

**To:** Avon Pension Fund Committee

**Cc:** Monitoring Officer, Bath & North East Somerset Council

**From:** Pension Scheme Members

**Subject:** Concerns Regarding the APF Report on Aerospace & Defence Holdings and Associated Legal and Ethical Implications

**Date:** 10<sup>th</sup> May 2025

Dear Committee Members,

We are writing to express serious concerns regarding the Pension Fund Manager's report presented to the Avon Pension Fund Committee, on the Fund's holdings in Aerospace and Defence (A&D) companies, particularly with respect to its treatment of legal advice, cost estimations, and ethical considerations.

When taken as a whole, we are concerned the report's structure, omissions, and rhetorical devices reveal an intention to guide the Committee toward a predetermined outcome rather than equip it with an impartial assessment.

This letter is submitted with the intention of placing the Committee and the Council on formal notice of the risks associated with basing decisions on misleading or misrepresented information. We are concerned that the report functions less as a fiduciary briefing and more as a policy defence prioritising alignment with external political objectives, rather than transparent engagement with members' ethical concerns.

To summarise the concerns, we believe the report selectively portrays the Law Commission guidance and latest Giffin Opinion to appear as if near unanimity, with no opposition from members, is required before legal divestment can occur. It then sets out a series of emotive red herrings which could create opposition among members to then be used to deny divestment. The report raises questions of professional standards of the author.

Relevant documents:

[https://pensiondivest.org.uk/avon/Investments in Aerospace Defence.pdf](https://pensiondivest.org.uk/avon/Investments_in_Aerospace_Defence.pdf)

[https://pensiondivest.org.uk/avon/Appendix 1 Aerospace Defence Investments.pdf](https://pensiondivest.org.uk/avon/Appendix_1_Aerospace_Defence_Investments.pdf)

(referred to herein as the APF report)

A statement of the fiduciaries<sup>1</sup> following the 28<sup>th</sup> March meeting has confirmed that the committee relied upon the above report in making their decision.

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<sup>1</sup> <https://www.avonpensionfund.org.uk/news/2025/committee-votes-remain-invested-aerospace-defence>

# 1. Creating an impossible threshold

It appears clear from the council report that a lack of unanimity or limited member response will be used to push a decision to remain invested, so a detailed look at the guidance is required.

The council report quotes selectively from the January 2025 legal opinion by Nigel Giffin KC<sup>2</sup>, presenting a restrictive view of fiduciary duty that is not borne out by the actual content of the opinion. For example, p8 in the report:

*- It is worth noting that, if the vast majority of scheme members have no opinion on the subject, reliance on the specific non-financial factor would represent the Committee using the fund as a vehicle to advance its own personal views which "... would not be a correct use of their fiduciary position"*

This clause is taken from a longer and nuanced discussion in the Giffin opinion. The omitted prior sentence greatly impacts the conclusion:

*"Although I suggest here that it should not matter that a proportion of members would be simply indifferent to the investment policy in question, I think that there would need to be at any rate a substantial groundswell of positive support for it. If the vast majority of the scheme members simply had no opinion on the subject one way or the other, any reliance upon the non-financial factor in question would seem to represent the administering authority (or the pensions committee members) using the fund as a vehicle to advance their own personal views, which in my view would not be a correct use of their fiduciary position."* (p25 Giffin Opinion)

It is not the case that the committee deciding to go with a clear majority of respondents, while having a low response to a consultation, necessarily proves the committee acted improperly.<sup>3</sup>

The indifference issue was considered in detail by the Law Commission 350 report<sup>4</sup>. Can it be assumed or would it have to be measured? Is unanimity required? The follow are extracts from Law Com 350:

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[https://lgpsboard.org/images/LegalAdviceandSummaries/Jan2025\\_Updated\\_opinion\\_on\\_fiduciary\\_duty\\_in\\_the\\_LGPS.pdf](https://lgpsboard.org/images/LegalAdviceandSummaries/Jan2025_Updated_opinion_on_fiduciary_duty_in_the_LGPS.pdf)

<sup>3</sup> As it happened, in this case the committee voted 10-3 against divestment making the point mute, if the APF committee later go with a majority respondent view to divest, it could not be seen as a committee with an overriding determination to advance their own views. That would be a more credible accusation if they still refused to divest in opposition to members following a consultation.

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[https://assets.publishing.service.gov.uk/media/5a7ec5bee5274a2e87db1cfd/41342\\_HC\\_368\\_LC350\\_accessible.pdf](https://assets.publishing.service.gov.uk/media/5a7ec5bee5274a2e87db1cfd/41342_HC_368_LC350_accessible.pdf)

*6.63 We cannot give a prescriptive answer to these questions, but we think that the courts would judge the issue in the round, focusing on whether trustees applied their minds to the right question and sought an answer in a reasonable way.*

*6.64 We think that in some cases trustees can make assumptions about beneficiaries' views without carrying out surveys. In the Consultation Paper we remarked that trustees should not invest in activities which contravene international conventions, such as manufacturing cluster bombs which are banned by the Convention on Cluster Munitions.<sup>39</sup> It was pointed out that investing in foreign firms which make cluster bombs is not illegal under UK law, and we were asked to clarify why we said this. At a practical level it might also be difficult for trustees to know whether a particular company manufactures cluster bombs.*

*6.65 We accept that investment in cluster bombs is not necessarily illegal. But we think that the fact that there is an international agreement, ratified by the UK, which prohibits cluster bombs gives trustees reason to think that many people would consider them to be wrong. When coupled with letters from members agreeing, and no letters disagreeing, we think that trustees would have good reason to think that they were acting on members' concerns rather than their own. This may be an example where the evidential requirement to show that beneficiaries share the concern may be relatively light.*

This is far from the impression given in the APF report, but it also makes it clear why ensuring there is some opposition from members would be useful for a fund which has already decided it does not want to divest.

*6.66 In other cases, a poll of members may be necessary. We do not think that there needs to be 100% agreement. If a majority are opposed to an investment while the rest remain neutral, we think that would be enough. It is the nature of pensions that many members will not engage with investment decisions, and the reason why default funds are so important.*

*6.67 The more difficult questions arise where a majority think that the disinvestment should take place but a minority disagree strongly. Investment decisions may have different consequences for different beneficiaries. The courts have expressed concern when trustees favour one group over another, even if the favoured group are the majority. In *Cowan v Scargill*, it was said that trustees should hold "the scales impartially between different classes of beneficiaries". More recently, Mr Justice Hoffmann preferred to say that the trustee must act fairly in making investment decisions which may have different consequences for*

different classes of beneficiaries.<sup>5</sup> We think that in cases where the issue is clearly controversial, the courts may well expect trustees to focus on financial factors rather than becoming embroiled in disagreements between the members.

