# UK pension funds face political backlash against net-zero and ESG investments



Until recently, UK investment firms could largely sidestep the contentious debates surrounding environmental, social, and governance (ESG) criteria gaining traction in the United States. However, recent electoral gains have initiated a critical examination of pension asset management across Britain. The recent success of a newly influential political party indicates a substantial shift in the landscape, particularly regarding pension assets exceeding £100 billion, challenging the status quo.

The Local Government Pension Scheme (LGPS) in England and Wales, the UK's largest funded pension scheme with collective assets around £467 billion, is managed through 87 distinct Administering Authorities. The intricate structure, marked by multiple asset pools overseen by separate authorities, has raised concerns about efficiency and management efficacy for years. Various chancellors have typically promoted the pooling of fund management capabilities as a solution. Currently, eight pooling companies manage over half of all LGPS assets, a trend expected to intensify as these companies consolidate.

The recent electoral developments provide a stark warning regarding the future of investment strategies. With an increasing representation on pensions committees now at stake, those traditionally advocating against “woke” investments may soon exert significant influence. These committees—responsible for crucial investment matters—could usher in a new era, particularly regarding strategies viewed as excessively progressive or "woke."

The party's deputy leader has already underscored a campaign against “net-zero-obsessed” investments, linking the underperformance of parliamentary pension funds to broader inefficiencies within LGPS investments. He remarked, “The MP’s pension fund is riddled with net-zero investments that are underperforming and has 32 per cent of its assets invested in illiquid assets that are probably overvalued.” While the performance of sustainable funds paints a mixed picture, with some, like the BlackRock Low Carbon Fund showing positive returns, the narrative is shifting toward greater scrutiny.

The possible ramifications of this influence extend beyond mere investment strategy adjustments. Numerous councils across the UK have committed to climate strategies, vowing to achieve net-zero carbon emissions by 2050. Yet, with committees reportedly poised to be dominated by those opposed to net-zero mandates, the future of these pledges hangs in the balance. As evaluations approach, significant concerns emerge—despite optimistic initial estimates indicating that most funds were in surplus by year-end.

Ongoing government consultations aim to reshape the LGPS landscape, potentially centralising investment management. Should these proposals come to fruition, the power currently held by pension fund councillors could quickly evaporate, limiting their influence over investment strategies.

The United Kingdom appears set to reflect the United States in navigating the escalating tensions of "woke capitalism." The ongoing ideological clash surrounding ESG and financial performance has generated complexities in asset management, creating inconsistencies across various markets. With the potential for a significant redirection of investment mandates at play, the conservative pushback could fundamentally alter the country's approach to net-zero investments, mirroring the upheaval seen in U.S. public pension funds under similar ideological pressures.

As this situation continues to evolve, the repercussions of these political shifts will likely reverberate throughout the UK asset management industry. While it remains uncertain how these dynamics will unfold, the brewing storm surrounding pensions and investment strategies portends significant changes with the potential to reshape the future of sustainable investment across the UK.

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://www.ft.com/content/d7858718-91a9-4881-baa6-10dc7c05a260> - Please view link - unable to able to access data
2. <https://www.ft.com/content/d7858718-91a9-4881-baa6-10dc7c05a260> - This Financial Times article discusses Reform UK's significant influence over more than £100 billion in pension assets following their success in local elections. The piece highlights the Local Government Pension Scheme (LGPS) as the UK's largest funded pension scheme, totaling £467 billion in assets managed through 87 Administering Authorities. With Reform UK now holding key positions on various pension committees, the article explores potential shifts in investment strategies, particularly targeting 'woke' and net-zero-focused investments. It also touches upon forthcoming government consultations that may centralize investment decisions, potentially affecting Reform UK's current influence.
3. <https://www.telegraph.co.uk/politics/2023/05/05/local-election-results-reform-uk-party-flop/> - An article from The Telegraph reports on Reform UK's performance in the 2023 local elections, where the party secured only six seats despite fielding candidates in nearly 500 wards. The piece includes comments from Reform UK leader Richard Tice, who expressed satisfaction with the results, emphasizing the party's newness and the challenges of the first-past-the-post electoral system. The article also notes that the party's focus remains on the upcoming general election, viewing the local election results as a stepping stone.
4. <https://www.bbc.co.uk/news/uk-politics-65502990> - BBC News provides an overview of Reform UK's performance in England's local elections, highlighting that the party won just six seats, averaging 6% of the vote in the wards where it stood. The article notes that this is a decline compared to the 2019 equivalent poll, where UKIP averaged 19% in wards it contested. The piece also mentions that Reform UK, formerly the Brexit Party, was founded in 2018 with Nigel Farage's backing and has been ahead of the Green Party and the Liberal Democrats in some national opinion polls.
5. <https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments/outcome/local-government-pension-scheme-england-and-wales-next-steps-on-investments-government-response> - This UK government response document outlines the outcomes of a consultation on the next steps for investments in the Local Government Pension Scheme (LGPS). The document discusses the scale and impact of the LGPS, which manages around £359 billion worldwide, and emphasizes the potential for the scheme to lead in market innovation and transparency. It also covers key areas such as asset pooling, levelling up, opportunities in private equity, investment consultancy services, and the definition of investments, providing a comprehensive overview of the government's approach to reforming the LGPS.
6. <https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future/local-government-pension-scheme-england-and-wales-fit-for-the-future> - This UK government consultation document focuses on the future of the Local Government Pension Scheme (LGPS), aiming to tackle fragmentation and inefficiency to unlock the scheme's investment potential. It discusses proposals for further consolidation, improved governance, and investment strategies to provide long-term clarity and sustainability. The document highlights the LGPS as one of the world's largest funded pension schemes, managing pensions for 6.7 million members and investing £392 billion worldwide as of March 2024, and outlines measures to enhance its role as a significant investor and engine of growth.
7. <https://www.thelondoneconomic.com/politics/reform-uk-has-picked-up-7-seats-from-184-by-elections-since-july-388891/> - An article from The London Economic reports on Reform UK's performance in council by-elections since July, noting that the party has secured just seven seats from 184 by-elections. The piece highlights that in recent by-elections, Reform UK failed to win any seats, adding to a challenging year for the party on the local front. The article also mentions that Reform UK is targeting the mayoralty of Lincolnshire with former Tory MP Andrea Jenkyns as its candidate and plans to focus on areas such as Essex, Kent, Nottinghamshire, and Derbyshire.