

# AAIS Defence Statement

Extract from AAIS' internal Sustainable Investment Policy  
Component of AAIS' Sustainability Risk Policy Framework in the sense of article 3 of the Sustainable Finance Disclosure Regulation

March 2022

*This statement is applicable to all funds onboarded on ABN AMRO Investment Solutions' delegated platforms, unless stated otherwise.*

## I. Why does ABN AMRO Investment Solutions have a Defence Statement

ABN AMRO Investment Solutions ("AAIS"), as an asset management company committed to the Principles for Responsible Investment<sup>1</sup>, has a fiduciary duty. We aim to act in the best interest of our clients and take environmental, social and governance aspects into account in our product offering.

In line with our parent company ABN AMRO Bank N.V. (hereafter ABN AMRO), ABN AMRO Investment Solutions acknowledges that the defence industry poses sustainability risks, such as:

- *Human rights violations*: weapons or dual use goods such as jamming equipment for telecommunications, may contribute to human rights violations in the hands of oppressive regimes;
- *Proliferation of Controversial Weapons*: components or techniques may be used in the manufacturing process of controversial weapons thus contributing to the proliferation of controversial weapons;
- *Corruption*: trade of weapons in fragile states may be associated with corruption.

We acknowledge the right of states to defend themselves and thus states' right to produce and acquire arms. However, we believe sustainability risks and adverse impacts associated with the defence sector need to be managed and mitigated. The requirements set out in this policy are complimentary to existing local laws, licensing obligations, regional agreements and international laws and conventions.

## II. Implementation within AAIS

AAIS has an open architecture business model. We onboard external portfolio managers on our platforms, to whom the financial management of the portfolios is delegated. The portfolios offered via our platforms must meet our sustainability requirements. AAIS uses a multidimensional approach to implement ESG criteria, this approach is explained in more detail in our Sustainable Investment Policy.

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<sup>1</sup> We are a signatory to the PRI via our parent company ABN AMRO Bank N.V.

In this statement, we want to highlight two aspects of our screening related to the defence sector:

- the negative & norm-based screenings we have in place to avoid exposure on companies involved in certain defence-related activities;
- the positive influence we aim to exert by active ownership.

### III. Negative & norm-based screenings (exclusions)

We exclude companies involved in certain defence related activities. We do this because we believe these investments cause financial “value at risk” and/or reputational risks, and/or have a severe impact on human rights and other sustainability factors, and/or are not in line with our purpose and ethical values. The exclusions of controversial weapons and UNGC non-compliant companies are applicable to our entire fund range, as these concern serious violations comprising not only unacceptable negative impacts on human rights but also material reputational and financial risks.

#### *Companies that are non-compliant with the 10 principles of UN Global Compact*

AAIS excludes companies involved in activities that are non-compliant with the 10 principles of UN Global Compact<sup>2</sup>. Principles that can be linked directly to the defence sector are those principles related to Human Rights (principles 1 and 2) and to Corruption (principle 10). The underlying research data to implement these exclusions is supplied by the independent research agency Sustainalytics. The exclusions are applicable to the entire fund range onboarded on our platforms. We perceive exposure to companies in breach with the 10 UNGC principles as an exposure to too much sustainability risk (with potentially high financial implications<sup>3</sup>) and exposure to severe adverse impacts on sustainability factors.

#### *Controversial Weapons*

It is prohibited, by [Dutch law](#) among others, to invest in corporations that produce, sell or distribute cluster munitions. Furthermore, and in line with our parent company ABN AMRO, AAIS excludes investments in controversial weapons other than cluster munitions. We define controversial weapons as weapons that have a disproportionate and indiscriminate impact on civilians.

Based on underlying research supplied by Sustainalytics, AAIS lists companies involved in controversial weapons and excludes them from its investment platforms. This list is updated on a quarterly basis and is subsequently shared with the portfolio managers for implementation in their portfolios.

Across our entire fund range (unless stated otherwise), a **company** is excluded if:

- The company is involved in the production, selling and/or distribution of (parts of) controversial weapons AND this involvement concerns the core weapon system, or components/services of the core weapon system that are tailor-made and essential for the lethal use of the weapon.
- The following weapons are controversial:<sup>4</sup>
  - a) Cluster weapons;
  - b) Nuclear weapons;
  - c) Depleted uranium weapons;

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<sup>2</sup> <https://www.unglobalcompact.org/what-is-gc/mission/principles>

<sup>3</sup> Please note that some of the funds we offer may invest in other (external) funds that may not be fully in line with our policies on exclusions.

<sup>4</sup> This list is based on several conventions and treaties, such as the (Oslo) Convention on Cluster Munitions, the Non-Proliferation Treaty, the Ottawa Convention, the Biological and Toxin Weapons Convention and the Chemical Weapons Convention.