The underlined part is particularly pertinent to the issue of arms divestment. The classes of beneficiaries are very different. Those opposed to profiting from weapons have expressed that they are deeply psychologically injured by knowing their pension is profiting from the manufacture of products that are witnessed as being used in the indiscriminate killing of children. It would be very hard to claim the other class, who are indifferent or have a preference for investments in the sector, would be similarly affected by divestment. They would suffer neither psychological trauma or financial loss.

The APF report is clear that an arms divestment would not be significantly detrimental to the fund (p7) (The second point will be addressed later.):

- *No risk of significant financial detriment to the Fund:*
  - *In isolation, the Fund's low current exposure (0.3%) to A&D companies and uncertainty inherent in future returns from all sectors including A&D, means that it cannot be argued that excluding A&D companies would materially reduce aggregate gross returns in future.*
  - *The core detriment issue hinges around additional ongoing investment costs outlined above of c. £1.5 million in Year-1 and c. £1 million per annum thereafter.*

It is also a question of what constitutes indifference. A survey question by Wiltshire Pension Fund<sup>6</sup> asked "How would you feel about the Fund investing in weapons companies?"

The measured value of indifferent shown in Chart 1 was just 20%, compared to 34% which would not be said to rule out divestment from fossil fuel companies.

56% negative over fossil fuels could perhaps be considered "a bare majority", while 73% the Wiltshire pension fund classed as "overwhelmingly negative" in their report.

Have the members who did not respond, indicated indifference to weapons investments? Or have they merely shown they didn't receive, or open or read the email and perhaps indifference to filling in questionnaires. As the Law Commission note: "*It is the nature of pensions that many members will not engage with investment decisions.*" They say that in the context of making it clear that this typically high level of disengagement is not a bar to acting

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[https://www.pensiondivest.org.uk/research/Cowan\\_and\\_others\\_v\\_Scargill\\_and\\_others\\_\[1984\]\\_2\\_All\\_ER\\_750.pdf](https://www.pensiondivest.org.uk/research/Cowan_and_others_v_Scargill_and_others_[1984]_2_All_ER_750.pdf)

<sup>6</sup> <https://cms.wiltshire.gov.uk/documents/s223955/Appendix%201%20-%20Responsible%20Investment%20Survey%20Report%202024.pdf>

on the results of those who did express an opinion. IE the disengaged are not to be classed as indicating indifference.

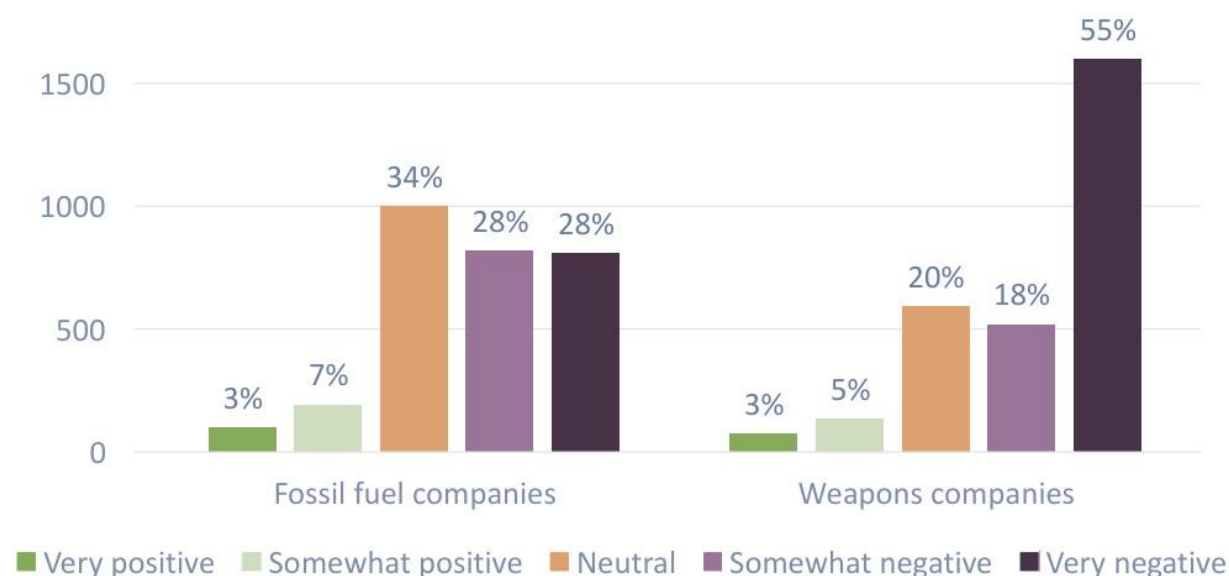


Chart 1 – Wiltshire PF survey results

It is more likely that an example which Mr Giffin would be thinking of was where a consultation shown 80% *indicated* indifference, 15% disapproval and 5% approval and the fund went ahead with a divestment acting on the 15%, it would then be conceivable that the committee took an opportunity to advance their own agenda.

Mr Giffin clearly states that action may be taken on non-financial grounds, quoting the two-part test, to while the report author adds the phrase “in aggregate”, which again pushes for a need for measurable support from the entire membership base, including those who may be disengaged:

*“The Committee should also note legal opinions<sup>1</sup> stating that, if a decision were taken on non-financial grounds, there should be no risk of significant financial detriment to the Fund, and scheme members in aggregate should support the decision within a wider context of related issues”*

The superscript reference in the first sentence is a claim that the Giffin opinion stated the rest of the sentence. However, “in aggregate” is not a term used by Mr Giffin or the Law Commission and critically changes the meaning. We feel this falls below the standard the beneficiaries should legitimately expect of those in a fiduciary position with the fund, such as the professional advisors.

In the report’s further summary of the legal situation (s.8) it repeats this false notion:

*If the Committee decides to implement an exclusions policy, the decision would need to align with a few core legal principles including:*

*APF members in aggregate share the above perspective:*

*it would need to establish that the majority of members support such a decision.*

The correct legal test from case law is that there is 'good reason to believe members share the concern,' not that a statistically verified majority of all members endorse it. This subtle change in wording effectively raises the bar to an unattainable level by treating silence as opposition, rather than neutrality. It foreshadows the likely outcome to the consultation and further officer advice will be an inability to act due to some disagreement among members and a lack of response by members.

More recent than *Scargill*, In 1992 *Harries Vs Church Coms*<sup>7</sup> clarified that controversy was not a bar if the financial element was not of a level to risk significant financial detriment:

*“The judge held that, given the “endless argument and debate” over what Christian ethics require, the commissioners were “right not to prefer one view over the other beyond the point at which they would incur a risk of significant financial detriment”*

The inevitable lack of agreement among the group, as there would be among any group over any issue, was not considered to be an issue that precluded divestment from, in their case, weapons manufacturers and much more besides.

