



Don't Bank on the Bomb Scotland briefing sheet: Lothian Pension Fund

Lothian Pension Fund is one of the largest in the UK, with over 84,000 members. The fund manages the contributions of employees of the City of Edinburgh, East Lothian, Midlothian and West Lothian Councils, as well as employees of Lothian Buses and Scottish Homes and a range of other organisations.

Lothian Pension Fund invests more in the nuclear weapons industry than any other Scottish local authority pension fund, holding shares worth over **£125 million** in five companies that undertake work on nuclear weapons programmes as at 30 September 2020:

Company	Contracts related to UK's nuclear weapons programme?	Value of shareholdings at 30 September 2020
BAE Systems	✓	£15,063,811
General Dynamics	✓	£4,064,028
Lockheed Martin	✓	£102,474,021
Rolls Royce	✓	£922,558
Thales		£3,138,454
	Total:	£125,732,872

Source: List of investments held by Lothian Pension Fund as at 30 September 2020:

<https://www.lpf.org.uk/downloads/file/79/fund-investments>

BAE Systems and **Rolls Royce** are key contractors for Britain's military nuclear programme. BAE is building the country's new nuclear-armed Dreadnought class submarines, while Rolls Royce has a billion-pound contract with the MoD to make the submarines' nuclear reactors. BAE also has contracts to provide key components for the submarine-launched Trident II (D5) missiles that are deployed by the UK and US.

General Dynamics and **Lockheed Martin** have contracts related to the Trident D5 missiles. Lockheed Martin is also working on the development of new types of nuclear weapon for the US, including the air-launched Long Range Standoff Weapon.

Thales is involved in the production of nuclear-armed medium-range air-to-surface missiles for the French military and has other contracts relating to France's nuclear weapons programme.

For information on how each of these companies is involved in the nuclear weapons industry see: *Producing Mass Destruction: Private companies and the nuclear weapons industry*: <https://www.paxforpeace.nl/publications/all-publications/producing-mass-destruction>

Why divest?

Nuclear weapons are uniquely destructive

- Nuclear weapons are designed to destroy cities and kill indiscriminately.
- Any use of nuclear weapons would have devastating environmental consequences. Even a “limited” nuclear war would alter the global climate, making food production impossible in some regions and putting millions at risk of starvation.
- Companies that make nuclear weapons are contributing to a new nuclear arms race which has raised the threat of nuclear conflict to its highest level since the Cold War.

Nuclear weapons programmes have a huge opportunity cost to taxpayers

- The world’s nuclear armed states spent US\$138,699 a minute on nuclear weapons in 2019.
- Latest predictions suggest that the UK’s Trident renewal programme will cost at least £172 billion over its lifetime, or £3.4 bn a year.
- Scotland pays £187 million a year towards Trident, money that could instead fund the training of 750 nurses, 370 police officers, 1,500 teachers and 235 doctors.

Nuclear weapons are prohibited under international law

- The 2017 Treaty on the Prohibition of Nuclear Weapons prohibits the development, production, testing, possession and use of nuclear weapons.
- Scottish local authority pension funds cannot claim to be responsible investors while investing in companies that produce banned weapons.
- Entry into force of the treaty in 2021 has increased the regulatory and reputational risks associated with nuclear weapons work. Companies that continue to undertake work in this area are a risky long-term investment choice.

Divestment promotes nuclear disarmament

- A decision to divest would set an example to other organisations in Scotland that profiting from weapons of mass destruction is unacceptable.
- Widespread divestment could persuade companies to stop producing nuclear weapons, as was the case with cluster munitions.
- Divestment will further delegitimise nuclear weapons and increase the pressure on states to abandon them.

Scots support divestment from unethical industries

- In March 2018, a Survation poll found that nearly three quarters of Scots believe that the Scottish Parliamentary Pension Scheme should divest from arms companies, including Trident contractor Rolls Royce, and from tobacco and fossil fuel companies.

How can nuclear weapons divestment be achieved?

