

Ethibel Viewpoint n°5

The biannual series where Forum Ethibel takes a closer look at financial practices and explores possibilities to make it more sustainable. This fifth edition is about:

Weapons, War, and ESG

Where to Draw the Line?

Abstract

This Viewpoint looks at the complex relationship between the arms and defence sector and sustainable finance. We explore how the financial industry navigates the challenges of balancing weapons-related activities with Environmental, Social, and Governance (ESG) considerations and regulatory frameworks.

Our analysis is structured around regulatory developments and market practices. We introduce the classification systems that institutional investors, asset managers, and ESG data providers use, which tend to distinguish between controversial and conventional weapons. We also discuss the growing significance of dual-use goods and technologies. While international treaties and European regulations lay solid foundations for excluding certain controversial weapons from investments, investors' approach to conventional arms is far more varied.

This Viewpoint analyses three investor approaches: completely excluding conventional weapons from sustainable funds; including them based on compliance with international law; and a nuanced approach that allows for investment in certain defence companies and products under strict ESG criteria.

We reflect on how sustainable finance can balance ethical imperatives, regulatory compliance, and the practical realities of diversified investment portfolios. Ongoing scrutiny, transparent disclosure, and nuanced policy frameworks are essential to ensure that investments in the defence sector align with broader sustainability objectives, while still recognising the sector's strategic and societal significance.



Weapons, War, and ESG

Where to Draw the Line: Ethibel Viewpoint

Aim

Looking at the complex relationship between the arms and defence sector and sustainable finance. We explore how the financial industry navigates the challenges of balancing weapons-related activities with Environmental, Social, and Governance (ESG) considerations and regulatory frameworks.

Types of Weapons



Controversial Weapons are heavily restricted or banned by international treaties, because of their indiscriminate and/or inhumane effects. They are typically excluded by investors who incorporate ESG considerations.



However, there is no consensus on the list of controversial weapons: European standards, for example, use a fairly restrictive definition of these weapons.

This Viewpoint examines different approaches to **conventional weapons**, that includes small arms & light weapons, military firearms & heavy weapons.



In their value chain and military equipment, **dual-use goods and technologies** also have civilian applications and are sources of innovation, which are regularly viewed more positively by investors.



Investor Approaches to Conventional Weapons



No Place in Sustainable Funds

Weapons are incompatible with sustainability, security is the responsibility of the state and sustainable finance must focus on its primary purpose.

Have a Place in Sustainable Funds

In this approach, security is outlined as important for sustainable development, as there is no legal framework on conventional weapons inclusion in sustainable funds.



Included in Sustainable Funds under certain conditions

To the best of one's abilities, to balance the above two approaches. Focus on the end use of weapons through due diligence and step up engagement efforts.

Contents

Abstract.....	1
1. Introduction	4
2. Types of weapons open to investment.....	6
3. Norms and practices observed by financial markets.....	8
3.1 International and European norms.....	8
3.2 Asset managers and sustainable labelling agencies	9
3.3 Asset managers' internal weapons policies	10
3.4 Public institutions.....	10
3.5 Market exposure	12
4. Three investor approaches to conventional weapons	13
4.1 Approach 1: Conventional weapons have no place in sustainable funds.....	13
4.2 Approach 2: Conventional weapons have a place in sustainable funds	15
4.3 Approach 3: Weapons may be included in sustainable funds under certain conditions.....	16
5. Conclusion.....	18
6. References	20



1. Introduction

We acknowledge that we chose a challenging topic for this Viewpoint, with a straightforward title even. Recently, however, Forum Ethibel and LuxFLAG have regularly been confronted with the question of how to reconcile investment in weapons with sustainable finance. Until recently, there was a clear consensus that weapons had no place in a sustainable portfolio (although investors could have a different approach to conventional and controversial weapons, respectively). As a result, there was rarely much discussion about the issue.

But the world and its political context has changed, especially since the start of the war in Ukraine in February 2022. A recent report by the Stockholm International Peace Research Institute¹ indicates that global military expenditure reached 2,718 billion US dollars in 2024 – an increase of 9.4 per cent from 2023 and the steepest year-on-year rise since the end of the Cold War. In 2024, every single European country except for Malta increased its military spending.