## 2. Creating opposition to divestment

### 2.1 Honest presentation of factors to members

Having presented unanimity as the required level for action, the report then sets out reasons which would be likely to create some poorly grounded opposition from members.

Just before the vote, Councillor Chris Dando said “*Whatever our personal positions are ... we are genuinely going out to seek the views of all our members ... honestly explain what the options are, what the consequences are.*”

Honesty and acting in good faith are a key part of the fiduciary duty and will be very much the focus of attention going forward.

The statement of Councillor Dando seems entirely consistent with the function of the fiduciaries, being to work for the “best interests” of the members. Recently in England and Wales, fiduciary duty is considered to have shifted slightly away from absolute financial maximisation to where the social interests are considered - in line with the governments

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[https://www.pensiondivest.org.uk/research/Harries\\_and\\_others\\_v\\_Church\\_Commissioners\\_for\\_England\\_and\\_another \[1993\] 2 All ER 300.pdf](https://www.pensiondivest.org.uk/research/Harries_and_others_v_Church_Commissioners_for_England_and_another_[1993]_2_All_ER_300.pdf)

regulations on creating an Investment Strategy Statement<sup>8</sup> - even if there is a reduction in return, including factoring moral and ethical positions, referred to as non-financial factors.

A part of the honesty members should expect to see, would be presenting a true and all-encompassing picture of the financial impact and cost to divest. A legal challenge on behalf of morally impacted beneficiaries against the fund if they do not divest, would certainly include an independent review of claimed costs and how fairly this was presented.

## 2.2 Disregard of profit which would be realised upon divestment

A key consideration, which was omitted from the report, is how much money has already been made from arms investments and how much more will be realised with divestment.

The amoral profiteering of investment managers, which saw share prices of weapons manufacturers jump 10% immediately following Oct 7<sup>th</sup>, in anticipation of Israel's predictable response, will likely be considered ill-gotten gains by the scheme members who are against arms profiteering.

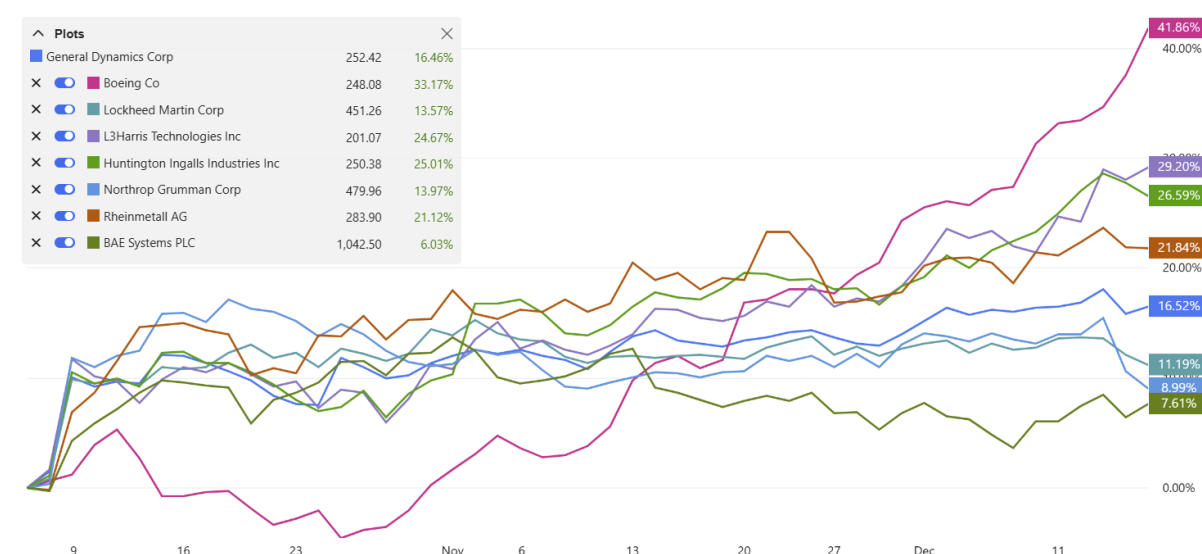


Chart 2 – Rise in share prices of arms companies following October 7<sup>th</sup> 2023

All but 3 of the companies in the following chart, were shares held before 7<sup>th</sup> October 2023 and the remaining added by end of March 2024. The initial price was calculated from that point for those 3 companies. The Brunel Paris fund would make over £20 million profit from these share price increases alone if they are sold at current prices (end March 2025).

Companies in Brunel's FTSE PARIS ALIGNED WORLD DEVELOPED					
	≈% "defence" revenue	Sector classification	Oct 6th 2023 price	% change	Current value
BAE Systems	97%	Aerospace/Defense	£764,165	59%	£1,216,379
Boeing	44%	Aerospace/Defense	£388,669	-12%	£342,110
General Dynamics	72%	Aerospace/Defense	£963,722	24%	£1,190,480
General Electric	5.8%	Miscellaneous Manufacture	£7,218,403	80%	£13,006,132
HEICO Corporation	20%	Aerospace/Defense	£539,258	65%	£888,777
Honeywell	13%	Electronics	£10,912,602	15%	£12,573,215
Howmet Aerospace	10%	Aerospace/Defense	£406,264	182%	£1,145,489
Huntington Ingalls	82%	Shipbuilding	£358,569	-30%	£251,368
Leidos	58%	Computers	£763,784	47%	£1,120,770
MTU Aero Engines	7.3%	Aerospace/Defense	£398,386	88%	£750,177
Northrop Grumman	90.5%	Aerospace/Defense	£2,844,915	17%	£3,316,912
PALANTIR	54%	Software	£563,811	265%	£2,059,136
Rheinmetall	67%	Aerospace/Defense	£2,647,982	160%	£6,891,869
Rolls-Royce	32%	Aerospace/Defense	£529,208	247%	£1,835,390
Saab	89%	Aerospace/Defense	£467,705	65%	£772,303
Safran	21%	Aerospace/Defense	£844,932	64%	£1,381,578
TELEDYNE	22%	Miscellaneous Manufacture	£2,252,965	22%	£2,744,421
Textron Inc.	23%	Miscellaneous Manufacture	£281,701	-8%	£260,032
Thales SA	51%	Aerospace/Defense	£662,960	87%	£1,241,181
TransDigm Group	30%	Aerospace/Defense	£1,509,413	64%	£2,472,716
		totals	£35,319,414		£55,460,433

Table 1

According to the APF 2023-24 Annual report<sup>9</sup> 26.1% of the fund is allocated to the Paris Aligned Passive Equities fund. Approximately £1.5 billion pounds from the total £4.1 billion in the Paris fund is with APF.

