

## OPEN LETTER TO GLOBAL INDEX PROVIDERS

**We, the undersigned institutional investors, together managing at total of € XXX bn of assets<sup>1</sup>, are calling on global index providers to exclude controversial weapons from their mainstream indices in order to align their products with what has become standard practice or expectation among institutional and individual investors.**

There is a growing consensus among financial regulators, asset managers and end investors to invest responsibly. Excluding companies with any involvement in the production of controversial weapons is a key part of that. Such weapons – which include cluster munitions, antipersonnel mines, as well as chemical, biological and nuclear<sup>2</sup> weapons – may cause indiscriminate or disproportionate harm. Their use is banned or restricted under international conventions.

Globally, exclusionary screens – most commonly of controversial weapons manufacturers – covered USD15 trillion of assets under management in 2016, up from USD8 trillion in 2012. In Europe in particular, this represented 48 per cent of professionally managed assets.<sup>3</sup> Increasingly, restrictions of controversial weapons are mandated by law. Switzerland, Spain, Netherlands, New Zealand, Luxembourg, Ireland, France and Belgium are among the countries which have legislated against direct and/or indirect financing of controversial weapons manufacturers.<sup>4</sup>

Companies involved in controversial weapons account for a marginal weight of global equity and fixed income indices<sup>5</sup>. However, for active investors using standard benchmarks, excluding these companies means exposing portfolios to extra tracking error. The problem is more acute for the growing numbers of passive investors, as the vast majority of strategies replicate traditional, exclusion-free indices. It follows that investors tracking big-name benchmarks are all contributing to the financing of companies involved in controversial weapons. Many of them are unaware of this fact, or are unable to invest in controversial weapons-free index funds/trackers.

The financial industry is in a position to make a huge difference to responsible investing, and that should include making funding less easily available for such companies. Anyone who does still wish to invest in controversial weapons would still be free to use a specialist index, or invest directly. We strongly believe that - in line with international conventions, investor practices and public opinion – the default position should be to exclude controversial weapons from active and passive investments.

---

<sup>1</sup> This amount may include double counting between assets under management of individual signatories

<sup>2</sup> For countries that have not signed the 1970 Treaty on the Non-Proliferation of Nuclear Weapons

<sup>3</sup> Source: GSIA, "Global Sustainable Investment Review", 2016 and 2014

<sup>4</sup> Source: Swiss Sustainable Finance, "Focus: Controversial weapons exclusions", 2017

<sup>5</sup> Source: Pictet Asset Management research, 2018

We therefore call upon index providers to remove companies involved in controversial weapons<sup>6</sup> from mainstream indices, and to engage in dialogue with asset owners and asset managers on using these indices for benchmarking and investment solutions.

**[Name of organisations]**

Appendix: Controversial Weapons Background

---

<sup>6</sup> Please refer to Appendix for definition of controversial weapons