This raises the question of how to look at weapons from an investor's point of view. Should national governments alone be responsible for these investments, or should financial institutions and (institutional) investors contribute? Is the commercialisation of the weapons industry a bridge too far, or should we relativise investing in weapons, because it is often a transaction on the secondary market (at least when it comes to listed companies)? And what about sustainable finance? Several European sustainable finance labels want sustainable financial products to observe exclusion criteria for weapons. Should the rules become more flexible or should labels stick to their current approach?

The long-term environmental and social consequences of war and the international spread of weapons should not be taken lightly. Just ask victims of landmines or Agent Orange, even decades after these weapons' use. Weapons that are produced and sold (without the necessary transparency and due diligence) *will* be used somewhere, at some point. And right now, there are more than 60 conflicts around the world.

While these are important questions, exploring all the ethical and political dilemmas that surround the topic is beyond the scope of this Viewpoint. This paper is mainly an attempt to clarify and provide more insight into the subject. Ultimately, we believe that diplomacy, not war, is the only way to solve conflicts. Still, we want to contribute to the discussion about investing in weapons and weapon companies in hopes of achieving a more balanced debate.

We start by setting the scene. We list different types of weapons and what international frameworks say about them. We then explore three different approaches to investing in weapons and the reasoning behind these approaches. We leave it up to the reader to decide which arguments lie closest to their hearts. This is not an easy choice, because when a conflict ends, arms orders are often cancelled (before the typical investment horizon of five to ten years). Long-term investments that seemed necessary from a security point of view and that were (commercially) profitable can then suddenly result in a loss.

With this joint paper, Forum Ethibel and LuxFLAG hope to contribute to the debate about where to draw the line. Our paper is but a starting point, though, so do not hesitate to react and share your insights with us.

¹ [Unprecedented rise in global military expenditure as European and Middle East spending surges](#), SIPRI (2025)

Isabelle Delas,

CEO LuxFLAG

communications@luxflag.org

Kenny Frederickx,

Director Forum Ethibel

info@ethibel.org

2. Types of weapons open to investment

The first part of this paper focuses on the different types of weapons that the financial sector observes as well as their uses. Institutional investors, asset managers and ESG data providers often use the below classification in their investment screening and exclusion policies. This classification mainly distinguishes between conventional and controversial weapons.

Table 1: Weapon classification with regulatory sources

Weapon category	Sub-category	Description	Regulatory/standard source
Conventional weapons	• Small arms & light weapons	Rifles, handguns, grenades, machine guns.	UN Firearms Protocol; EU Common Military List
	• Military firearms & heavy weapons	Fighter jets, attacking drones, submarines, frigates, combat aircraft, air missiles, naval vessels, tanks, artillery, armoured vehicles.	EU & NATO classifications; EU Common Military List
	• Civilian firearms	Hunting rifles, handguns, etc.	-
Controversial weapons	• Nuclear weapons	Weapons that use nuclear fission/fusion.	Treaty on the Non-Proliferation of Nuclear Weapons
	• Biological weapons	Weapons that spread disease-causing organisms or toxins.	Banned under international law. Biological Weapons Convention
	• Chemical weapons	Use toxic chemicals like nerve agents, choking agents, blood agents, etc.	Chemical Weapons Convention
	• Cluster munitions & landmines	Explosive weapon that scatters submunitions ('bomblets') over an area.	Convention on Cluster Munitions; Ottawa Treaty
	• White phosphorus weapons	Used in military operations for illumination, smokescreens and anti-personnel purposes.	Categorised as controversial by data providers like MSCI, Morningstar, ISS ESG, etc. Not banned by international law.
	• Depleted uranium	Dense, radioactive byproduct of uranium, armour-piercing munitions.	Categorised as controversial by data providers like MSCI, Morningstar, ISS ESG, etc. Not banned by international law.
Value chain and equipment	• Logistics, sensors, simulators, surveillance, etc.	Tactical radios, night vision gear, battlefield software.	Defined more thoroughly in EU Military List Part B; Common Position 2008/944/CFSP

As this Viewpoint focuses solely on the military use of weapons, we will not discuss civilian firearms. Sovereign issuers whose financing indirectly contributes to the purchase of weapons also fall outside the scope of our analysis.