APF's share of the £20 million profit - just from the Paris fund in the period since Oct 7th - is estimated to be approximately £7.3m.

<sup>9</sup> <https://www.avonpensionfund.org.uk/sites/default/files/2024-11/annual-report-2023-24.pdf>



A detailed valuation of Devon Pension Fund's arms holdings showed approx. £30 million in the Paris fund plus another £20 million in other Brunel equities funds and the MAC. Assuming similar proportions for Avon it is likely that around £12 million profit will be available to the APF by selling their arms shares.

This is just the profit from the shares that were already held and does not take into account that further shares of arms companies were purchased over the last 18 months, to profit from the conflicts in Gaza and Ukraine, and those shares have also increased in price.

It also does not take account of profit from dividends which will have been received since then. In short, it is a vast under estimation of the ill-gotten gains which members against arms profiteering do not want in their pensions, so should be considered available to offset divestment costs. The profits will only be realised when they are sold so should be considered a financial benefit of divestment.

It would constitute dishonest representation if this is not presented to members as a factor when considering the costs of divestment.

## 2.3 Inflated cost estimations

The above October 7<sup>th</sup>-till-now profits reflect an unfortunate boom time for the weapons manufacturers, while the report looked at longer term averages to assess what the fund would be passing up if divested from arms.

Over a typical 10-year period the difference for the £18m they used as an example being invested in arms vs general assets was estimated as around £90,000 per year. Insignificant to a £6 billion fund and there was no claim this was a significant detriment to the fund.

Instead, the issue of the financial detriment test was said to rest on divestment costs and ongoing asset management costs.

The report presenting that scheme employers will have to make up a cost of £1.5 million for the first year and some ongoing costs of £1m per year.

The projected costs for divesting included selling everything from the MAC and Global High Alpha equity funds. The report stated "*further work would be needed to assess exclusion costs for other impacted funds*" and, rather than providing a thorough analysis, took the opportunity to present likely the most expensive option – claiming divesting all assets of those funds (£1 billion) would be needed - making it almost as costly as divesting from the Paris fund.

For the MAC and other actively traded funds, even where they are pooled, it is standard practice in institutional investment to implement segregated mandates or tailored sleeves alongside pooled funds, enabling the application of specific exclusions without necessitating

full withdrawal from the fund. For example Southwark Pension Fund<sup>10</sup> are using a mixture of segregated mandates and pooled funds to enable ESG exclusions.

If the ongoing costs are the only financial issue of concern, it deserves a thorough analysis of all available options before putting the case to members.

## 2.4 Is using segregated mandates in conflict with the government drive for greater pooling?

Under current LGPS regulations<sup>11</sup>, ESG considerations are not optional where they are deemed financially material — and each LGPS fund is legally required to produce its own Investment Strategy Statement, reflecting their fiduciary responsibilities. It is also clearly within the fund's legal ability, and therefore the members reasonable expectation, that they can take non-financial factors into account. This creates a structural tension: while pooling has brought efficiencies, it also risks limiting individual funds' ability to implement bespoke ESG objectives, including targeted exclusions, if the pool is inflexible.

The government's own acknowledgement of this is clear in its recent July 2023 LGPS consultation, which proposes that pools should in future advise on, or even co-develop, the ISS — a clear recognition that the current separation between fund-level strategy and pool-level implementation creates friction. It remains to be seen if the pools can take over even more of the fiduciary responsibility without being legally challenged.

Until that governance framework is redefined, funds like Avon remain accountable for their own ESG policies, and must retain sufficient tools — including adjusted mandates where necessary — to implement them credibly and legally, at least in the short term while other funds consider a similar move.

Rather than viewing arms investment as locked in and inevitable if pooling is desired, with the reputational harm gradually mounting, it should be considered that divestment from arms and other social factors might be the price to pay in order to take advantage of pooling. As the APF report made clear the returns from the A&D sector are nowhere near as significant as the savings from pooling. The tension between ESG factoring and pooling will persist until this is resolved, it has to begin with one fund and more will likely follow leading to a reduction in additional costs as outlined in the report. When it is across all the funds in the pool there would be no additional costs and only a very minimal reduction in return.

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<sup>10</sup> <https://www.southwarkpensions.co.uk/media/c4emwrdp/lbspf-responsible-investment-policy.pdf>

<sup>11</sup>

[https://assets.publishing.service.gov.uk/media/5a820140e5274a2e87dc0a44/Guidance\\_on\\_preparing\\_and\\_maintaining\\_an\\_investment\\_strategy\\_statement.pdf](https://assets.publishing.service.gov.uk/media/5a820140e5274a2e87dc0a44/Guidance_on_preparing_and_maintaining_an_investment_strategy_statement.pdf)

## 2.5 No acknowledgement that the APF is in surplus

Even if it was not the case that costs of divestment and numerous years of ongoing management would be covered by the large profits which would be realised by selling the arms shares, it is still not the case that divestment costs would have to be borne by anyone. The fund was in surplus with 104% funding as of 2023/24 year end and likely still is. 4% is approximately £225 million pounds, so costs of less than a million could easily be absorbed without increasing employer contributions.

## 2.6 Legal complicity of arms investments

The report stands too confidently behind the Nigel Giffin KC opinion<sup>12</sup>, claiming it proves they are categorically not legally complicit in war crimes and genocide, which are widely known to be facilitated with the weapons of some of the companies the APF holds shares in. From the APF report:

*4.6 In 2024 KC opinion (obtained by the Scheme Advisory Board) confirmed that investing in A&D companies which supply Israel does not contravene UK or international law*

However, the opinion did not confirm with certainty, it is an opinion and he was clear in stating he is not a domestic or international criminal law specialist. Neither Mr Giffin or the SAB were as firmly standing behind the opinion as the APF report suggested was safe, and the SAB were clear that funds should still get their own legal advice:

*"The Secretariat hopes this advice assists funds in responding to this, or similar, letters but advises that funds should still seek their own legal advice in relation to their specific circumstances and investments."* <sup>13</sup>

Mr Giffin's argument rests mainly on the claim that the investments do not finance the arms manufacturers. He concluded:

*80(i) "Merely to make an ordinary investment in a company will not in normal circumstances amount to assistance in that company's activities. Still less will it amount to assistance in the commission of the criminal acts (if any) of a person to whom that company supplies goods and services as part of its business. Therefore the actus reus of any "ancillary conduct" offence under the International Criminal Court Act 2001 is not established even for new investments"*

