

news release

For immediate release – 8 September 2008

Green light to three new fund managers

Three new investment management companies have been appointed today (Monday) by Environment Agency to manage £185m of global equities for its £1.5bn Active Pension Fund.

The mandates awarded are to RCM (£100m), Generation Investment Management (£50m), and Impax Asset Management (£35m). All three have been set an out-performance target of +3% p.a. They will sit alongside an existing global equity manager Sarasin & Partners, appointed in 2005, who manage £132m with a +2% p.a. out-performance target.

The new mandates were funded by the termination of Capital International (£67m global equities) and State Street Global Advisors (£73m global equities and £35m UK equities) after a strategic review of financial performance, client servicing and the Environment Agency's drive to have its assets managed by United Nations Principles for Responsible Investment (UN PRI) signatories. The other £10m was sourced from global equities managed passively by Legal and General.

These new managers were appointed after a rigorous evaluation process involving nearly 50 tender applications to the Environment Agency. A report on the Environment Agency's experiences of this process will be published on the its website at the end of September, with the aim of assisting other pension funds and market development for responsible investment products.

The new managers were selected due to their strengths in a combination of areas including the quality of investment processes, contrasting investment styles, integration of financially material environmental risks and opportunities, performance track record, organisational and team stability, client servicing and reporting, and active participation in the UN PRI.

The Environment Agency Active Pension Fund's overall investment strategy aims to deliver maximum financial returns relative to the risk taken, and takes account of financially material environmental risks and opportunities that can affect financial returns.

Each new manager has been awarded a three-year investment management agreement, extendable subject to satisfactory performance. Performance fees are only payable if financial targets are met.

Each manager's performance will also be evaluated in relation to their delivery of the Active Pension Fund's environmental overlay strategy. This includes their integration of environmental considerations into risk management, stock selection, company engagement, and proxy voting, referral of any environmental resolutions to the Environment Agency, and annual environmental foot-printing using "Trucost" methodology. Each manager's relative performance will also be separately benchmarked using corporate governance and responsible investment indices.

Under the LGPS investment regulations, the Environment Agency can terminate the contracts if performance is below the mandated requirements.

The Environment Agency is advised on its investment strategy and fund manager appointments by a range of professional advisors. Mercer provides strategic investment and fund manager advice. Rathbone Greenbank provides specialist advice on sustainable responsible investment and bfinance

assists with the evaluation and selection of fund managers. The Environment Agency was also assisted by Responsible Investment Metrics for these mandates. Morgan Stanley carried out the transition management. The Pension Fund’s legal advisors are Osborne Clarke and its consulting actuary is Hymans Robertson.

Howard Pearce, Head of Environmental Finance and Pension Fund Management for the Environment Agency said: “After evaluating nearly 50 tenders, we are delighted to have appointed RCM, Generation and Impax, whom we, and our advisors, believe possess the necessary quality of staff, investment processes, research and track record to deliver our demanding financial performance targets.

“These appointments also evidence our opinion that those fund managers who seek to take into account financially material environmental risks and opportunities, such as climate change, in their investment decisions, will produce better financial returns for the beneficiaries of our pension fund, and this is entirely consistent with our fiduciary duty.”

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Media enquiries: 020 7863 8710 or outside normal office hours, please contact the National Duty Press Officer on 07798 882 092.

NOTES TO EDITORS:

1. The Environment Agency’s Active Pension Fund, with a market value of £1.5bn, is the 24th largest fund in the Local Government Pension Schemes (LGPS).
2. Details of the Active Pension Fund’s investment strategy and its supporting Environmental Overlay strategy can be found at www.environment-agency.gov.uk/pensions.
3. The Environment Agency’s Active Pension Fund is a signatory to the UN Principles of Responsible Investment and Carbon Disclosure Project, and a member of the UK Social Investment Forum (UKSIF) and Institutional Investors Group on Climate Change (IIGCC), and it supports the environmental campaigns of the Local Authority Pension Fund Forum (LAPFF).
4. Between 2006-2008 the Environment Agency Active Pension Fund has won numerous awards for its investment strategy and work on environmentally responsible investment and corporate governance. Further information on these awards can also be found on the website.
5. The Environment Agency's strategic asset allocation is as follows:

Asset Type	Strategic Allocation %	Performance Benchmark	Performance Target
Equities - Global	31.5	MSCI All World ex UK	+3%
Equities – UK	31.5	FTSE All Share	+2%
Gilts	13.5	FTSE Over 5yr index linked gilts	Match the benchmark
Bonds	13.5	IBoxx Sterling all non-gilt	+1%
Property	5.0	IPD UK Monthly Property	+1%
Private Equity	5.0	Absolute Return	Minimum 10% IRR or MSCI World +5%
Total	100.0		

6. The Environment Agency's 12 fund managers are:

Manager	Investment style and asset classes	Allocation %	Value £m
Legal & General	Passive – Multi-Asset (UK and Global Equities and Index-Linked Gilts)	36%	534
Standard Life	Active – UK Equities	15%	223
Sarasin	Active – Global Equities	9%	132
ECM	Active – Global Corporate Bonds	7%	111
RCM	Active – Global Equities	7%	100
SWIP	Active – Global Emerging Market Equities	5%	67
Morley	Active – UK Property (Fund of Funds)	5%	67
RLAM	Active – Global Corporate Bonds	4%	64
Robeco	Active – Global Private Equity (Fund of Funds)	4%	56
Generation	Active – Global Equities	3%	50
IPM	Active – Global Currency	3%	42
Impax	Active – Global Equities	2%	35
	Total	100%	1,481

7. RCM is a company of Allianz Global Investors, one of the world's largest global investment companies. Since 2003 Lucy MacDonald has been Chief Investment Officer of their global equity team which draws on fundamental stock research from over 70 analysts covering America, Europe and Asia. RCM's investment style is based on bottom-up independent research. The global equity team focuses on growth, quality and valuation characteristics and will invest in 50-80 large cap stocks within stock, sector and regional limits.

8. Generation Investment Management is an independent, private, owner-managed partnership established in 2004 with offices in London and New York. The company is chaired by former Vice President of the United States, Al Gore, whilst its Managing Partner is David Blood. Generation aims to buy high quality companies at attractive prices that will deliver superior long-term investment returns. Sustainability research plays an important role in forming its views on the quality of the business, the quality of management and valuation. Generation's investment style is long term long-only global equity investing using integrated financial and sustainability research, and strong valuation and price disciplines. Generation will invest in 30-50 high quality stocks (from a list of 100-150 target companies).

9. Impax Asset Management is the regulated, operating entity of Impax Group plc, a specialist investment management house quoted on the Alternative Investment Market of the London Stock Exchange, of which BNP Paribas Investment Partners owns 29% and management owns around 25%. Impax has been led by Chief Executive Ian Simm (since 1998) and it's Investment Director, Bruce Jenkyn-Jones, supported by a team of specialist analysts. Impax's investment style is thematic and focused on stocks of companies deploying technologies, products and services in the environmental market sectors, particularly alternative energy, water treatment, and waste management solutions. Impax invests in 50-70 listed companies with a bias towards small/medium cap stocks.

10. Sarasin & Partners are the London based investment arm of the Swiss Bank Sarasin and their investment style is to integrate economic and sustainability considerations into its selection of 65-75 "best in class companies" (large and small-medium sized) in "best of class sectors".

For comment and reaction from the Environment Agency's new managers please contact:

RCM

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