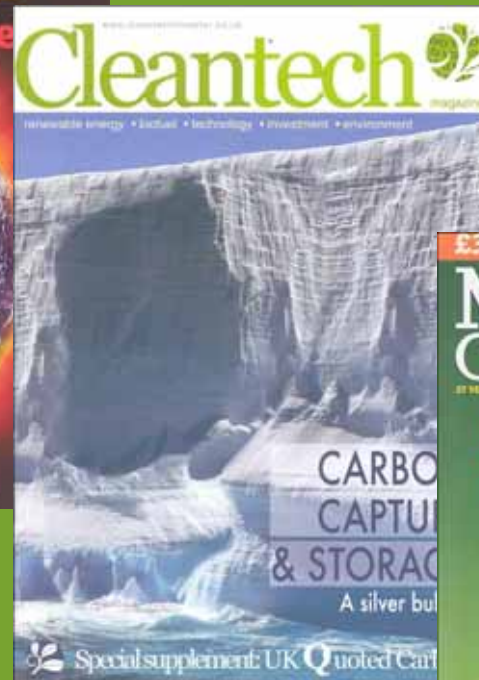
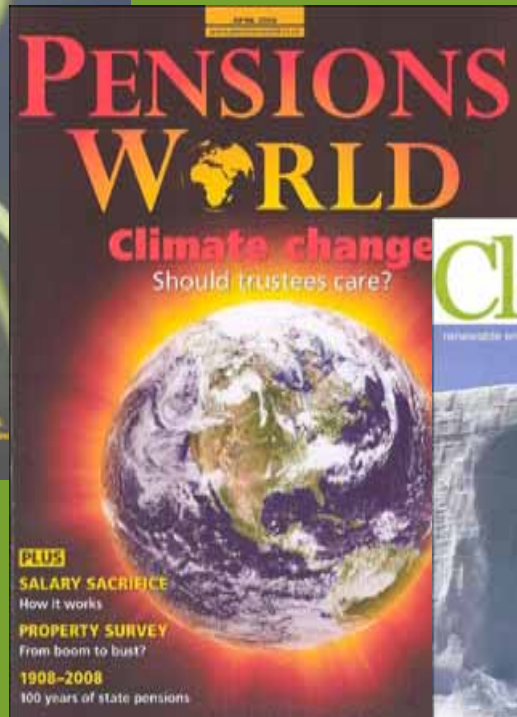
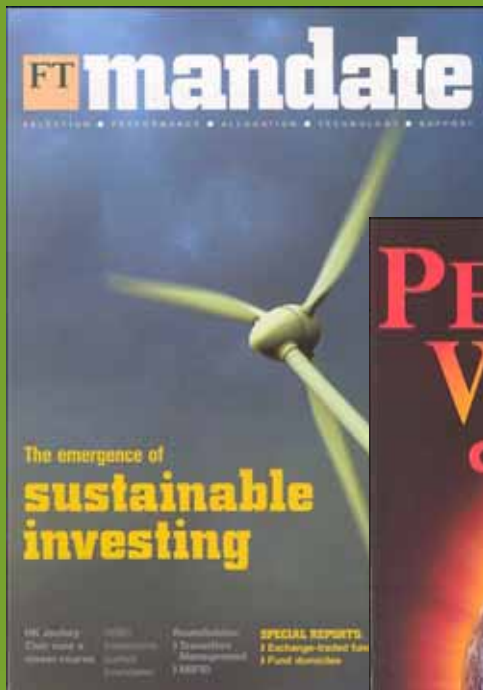


Best investor in ESG The Environment Agency

Big steps to a smaller footprint



Influence the market



Questions and Answers

Further information

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[www/environment-agency.gov.uk/pensions](http://www.environment-agency.gov.uk/pensions)