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<sup>12</sup>

[https://lgpsboard.org/images/LegalAdviceandSummaries/Oct2024\\_LGA\\_LGPSGazaeventsopinion\\_from\\_Nigel\\_Giffin\\_KC\\_.pdf](https://lgpsboard.org/images/LegalAdviceandSummaries/Oct2024_LGA_LGPSGazaeventsopinion_from_Nigel_Giffin_KC_.pdf)

<sup>13</sup> <https://lgpsboard.org/index.php/board-publications/legal-opinions>

This point was repeated in the APF report:

*8.c - Giffin considers that investing in companies linked to Israel's actions does not meet the criteria for criminal liability. Assessing authorities' liability under 'Ancillary Offenses under ICCA' and the 'Terrorism Act 2000' shows that merely investing in a company is too indirect to be considered "assisting" alleged war crimes or crimes against humanity*

Considering the confidence APF placed in the Giffin opinion, for the reasons stated that the investments do not assist the companies in any meaningful way, it is surprising to read in the APF report, the first reason implied for continuing to invest in the arms manufacturers (option B starting on page 3) was to provide the arms companies with essential material support.

## 2.7 Supporting national defence and NATO

This point of contradiction was perhaps not lost on the author, which could account for the unusual way it is put: Is divestment from arms companies “consistent” with “Assisting Ukraine’s defence with weapons manufactured by the relevant companies.”

What is glaringly inconsistent, is to have in the same document claims that investments do not assist arms companies to assist the military of one country, and then fear mongering that without the assistance of the APFs investments, another country’s military cannot be armed and democracy itself would be at risk.

Putting “divestment” and “defending Ukraine/NATO supplies” together could be intended to implant an association which doesn’t exist in the hope that the wrong conclusion will be drawn.

In reality, ordinary shareholding, of shares bought on the secondary market, does not finance a company. In fact, the opposite, in most cases it extracts money from companies as dividends.

In terms of arms companies specifically, the money shareholders extract is public money from national defence budgets in various countries, which takes money away from weapons manufacturing. Last year BAE Systems distributed over £1.4 billion of tax payers money to shareholders<sup>14</sup>. General Dynamics distributed \$3 billion to their shareholders inc. APF<sup>15</sup>. That usually tax paid money, thought to be contributing to defence budgets, is now in private pockets and does nothing to “defend democracy”.

Arms investments are for profit, if it was any other way the pension fund would not be invested in it. If the fund were to pepper a member consultation with leading statements,

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<sup>14</sup> <https://investors.baesystems.com/~media/Files/B/BAE-Systems-Investor/documents/bae-systems-annual-report-2024.pdf>

<sup>15</sup> <https://www.gd.com/-/media/gd-corporate/pdf/2025-proxy-statement-general-dynamics-corporation.ashx>

along similar lines to those seen in the report and the APF News statement, it would prove a clear intent to deceive beneficiaries.

The APF report presented this non-factor as critical and decisive:

*“If the Committee cannot reconcile the above points [democracy, Ukraine] with divestment from A&D companies, it should decide to continue applying the Fund’s current investment exclusions...”*

It is very simple, there is nothing to reconcile and the committee should easily see this is a red herring. The investments do not support the arms manufacturers and to claim otherwise is to argue for the fund’s complicity in a genocide.

## 2.8 Supporting jobs

The APF report mentions:

*“BAE employs c.1,000 people in highly skilled roles across the region, along with many others through the supply chain. Indeed on 28 January 2025, BAE Systems won a £285m Royal Navy combat systems contract, supporting jobs across the south of England including in Filton”*

This is another red herring. The contract and jobs were in no way aided by the APF holding shares in BAE. This was a government contract and the only connection to the APF is that, as a shareholder, the APF will have siphoned a proportion of the tax payer’s money away from providing wages for workers and into their coffers as dividends.

The author uses the “is it consistent” device again to avoid any clear statement because there is no reality to the claim the investments “support a 1000 local jobs”:

*“The Committee needs to decide if local employment is relevant to its decision and, if so, whether APF divesting from A&D companies including BAE Systems is consistent with supporting 1,000 local jobs.”*

Again, this appears intended to deceive while maintaining plausible deniability that that was the intention, “just putting it out there to be considered”, though the author should be challenged on why the point was mentioned at all. It should be no trouble for the committee to understand that it is entirely irrelevant and divesting their modest shareholding (0.0013% of BAE stock) will have no negative impact at all on BAE.

It is also the case that BAE is the only UK manufacturer in the list and by APFs figures is just 0.3% of their A&D shares. The rest of the money is in foreign companies.

## 2.9 If not shares, bonds might support jobs

Supporting or creating jobs is not the purpose for which the fund was set up, but assuming members would look favourably on it, what jobs might they prefer to support, perhaps by providing liquidity to a firm with a bond purchase. Would arms manufacturing be their first choice? Unlikely. Would arms manufacturers outside the UK be their choice? Highly unlikely. Is it a sensible sector to prioritise for a social impact anyway?

A 2018 study<sup>16</sup> concluded “Over a 20-year period, a 1% increase in military spending will decrease a country’s economic growth by 9%.

The 2023 Watson Institute “Costs of war” study<sup>17</sup> found that due to being less labour intensive and more capital intensive, for creating jobs per dollar spent, it was the worst industry compared to more positive and much needed industries.

