

Question from Claire Morgan, member of Nottinghamshire Local Government Pensions Fund and Nottinghamshire resident

Caroline Morris, member of the LGPS Central fund and Nottinghamshire resident

Noting that:

- 1. The Nottingham City Council unanimously passed a motion on 9th September 2024 calling for a ceasefire and urging the government to “take steps to ensure that arms and military aid built in the UK is not used in acts that amounts to war crimes under International Law and cease arm sales to Israel.”*
- 2. The Nottinghamshire County Council is the administering authority for the Nottinghamshire Local Government Pension Fund (“Nottinghamshire Pension Fund”) currently valued at around £7 billion, out of the £61 billion LGPS Central pool. Unfortunately, the LGPS Central fund does include stock which may be complicit and should be divested (details below).*
- 3. Israel’s credit rating was reduced several times in 2024 by Moody, S&P and Fitch with a negative outlook. In August, Fitch downgraded Israel’s credit rating from A+ to A, while Moody downgraded two notches from A2 to Baa1 in September 2024.*
- 4. The Nottinghamshire Pension Fund has a strong approach to Responsible Investment which emphasises ESG and its role in the selection, stewardship (engagement) and transparency & disclosure of investments.*
- 5. The Fund highlights environmental risk, specifically around managing climate risk and reduction of GHG emissions across the value chain. LGPS Central is committed to Net Zero Strategy. Yet, studies* have indicated the sheer scale of emissions of Israel’s military activity in Gaza, just from the first 120 days since October 7, 2023, were greater than the annual emission of 26 individual countries and emissions. This does not include the emissions in the 12 months that followed or what it will take to rebuild Gaza.*

Question 1:

Can the Nottinghamshire Pension Fund Committee scrutinise the following purchases and holding of complicit stocks from Responsible Investment, ESG, and risk management perspectives?

Question 2:

Can the Nottinghamshire Pension Fund Committee confirm that it will instruct LGPS Central to divest immediately from the following stock due to its non-alignment with the Nottingham City Council’s position, that it goes against the Fund’s Responsible Investment Strategy and violates international law?

- 1. The purchase of 2 million shares of Israeli bonds, maturing in 2034 and valued at US\$252*¹ million in March 2024, **after** the ICJ ruling on 26 January ordering Israel to prevent acts of genocide. Rating agencies have downgraded Israel’s rating in April, August and September 2024, which poses significant financial risk to the bonds.*

¹ These numbers do not match the values reported by LGPS Central Ltd. The report which shows holdings as of March 2024, hosted on the LGPS Central website, can be accessed [here](#). The column marked ‘BID MARKET VALUE’ shows the total value of each holding in GBP sterling. For example the Israeli bonds listed were valued at £1.56 million in total at 31 March 2024.

2. *Holding stock valued at £555.46¹ million in arms companies, specifically BAE Systems, Boeing, General Dynamics, Leonardo, Lockheed Martin, Rolls-Royce, and RTX.*
3. *Holding stock worth £206.15¹ million in companies specifically listed in the database of the OHCHR** (the United Nations Office of the Human Rights Commissioner) as being involved in the illegally Occupied Palestinian Territory, which includes Expedia Group, Bank Hapoalim, Bank Leumi, Bank Mizrahi-Tefahot, and Booking Holdings.*

** Queen Mary University: "New study reveals substantial carbon emissions from the ongoing Israel-Gaza conflict"*

<https://www.qmul.ac.uk/media/news/2024/hss/new-study-reveals-substantial-carbon-emissions-from-the-ongoing-israel-gaza-conflict.html> and <https://www.qmul.ac.uk/sbm/research/gcarbon/>

*** The full list is here:*

<https://www.ohchr.org/sites/default/files/documents/hrbodies/hrcouncil/sessions-regular/session31/database-hrc3136/23-06-30-Update-israeli-settlement-opt-database-hrc3136.pdf>

Nottinghamshire Pension Fund response:-

LGPS Central work hard to regularly scrutinise portfolios from a Responsible Investment (RI), ESG, and risk management perspective. This begins during the manager selection process and continues through regular monitoring processes. All managers are required to integrate all relevant and material ESG considerations into their investment processes and are therefore expected to make ESG risk informed investment decisions. LGPS Central monitor and manage these risks further by engaging directly with portfolio companies that fall into one of the key stewardship themes, which include climate change, human rights, and sensitive/topical areas.

From a human rights perspective, LGPS Central expect all investee companies to comply with the United Nations Guiding Principles on Human Rights. These principles prescribe heightened human rights due diligence processes to identify, address and mitigate human rights and conflict, which includes companies operating in conflict zones. This expectation is communicated in LGPS Central's Responsible Investment and Stewardship Framework and Voting Principles, which is available on their website.

This expectation applies to investments in all sectors and across the various asset classes, including listed equity and sovereign debt. As a UK-based investor, we look to the UK government for guidance in relation to its policy and approach to international conflict. As the UK government continues to trade with Israel, we do not currently deem it appropriate to restrict our investable universe, as was done following Russia's invasion of Ukraine.

While we appreciate the magnitude of current events in the Middle East, and we understand the impacts of these events on key RI themes such as climate change and human rights, we do not believe that any of these issues would be better addressed through divestment rather than engagement.

Nottinghamshire Pension Fund's approach to responsible investing is rooted in the belief that active engagement, rather than sale of stock, is the best way to manage ESG risk, fulfil fiduciary duty, and help drive progress towards the systemic protection of long-term value.

We and LGPS Central work with organisations such as the Local Authority Pension Fund Forum (LAPFF) which actively engage companies on human rights risks that stem from operating in conflict

zones such as the Occupied Palestine Territories. LAPFF is engaging with 16 companies on the United Nations List. Our stewardship provider, EOS at Federated Hermes, has been engaging with Booking Holdings on the issue and 18 other companies engaged in activities in the Occupied Palestine Territories.

It should also be noted that, on the basis of financial analysis conducted by the external managers, LGPS Central's position in Israeli government bonds was closed in September 2024. However, our overarching conviction remains that divestment from companies operating in conflict zones is unlikely to influence outcomes and may have unintended consequences. This belief underpins our communicated commitment to active stewardship and engagement.

Peacebuilding relies on international actors remaining invested, ensuring humanitarian assistance laws are upheld, and ensuring that economic opportunities are readily available once a ceasefire is reached. Through active ownership and stewardship, investors can play an important role in encouraging and facilitating these objectives.