Councils can pass a resolution supporting divestment

Don't Bank on the Bomb Scotland and Nuclear Free Local Authorities UK have created a model resolution for councils that calls on the council's pension fund to divest from nuclear weapons:



Draft model divestment resolution



- Council is a member of the Mayors for Peace, the global international body of Councils working for over 3 decades to promote multilateral nuclear disarmament and a more peaceful world. [If applicable] Council passed [name of resolution] on [date] calling on the UK government to cancel Trident replacement plans and support the 2017 Treaty on the Prohibition of Nuclear Weapons (TPNW).
- [Name of pension fund] manages the pension contributions of Council employees. [Name of pension fund] is known to hold shares in companies that are involved in the production or maintenance of nuclear weapons or their delivery systems, [if applicable] including some that undertake work on the UK's nuclear weapons programme.
- Any investments in nuclear weapons producers are at odds with Council's support for the TPNW and Council's opposition to Trident renewal. Such investments also present a growing risk to [name of pension fund]. The TPNW has increased the stigma associated with nuclear weapons and companies which continue to produce nuclear weapons after the treaty enters into force will face damage to their reputation which could affect their value.
- Council calls on [name of pension fund] to:
 1. Work towards eliminating current and future financial exposure to companies that are involved in the production or maintenance of nuclear weapons and their delivery systems, giving due regard to fiduciary duty.
 2. Council asks the Chief Executive to write to the convenor of [name of pension fund]'s pension committee to urge them to take full consideration of this resolution.

In May 2019, **Renfrewshire Council** became the first in the UK to pass this resolution. Now **West Dunbartonshire, Midlothian, East Ayrshire** and **Inverclyde** Councils have passed similar resolutions.

While these resolutions do not bind fund managers, they are an important statement of support for nuclear weapons divestment from councillors, who are fund members. The more councils that adopt resolutions, the greater the pressure will be on funds to divest.

Influencing pensions committees

Local authority pension funds are governed by pensions committees, which are generally comprised of councillors and sometimes union representatives. Pensions committees act in a quasi-trustee capacity and are responsible for setting the pension fund's investment strategy. Pension boards scrutinise the decisions of pension committees.

Pensions committees can change their fund's investment strategy to exclude nuclear weapons producers, providing there is no financial detriment to the fund. It is therefore important that pensions committee members hear from other fund members and constituents about why nuclear weapons divestment is so important.

A list of Lothian pensions committee and board members can be found here:

<https://www.lpf.org.uk/us/governance?documentId=29&categoryId=6#:~:text=The%20Pensions%20Committee%20decides%20the,monitors%20and%20reviews%20investment%20arrangements>

Is nuclear weapons divestment possible?

Fiduciary duty

Local authority pension funds often say that divestment on the basis of non-financial considerations is not possible because this would conflict with the fund's fiduciary duty to its members. However, a legal opinion commissioned by the Scottish local government pension scheme's advisory board states that pension committees *can* take into account non-financial factors in their investment decisions, "so long as that does not risk material financial detriment to the Fund": <http://lgpsab.scot/wp-content/uploads/2016/06/Letter-to-Funds-on-Fiduciary-Duty.pdf>

Pension funds *do* have a duty to act in the best interests of their members but there is a strong case that those interests will be best served by a fund which helps to limit the threat of nuclear war by divesting from nuclear weapons producers.

In addition, there are already examples of local authority pension funds that restrict investments in harmful industries, showing that it *is* possible:

Scottish Borders Council Pension Fund has a policy that restricts investment in controversial weapons, which includes nuclear weapons. The fund's statement on responsible investment says that as well as seeking to enhance long-term returns on its investments, the fund seeks to "ensure that [it] minimises any harm to the environment and society". The fund requires investment managers to uphold eight overarching principles, including one under the heading "social responsibility" which states:

"When companies are involved in certain controversial activities, we may refrain from investment in those companies. For example, we may decide to exclude companies which are involved in the production of controversial weapons."

Scottish Borders Council Pension Fund is also working to divest from fossil fuels.

Tayside Pension Fund's Policy on Environmental, Social and Corporate Governance Issues states that the fund aims to disinvest from tobacco stocks. If fund managers wish to invest in the tobacco industry, they must produce a business case which demonstrates "that there are no suitable alternatives at that time that better meet the criteria to meet their investment objectives":

<https://www.taysidepensionfund.org/media/3948/194-2018-esg-040618.docx>

Many international examples of pension funds that have divested from nuclear weapons producers can be found in Don't Bank on the Bomb's Hall of Fame:

<https://www.dontbankonthebomb.com/2019-hall-of-fame/>.

Action

- If you are a local councillor in the City of Edinburgh, East Lothian or West Lothian, put a resolution to council calling on Lothian Pension Fund to divest from companies that make nuclear weapons (see page 3 of this briefing).
- If you live in City of Edinburgh, East Lothian or West Lothian, write to your local councillors and ask them to support a nuclear weapons divestment resolution. See <https://nukedivestmentscotland.org/slgps-what-you-can-do/>.