**Figure 4: Job Creation in the Military and Alternative Areas**

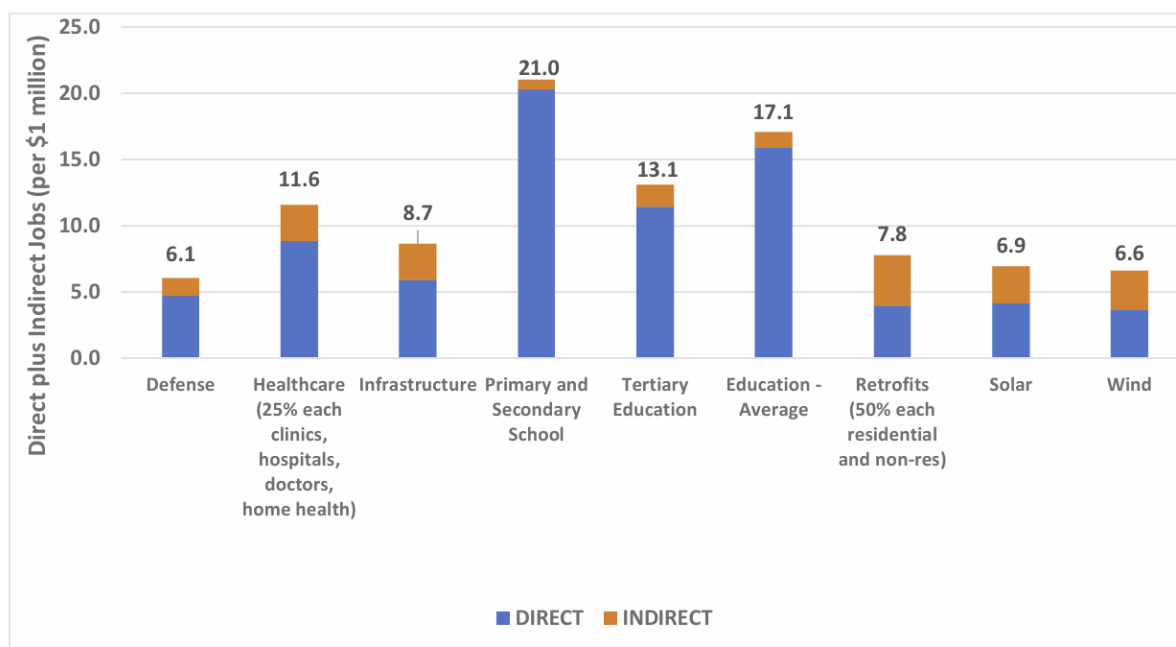


Chart 3

## 2.10 No consideration of impact of investments in report

The APF recently invested £50m for claimed local benefit without asking members. If local jobs were their concern as they claim with arms investments as well, they could have combined these issues by asked the question of members if they wanted the 99.7% foreign

<sup>16</sup> <https://warpreventioninitiative.org/peace-science-digest/effects-military-spending-economic-growth/>

<sup>17</sup> <https://watson.brown.edu/costsofwar/files/cow/imce/papers/2023/Peltier%202023%20-%20We%20Get%20What%20We%20Pay%20For%20-%20FINAL%20-%200608.pdf>

invested arms shares money instead to be used to provide liquidity to local companies to provide local jobs in less harmful industries. We believe if this question was honestly asked the answer would be a resounding “YES”.

Many pension funds consider the Impact Management Project (IMP) framework or Place-Based Impact Investing (PBII) Reporting Framework, both of which use the “ABC” classification: Avoiding harm. Benefiting stakeholders. Contributing to solutions.

Investments outside of these are classified as “May cause harm”. It is clear where weapons manufacturing would fall.

The APF is instead a signatory of UN’s Principles for Responsible Investment (PRI) which has similar aims but less well defined. Principle 1 is: *We will incorporate ESG issues into investment analysis and decision-making processes.*

The report did not highlight how a move from arms manufacturing to more labour intensive, less environmentally destructive and more morally sound industries or sectors would enhance alignment with the principles they claim to be signatories of.

## 2.11 Use of the “we’re engaging” smokescreen

The reply to point 2.10 was already included in the report and was entirely predictable. The hackneyed phrases “enhanced due diligence” and “engagement”. It claims members should be satisfied with continued weapons investments because of *“Enhanced due diligence and engagement in conflict-affected and high-risk areas (CAHRA).”*

Arms divestment is a broad call for ceasing profiting from products designed specifically to kill our fellow humans. It is not specific just to any area or after it has been afflicted by a conflict. Despite the report beginning with an outright dismissal of divestment specific to any particular conflict the author mixed the issues of OPT and CAHRA back into the report to placate members concerns in relation to a general arms divestment.

This is consistent with prominent claims on the APF website<sup>18</sup> which are used to engender trust from scheme members that their earnings are in responsible hands:



**Responsible investing is at the heart of what we do. Working with partner funds in Brunel and other like-minded investors, we exert collective influence to make positive real-world impact.**

- Nick Dixon, Head of Avon Pension Fund

**Stewardship:** we actively engage companies and vote for positive change.

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<sup>18</sup> <https://www.avonpensionfund.org.uk/about-fund/responsible-investment>

The report claimed

*“The Fund benefits from its membership to the Local Authority Pension Fund Forum (LAPFF) which engages directly with companies operating in high-risk regions on behalf of the LGPS.”*

But did not provide anything of substance to support that it is effective, IE that it lives up to the stated promise of “making positive real-world impact”.

Reading the report of a 2019 attempt LAPFF made<sup>19</sup> to engage with suppliers arming Saudi Arabia’s bombardment of Yemen, is very helpful in understanding how little is possible to achieve and more recent reports<sup>20</sup> merely show that nothing has changed.

Because LGPS funds and pools have a policy of engagement without the end point of divestment, companies have no incentive to engage or change behaviour.

Taking General Dynamics as an example, they refused to engage with LAPFF in 2019, no corrective action has been taken and they remain in Brunel’s Paris accord aligned fund. They continue to supply bombs to a country 19 months into what is by reputable legal opinions, a criminal and genocidal assault on Gaza. Even during a ceasefire, it was disclosed that they are supplying a further 35,529 2,000lb bomb bodies<sup>21</sup> which are well document as being used in densely populated civilian areas, each instance the UN OHCHR classes a probable war crime<sup>22</sup>.

Arms manufacture is 72% of General Dynamics revenue. Other than engagement, which clearly isn’t going to take place, the claimed benefit of remaining a shareholder is proxy voting. The claim is shareholders (in this case the pension funds) can vote in order to change a company’s behaviour. There is a fiduciary issue which should be known has made it impossible for shareholder voting to reduce the production of what is making them a profitable company.

While an English fund might, in a very limited way, be able to vote for a non-financial motive, EG to reduce harm, in a way which would reduce the profitability of a company, 87% of General Dynamics shares are with institutional investors<sup>23</sup> and 72% of shares are held in the USA, only 6.94% is in the UK. The fiduciary obligation in the USA is, more so than in the UK, considered to call for absolute financial maximisation and that has been clarified to include prohibition on proxy voting in such a way that might reduce returns in order to make an ESG benefit<sup>24</sup>. It is therefore statistically impossible for LAPFF to be able to change what makes the

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<sup>19</sup> <https://www.brunelpensionpartnership.org/wp-content/uploads/2019/11/LAPFF-Engagement-Report-Q3-2019.pdf>

<sup>20</sup> <https://lapfforum.org/wp-content/uploads/2025/02/LAPFF-Q4-2024-QER.pdf>

<sup>21</sup> <https://www.reuters.com/world/middle-east/us-state-dept-okays-potential-sale-munitions-israel-estimated-27-bln-2025-02-28/>

<sup>22</sup> <https://www.ohchr.org/sites/default/files/documents/countries/opt/20240619-ohchr-thematic-report-indiscrim-disprop-attacks-gaza-oct-dec2023.pdf>

<sup>23</sup> <https://www.nasdaq.com/market-activity/stocks/gd/institutional-holdings>

<sup>24</sup> <https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/final-rule-on-prudence-and-loyalty-in-selecting-plan-investments-and-exercising-shareholder-rights>



company most of their money by engaging or proxy voting, even if leveraging every LGPS funds votes - approx. 0.1% of all GD shares assuming all funds have equivalent to APF.