- d) Anti-personnel mines;
  - e) Biological weapons;
  - f) Chemical weapons;
  - g) White phosphorus weapons; and
  - h) Fully autonomous weapons<sup>5</sup>.
- In case of *indirect involvement* in Controversial Weapons through ownership, the company is excluded if the ownership percentage exceeds 10% for ESG leaders<sup>6</sup> (an AAIS subclassification under article 8 of the Sustainable Finance Disclosure Regulation (SFDR), ESG investment products) and Impact funds (article 9 SFDR) and 35% for “other funds”.<sup>7</sup>
  - In case of involvement in nuclear weapons, the company is excluded if it contributes to the nuclear programmes of states other than the United States, United Kingdom or France.<sup>8</sup>

A list with publicly listed companies excluded based on involvement in controversial weapons is published on the website of ABN AMRO.<sup>9</sup>

A **country** is excluded from ESG (SFDR article 8) and Impact (SFDR article 9) products if it has not ratified the Treaty on the Non-Proliferation of Nuclear Weapons (NPT): a treaty to prevent the spread of nuclear weapons and weapons technology, to promote cooperation in the peaceful uses of nuclear energy and to further the goal of achieving nuclear disarmament and general and complete disarmament.<sup>10</sup>

### Other exclusions

We believe that, next to ethical concerns, there are reputational risks associated with military contracting and the business of manufacturing and selling firearms. Therefore, we exclude these activities from investment for ESG leaders and Impact funds.<sup>11</sup> Depending on the activity, we have either no tolerance or a threshold of 5% of revenues in place.

- *Military contracting (armament weapons & components manufacturing and tailor-made products & services)*: Using Sustainalytics data, we assess whether companies derive revenue from the manufacturing of weapons or weapon components or from providing tailor-made products or services to the army or the Defence industry. Tailor-made products refer to specific products delivered to the military, like specific clothing or tools for instance. Military contracting, also referred to as the defence or armaments industry, can be considered controversial for reasons of pacifism, asymmetric defence-related purchasing power between countries, negative effects on economic growth and development particularly in post-conflict areas as a result of defence spending, potential issues around transparency and corruption, and its potential for (re-)fuelling wars and conflicts. There is *no tolerance* in place for military contracting related to weapons, for weapon-related products and/or services the threshold is *5% of revenues*.

<sup>5</sup> Weapons that can select and attack targets without human intervention

<sup>6</sup> AAIS identifies ESG leaders, or article 8+ products, as a subcategory within the SFDR article 8 product range. Next to ESG leaders, we also identify ESG improvers, or article 8.

<sup>7</sup> Other funds include ESG improvers (see previous footnote) and SFDR article 6 products. External asset managers are excluded from indirect involvement thresholds on controversial weapons.

<sup>8</sup> The nuclear powers that are part of the Treaty on the Non-proliferation of Nuclear Weapons and the NATO. China and Russia are also part of the NPT Treaty but contribution to the programmes of these countries is prohibited.

<sup>9</sup> <https://www.abnamro.com/app#/en/about-abn-amro/product/exclusion-list>

<sup>10</sup> <https://www.un.org/disarmament/wmd/nuclear/npt/>

<sup>11</sup> Funds classifying as article 8+, or 9 under the Sustainable Finance Disclosure Regulation (SFDR)

- *Small military and civilian weapons (production and distribution of firearms)*: Using Sustainalytics data, we screen on manufacturers of firearm weapons such as guns, rifles, and pistols, manufacturers of components of these weapons and retailers. Firearms can be considered controversial as they are reported to be a major factor in the increase of armed conflict worldwide. They are the weapon of choice for many terrorist groups around the world and often hinder smoother rebuilding and development after a conflict has ended. Sustainalytics research shows that of the publicly traded companies involved in firearms in their database, most (70%) cater to the civilian market (as distinct from the military/law enforcement market). Most of these companies are based in the United States, where mass shootings have been a reoccurring event. There is *no tolerance* for this activity.

#### **IV. Active ownership**

We see active ownership as engagement and voting at General Meetings. We split the two as engagement is done at the level of the individual portfolio manager and the exercise of proxy voting rights lies with AAIS. Obviously, for categories with no tolerance (most exclusions mentioned before), engagement is not an option. More details regarding active ownership by AAIS can be found in the Sustainable Investment Policy.

#### **V. End note**

Our Defence statement may evolve over time. For years, AAIS has been working in close cooperation with providers and peers to channel ESG best practices and to offer to client a full range of ESG-proof investment products. AAIS aims to limit adverse impacts and sustainability risks and to preserve its reputation. We are aware that, despite of our efforts, there may be biases in our analyses (as we mostly rely on external providers) and we may invest indirectly (via external funds) in activities we would rather avoid. We strive to minimise these exposures.