

## Notice of Motion – Pension Scheme Divestment

### Report of the Director of Finance and Public Value

---

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

---

#### 1) Recommendation

That consideration be given to any recommendations to be made to the Council in respect of the Notice of Motion set out hereunder having regard to the relevant factual briefing/background papers and any other representations made to the Committee.

#### 2) Introduction

- 2.1 The Notice of Motion submitted to the County Council by Councillor Hodgson has been referred to the Committee in accordance with Standing Order 8(2) - for consideration, reference to another Committee or to make a recommendation back to the Council. A factual 'Briefing Note/Position Statement' prepared by the Director of Finance and Public Value is included, to facilitate the Committee's discussion of the Notices of Motion.

##### **Pension Scheme Divestment (Cllr Hodgson)**

Further to withdrawing over £2 million in investments from companies selling arms to Israel. Devon County Council now commits to investigating withdrawing the £84 million that remains invested through its investments and pension funds in such companies, including Rolls Royce (£1,951,241), Barclays Bank (£12,889,533), BAE Systems (£4,969,449), and Babcock (£360,850).

Devon County Council seeks immediate withdrawal of these investments, particularly in light of the tragic loss of over 20,000 children in Gaza. Our pension fund should not support activities contributing to such atrocities.

Devon County Council seeks to fully divest from these companies and to uphold values of peace, justice, and ethical responsibility.

- 2.2 In addition to the motion, the Council also received a petition in support of the motion, signed by around a thousand people, and we have also received correspondence in support of taking action on the issues raised.

## Briefing Note / Position Statement

- 3.1 The motion refers to an £84 million investment by the Devon Pension Fund in companies that sell arms to Israel. The precise make-up of this figure is unclear, but it would appear to be drawn from a website set up by the Palestine Solidarity Campaign. From the individual company investment amounts quoted, it would appear that the figures were compiled based on the Devon Pension Fund's look-through holdings report as at 30<sup>th</sup> September 2021.
- 3.2 The Fund has undergone a number of changes in its investment strategy since September 2021, in particular an increased allocation to a Sustainable Equities portfolio, the removal of its passive UK Equity allocation and the consolidation of its passive equity allocation into a Paris Aligned Fund. This means, for example, that the Fund no longer has any exposure to Rolls Royce or Babcock, and has a significantly lower exposure to BAE Systems.
- 3.3 The list also includes companies such as Barclays, who do not manufacture or sell arms, albeit they may provide finance to companies who do.
- 3.4 The Devon Pension Fund does not directly own shares or bonds in any of the companies concerned. We own shares in investment funds that own a portfolio of shares, and our exposure comes through our investment in those funds. As at 30<sup>th</sup> June 2024, all of the exposure to companies believed to be selling arms to Israel came from the units held in the Global Developed Paris Aligned Equity Fund managed by Legal and General Investment Management.
- 3.5 Following a further review of the holdings of the Global Developed Paris Aligned Equity Fund as at 30<sup>th</sup> June, the fund included investments in the following companies believed to be selling arms (or arms components) to Israel:

	Value of Devon Investment £'000
BAE Systems	1,481
Boeing	138
Caterpillar Inc.	7,290
General Dynamics	1,653
Northrop Grumman	2,169
Rheinmetall	131
	<b>12,862</b>

This analysis varies from the response to a question raised at the May Council election, following receipt of further information from Brunel based on the list of 11 arms manufacturers in the press release issued by the United Nations Human Rights Commission in June ([States and companies must end arms transfers to Israel immediately or risk responsibility for human rights violations: UN experts | OHCHR](#)). The exposure equates to approximately 0.2% of the Devon Fund's total investments.

The list now includes Caterpillar who do not manufacture armaments per se, but do manufacture bulldozers which can be used for military purposes.

3.6 The Global Paris Aligned Fund is designed to invest in all the companies in the FTSE Developed World Index in proportion to their market capitalisation, adjusted to take account of each companies greenhouse gas emissions in order to achieve a 7% per annum reduction in the Weighted Average Carbon Intensity of the portfolio. Certain companies are excluded from the portfolio, based on the following criteria:

- Thermal Coal Extraction revenues equal or greater than 50%.
- Oil Sands Extraction revenues equal or greater than 25%.
- Controversial Weapons and Non-Compliant with Principle 2 of the United Nations Global Compact (UNGC).
- Tobacco Production revenues equal or greater than 25%.

3.7 Controversial weapons are defined as those meeting the following criteria:

- Biological & Chemical weapons: Companies producing chemical or biological weapons and their components, including all precursors, munitions, devices or equipment specifically designed for, and used directly in connection with, these weapons. Secondary products and services to chemical & biological weapons that are specific to chemical & biological weapons.
- Cluster Munitions: Companies producing cluster munitions as defined in the Convention on Cluster Munitions and their components, including all precursors, munitions, devices or equipment specifically designed for, and used directly in connection with, these weapons. - Secondary products and services to cluster munitions that are specific to cluster munitions.
- Anti-Personnel Landmines: Companies that produce anti-personnel mines as defined in the “1997 Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction” (“Ottawa Convention”). Secondary products and services to anti-personnel mines that are specific to anti-personnel mines.

The companies listed as supplying arms to Israel do not fall within those definitions and are therefore not excluded from the fund.

3.8 Given that the Devon Pension Fund is not directly invested in the companies concerned, it is not possible to divest the shares. We could ask for additional exclusions from the Paris Aligned Fund, but this would be difficult as the Fund’s investments are based on an established principles-based formula and has other investors, not just the Devon Pension Fund. The only other option would be to divest from the entire fund, which would mean divesting a total of £1.6 billion from a fund which is invested in over 1000 companies. We would need to identify an alternative fund or funds to switch our investment to. If we are to continue to maintain a passive equity investment then there are no passive options currently available via Brunel that would omit the companies at issue. The divestment would also incur significant transition costs.

- 3.9 With regard to the position with Israel/Palestine more generally, Brunel reviews, at least annually, its exposure to the West Bank/Gaza using information provided by the United Nations and other parties. This information informs both their stewardship and risk processes. Managers are expected to be aware of all material investment risks relating to the companies in which they invest, including those with significant exposure to areas of conflict. Brunel closely monitor stocks that are assessed by service providers to be in breach of the UN Global Compact principles.
- 3.10 The general approach to engaging with companies doing business in high risk regions is to request that they carry out actions consistent with the UN Guiding Principles on Business and Human Rights, which include:
- To conduct enhanced human rights due diligence in high risk regions;
  - To engage with those stakeholders impacted by business operations, including from vulnerable and marginalized populations;
  - To demonstrate that the business is appropriately using its influence to promote positive human rights outcomes, including for vulnerable and marginalized populations.
- 3.11 In summary, the Devon Fund's exposure to companies selling arms to Israel is significantly lower than stated in the motion. More generally, Brunel manage exposure to companies operating in the West Bank/Gaza through its engagement and stewardship policies. Completely removing the Devon Fund's exposure to the companies in question would mean divestment from the Global Developed Paris Aligned Equity Fund which would incur significant cost and require a substantial change to the Fund's investment strategy.

**Angie Sinclair**

Director of Finance and Public Value

**Electoral Divisions:** All

**Local Government Act 1972: List of background papers**

Nil

**Contact for enquiries:**

Name: Mark Gayler

Telephone: 01392 383621

Address: Room 196 County Hall