Company	Estimated % Held by U.S. Investors	Notes & Sources
<b>BAE Systems (UK)</b>	~43%	MarketScreener: 42.98% US-held; confirmed non-UK total is ~67% (MarketScreener)
<b>Boeing (US)</b>	~66.9%	Direct U.S. listing — most institutional holders (e.g., Vanguard, BlackRock) are U.S.-based (MarketScreener)
<b>General Dynamics (US)</b>	~72.4%	MarketScreener — top 1,000 holdings by geography
<b>General Electric (US)</b>	~70–75% (est.)	Majority held by U.S. institutions; no official geography breakdown available
<b>HEICO Corp (US)</b>	~65–75% (est.)	U.S. institutional ownership dominant; few foreign listings
<b>Honeywell (US)</b>	~62.4%	MarketScreener — U.S. holdings dominate (source)
<b>Howmet Aerospace (US)</b>	~67%	MarketScreener (source)
<b>Huntington Ingalls (US)</b>	~65–70% (est.)	High U.S. institutional ownership; not widely held outside U.S.
<b>Leidos (US)</b>	~63.3%	MarketScreener (source)
<b>MTU Aero Engines (DE)</b>	~15–20% (est.)	Mostly European held; U.S. investors likely minority holders (MTU IR)
<b>Northrop Grumman (US)</b>	~70–75% (est.)	U.S.-based funds dominate; consistent with other U.S. defense stocks
<b>Palantir (US)</b>	~40.5%	MarketScreener; relatively high international ownership due to global investor base
<b>Rheinmetall (DE)</b>	~6%	MarketScreener: 5.93% U.S. share (source)
<b>Rolls-Royce (UK)</b>	~15–20% (est.)	Some U.S. funds (e.g., Vanguard, BlackRock) own shares, but UK dominates
<b>Saab (SE)</b>	~0.1%	MarketScreener: minimal U.S. share (source)
<b>Safran (FR)</b>	~10–15% (est.)	European-dominated shareholder base; some U.S. ETF/fund exposure
<b>Teledyne (US)</b>	~60–70% (est.)	U.S. listed; domestic investors dominate
<b>Textron Inc. (US)</b>	~60–70% (est.)	High U.S. institutional ownership expected
<b>Thales SA (FR)</b>	~5–10% (est.)	Large French government and local institutional holdings; limited U.S. exposure
<b>TransDigm Group (US)</b>	~60–70% (est.)	U.S. headquartered and U.S.-fund dominated; foreign holdings possible but minor

*Table 2 – Arms companies proportion of shares held in USA*

The same will be true of other majority and high proportion USA share held arms companies which is most of them in the Paris fund shown in table 1.

Meaningful engagement is not occurring and has no credible chance of changing the fundamental output of a company. Shareholding cannot influence in terms of avoiding the harm that is inherent and inevitable from their products. Claiming something will be of benefit when it is statistically impossible to occur raises serious questions.

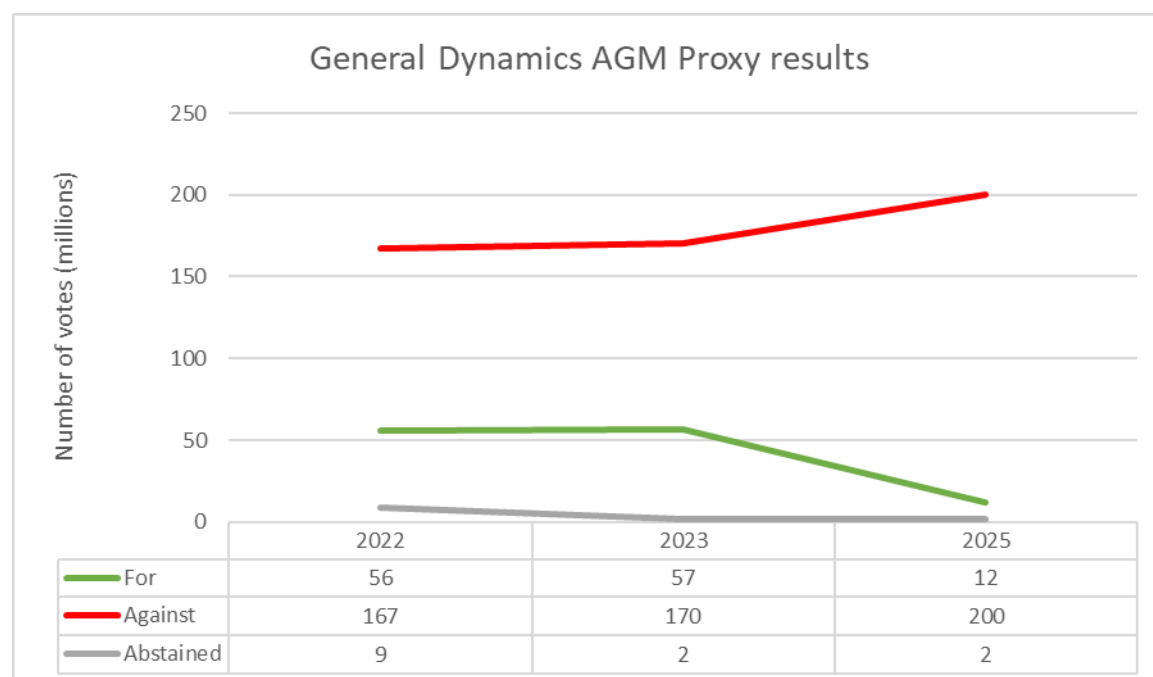
## 2.12 Is LAPFF trying?

There is no history of LAPFF proposing a motion at a General Dynamics AGM.

The only relevant motion they might have voted on was from the New York based Franciscan Sisters of Allegany, who appear to have purchased just enough shares to enable them to propose a motion. The motion asked that *“the Board prepare a report on the company’s human rights due diligence process relating to actual and potential human rights impacts associated with its products and services”*. They mentioned the company’s supply of munitions used against Yemen and Palestine plus the multibillion dollar contracts the company has for nuclear weapons.

It is well worth reading the proposal and the vehemence of the entire board’s opposition<sup>25</sup> (p90-92) to understand how entrenched the company is. It is also notable that in the rest of the document the company uses the same ethics washing language of “human rights risk management” and “due diligence” that is in common with LGPS funds.

