Paper B: Investment in conflict zones

Key points to note

The Board has published a new webpage collating its work relating to investment in conflict zones.

The secretariat has received queries on the topic of what can be specified in a fund's responsible investment strategy and the need for further clarity in this area as whilst the statutory guidance published by the Ministry for Housing, Communities and Local Government (MHCLG) in June 2026 is clear on not setting requirements in relation to investments in individual countries, investment styles or companies, there is no clear statement on the specification or exclusion of sectors.

Further outputs to support the scheme in the fulfilment of their duties in these areas are being considered and the group's feedback has been invited.

Recommendation

That the group notes the contents of this update and considers any areas of focus or output for the Board on this topic.

Background

There is ongoing political sensitivity around responsible investment (RI) issues and the topic of investment in conflict zones in particular. The Board has taken a number of steps to assist scheme practitioners in the fulfilment of their duties and continues to consider further actions which could be taken. So that there is a central source of information, a new 'Investment in conflict zones' webpage has been published. The page brings together the Board's work in this area including Board statements, correspondence with various Local Government Ministers and legal opinions commissioned by the Board. The page also includes links to the earlier work done on Boycotts, Divestments and Sanctions.

Considerations

The Board continues to consider further actions that can be taken to support scheme practitioners up to and including further legal advice. At this stage, there are no plans to procure further legal advice as [the January 2025 legal advice from Nigel Giffin KC] takes account of the Fit for the Future reforms as proposed at that time.

The secretariat have received queries on the need for further clarity on the point of funds setting investment views on particular sectors. Paragraph 5.9 of the [Investment Strategy Statement (ISS) guidance] published in June 2026 is clear that administering authorities (AA) must not specify individual holdings, managers or geographic zones of investment as part of its statement and RI approaches should not set out views on investments in individual countries, investment styles or companies.

5.9. As set out in Chapter 3, the role of the administering authority is to set the ISS, including the high-level objectives, but not to specify the individual holdings, managers or geographic zones of investment. The responsible investment approach should not set exclusions for investments in individual countries, investment styles or companies.

The stipulations of the guidance do not however set out clear instructions on the approach to excluding specific sectors.

The point of unclarity arguably makes it possible for an AA to set such exclusions which could in turn create implementation difficulties at the pooling level and could be utilised as a loophole to circumvent what is currently contained in the ISS guidance. The alternative is that the AA's views on specific sectors are included as a preference which is then considered alongside other objectives and preferences at the pool level which on consideration would seem to be more consistent with that already set out in the guidance. Given the detail already provided in statutory guidance, the secretariat would deem it appropriate for this clarification to ultimately be provided by MHCLG.

The group are however asked for their view on further outputs the Board could explore to further its progress in this area. Paper D contains proposals for a new RI implementation working group and the group is asked to consider whether any issues or outputs suggested could be helpfully addressed by the working group.

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