In both 2022<sup>26</sup> and 2023<sup>27</sup> only around 25% of votes were for their motion merely to produce a report. It was submitted again for this year’s AGM and despite being 19 months into the assault on Gaza which General Dynamics supply, the number of shareholder votes to ask for a human rights impact report fell to 4.9%.<sup>28</sup>



Graph 4

<sup>25</sup> [https://www.sec.gov/Archives/edgar/data/40533/000130817923000163/lgd2023\\_pre14a.htm](https://www.sec.gov/Archives/edgar/data/40533/000130817923000163/lgd2023_pre14a.htm)

<sup>26</sup> <https://www.sec.gov/ix?doc=/Archives/edgar/data/0000040533/000004053322000015/gd-20220506.htm>

<sup>27</sup> <https://www.sec.gov/ix?doc=/Archives/edgar/data/0000040533/000004053323000031/gd-20230505.htm>

<sup>28</sup> <https://www.sec.gov/ix?doc=/Archives/edgar/data/0000040533/000004053325000017/gd-20250509.htm>

Even if their fiduciary duty didn't legally prevent them, it is inconceivable that a majority of the institutional shareholders who voted this way might then vote (non-binding as it would anyway be) for anything which reduced the company's income, perhaps by refusing to supply customers wanted for war crimes and accused of genocide. Yet, despite this the fund continues to profit from this company while placating member concerns by saying they are "exerting collective influence" for "positive real-world impact" and that this patently impossible claim as being "at the heart of what we do."

### 2.13 Engagement by bond holders?

The issue is even more black and white in terms of holding bonds. The fund has no voting rights, cannot participate in AGMs or submit resolutions, the fund has no ownership stake, no right to board engagement and no fiduciary influence.

Approximately 25% of the exposure to the weapons manufacturers APF listed, is in various forms of bonds in the MAC. No mention was made that rather than being in a position to influence those companies the APF is providing liquidity for them to expand their business, produce more arms, with no ability to influence them.

### 2.14 Using the Fit for the Future consultation as a delaying tactic

The report states:

*"If Committee decides to exclude A&D companies, it would need to consider potential impacts which could arise from investment regulations in the government's final decisions in the "Fit for the Future" consultation, e.g. there is a chance the government could limit the ability of individual LGPS funds to develop their own exclusion policies."*

The claim that "there is a chance the government could limit the ability of individual LGPS funds to develop their own exclusion policies" is not supported by the Fit for the Future consultation. Nowhere does the consultation propose removing the duty or right of the pension funds to set their own Investment Strategy Statements, which includes the ability to apply exclusion policies. Unless and until there is a concrete proposal to amend the 2016 LGPS regulations or the current governance framework, such speculative reasoning should not be used to delay action.

While the consultation does propose that LGPS pools take a more active role in supporting funds in developing their ISS, this is clearly framed as advisory support — not a transfer of decision-making authority. The responsibility for setting the ISS, including any exclusions, remains with the individual fund and its pension committee, acting in line with its fiduciary duty to scheme members. The consultation does nothing to override that autonomy.

## 3. Inconsistency and Political Framing

### 3.1 Local investing under political orders

With striking inconsistency, the Fund has recently committed £50 million to local investment<sup>29</sup> initiatives—a non-financial factor as clarified in the latest Giffin opinion—without conducting any member consultation or asserting risk that any disagreement would preclude the move.

The APF report highlighted that they must not be influenced by Government policy:

*“It is not appropriate for investment decisions to be driven directly by the political views of Pension Committee members or indeed Government ministers”*

*“The AA’s authority over investments must be exercised for investment purposes, and not for any wider purpose. Investment decisions must be directed towards achieving a wide variety of suitable investments, and to what is best for the financial position of the fund (balancing risk and return in the normal way)”*

The Giffin opinion, which the report relies on heavily in other areas, clarified:

*“Accordingly, my view is that in relation to any policy of local investment, the normal financial and member support criteria will need to be satisfied.”*

The fund was not set up for the purpose of promoting or helping local business but APF are doing so in-line with the government’s “Fit for the Future” agenda.

This demonstrates that non-financial factors aligned with government policy are acted upon without hesitation or deference to members. In contrast, in the case of A&D divestment—where public concern is substantial but the government is known to oppose such moves—the report's author appears to seek alignment with government policy, but this time under the guise of strict fiduciary constraint. The inconsistency in approach suggests a troubling bias in how member interests and ethical concerns are weighed, depending on political alignment.

The test of the Avon Pension Fund will be to see if it only allows non-financial factoring in line with the government they are explicitly forbidden from obeying, or in line with the scheme members the fiduciaries are legally bound to serve.

### 3.2 Framing ethical divestment as a political request

The report frames the issue of arms divestment as a political rather than ethical/social matter. This framing is itself politically loaded. It implies that member calls for ethical investment are ideologically motivated, while treating alignment with government preferences (being

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<sup>29</sup> <https://www.avonpensionfund.org.uk/news/2025/avon-pension-fund-commits-ps50m-fund-investment-local-businesses>

invested in arms) as neutral or apolitical. In reality, divestment is only 'political' to the extent that the government disapproves of it—not because members' ethical concerns are partisan. This inversion of neutrality undermines the Committee's ability to fairly assess its fiduciary responsibilities.

## 4. Request for Formal Acknowledgement & Corrective Action

In light of the fact that the Committee has already voted against divestment by a margin of 10 to 3—following publication of a report containing serious misrepresentations—and that some of the same misleading talking points have now been repeated in the media<sup>30</sup>:

*“Instead, a more defensible option would be to stop investing in all arms companies, according to Nick Dixon, head of pensions at the fund. But this would include firms that employ thousands of people in the region, as well as supply Ukraine with weapons to defend against the Russian invasion.”*

It is critical that corrective steps be taken to ensure the consultation process is not further compromised.

We respectfully request:

- A formal response from the Monitoring Officer addressing whether the fiduciary and legal arguments in the report meet the standards expected by The Pensions Regulator;
- Confirmation that this letter will be included in the Committee's formal papers for consideration;
- That any decision based on this report will be subject to review in light of the concerns raised herein;
- That the Fund take positive steps during the upcoming consultation process to correct the misleading impressions already created, particularly the false implication that shareholding supports national defence or local employment, and ensure that scheme members are provided with accurate, legally grounded information.
- As the fund pursues local investment, a non-financial factoring based on the assumption that members value local impact, we believe it would be more consistent to treat ethical concerns about arms manufacturing as part of the same conversation. Both reflect member values and should be considered together, including by offering to redirect divested funds into local initiatives.

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<sup>30</sup> <https://www.bristolpost.co.uk/news/bristol-news/thousands-public-sector-staff-say-10063755>

We thank you for your attention to these matters, and remain committed to supporting a fiduciary process that is evidence-based, transparent, and fully compliant with legal standards.

Yours faithfully

Avon Pension Fund Members

(names will be added when the letter is sent to the fund)