Controversial weapons are heavily restricted or banned by international treaties, because of their indiscriminate and/or inhumane effects. They include chemical and biological weapons, cluster munitions, and anti-personnel landmines. Most investors with sustainable ambitions exclude companies that are involved in controversial weapons as covered by treaties like the Convention on Cluster Munitions (2008)² and the landmine-banning Ottawa Treaty (1997).³ The same cannot be said for weapons using white phosphorus or depleted uranium and nuclear weapons, though. At present, there is no clear consensus among investors on all controversial weapons. Regarding nuclear weapons in particular, some accept the involvement of companies from countries that have signed the Treaty on the Non-Proliferation of Nuclear Weapons (1968),⁴ which underpins global efforts to prevent the spread of nuclear weapons.

Conventional weapons, meanwhile, include standard military weapons like rifles, tanks, fighter jets and naval vessels, as well as small arms and lighter weapons. Because of the role conventional weapons tend to play in violent conflicts, investing in them is also subject to debate. It is tempting to classify these weapons according to the way they are used in conflict. They could then be considered either an offensive weapon (used for aggression, like long-range missiles and tanks) or a defensive weapon (used to defend against aggression, like anti-tank artillery and anti-missile systems).⁵ This would be a practical way to approach the issue from an ethical point of view. Most conventional weapons tend to be used by both sides in a conflict, however. Whether they are offensive or defensive thus depends on the context and one's political interpretation. This makes it difficult to use this categorisation in ESG assessments.⁶

Our classification also covers the weapon sector's **value chain** and general military **equipment**. These are not weapons per se, but may still be considered harmful according to the exclusion policies of investment managers. A company that manufactures targeting systems or surveillance drones, for example, may not be excluded as because it produces conventional weapons, but can still be flagged and excluded under the 'military contracting' or 'dedicated products and services' filters of data providers.

In its White Paper for European Defence – Readiness 2030 (2025), the European Commission notes that *"strengthening Europe's defence industrial base requires investment not only in arms production but also in dual-use and enabling technologies essential for strategic autonomy, resilience, and deterrence."* Under Regulation (EU) 2021/821, **'dual-use items'** are defined as goods, software, and technologies that can be used for both civilian and military purposes. (Compare this to technologies and weapons that are solely used for warfare, like combat tanks and assault weapons.) Dual-use items include items that may contribute to the development of controversial weapons. They are subject to export controls within and beyond the EU, to ensure they are not diverted to harmful activities. Some investors view dual-use items in a more positive light than they do the rest of the defence sector, as these items can also benefit society and tend to be important drivers of innovation. The aerospace sector is an example of this. Many aerospace items and technologies can be used for military as well as civilian purposes. A high-resolution satellite system created by an aerospace company, for example, may help with climate monitoring in a civilian context. At the same

² [Convention on Cluster Munitions](#)

³ [Anti-Personnel Landmines Convention](#)

⁴ [Treaty on the Non-Proliferation of Nuclear Weapons \(NPT\)](#)

⁵ [Western Military Assistance - Russia's War in Ukraine](#), International Centre for Defence and Security (2022)

⁶ [Is there a difference between 'defensive' and 'offensive' weapons?](#), The Washington Post (2022)

time, it could also be used for military observations. Another dual-use example is cyber security and software tools.

Several governments have shown increasing interest in investing in dual-use technologies. In April 2024, for example, the Flemish Parliament in Belgium stated that it planned to more actively promote Flemish involvement in a series of dual-use and military innovation initiatives. Funding dual-use research & development programmes can help improve the oversight and management of such items and technologies.⁷ But assessing the ethical and security implications of such programmes demands additional and often highly specialised expertise.⁸ For responsible private investors, it remains difficult to identify which goods and technologies are associated with negative impacts, and which could have a positive impact on society from a sustainable point of view.

These considerations illustrate why dual-use goods and technologies are hard to regulate and assess within ESG frameworks. Their classification simply depends on their end use (and end user) rather than the product itself.

3. Norms and practices observed by financial markets

This section looks at a series of international norms and practices related to weapons and defence that the financial market in Europe observes.

3.1 International and European norms

European norms

At the European level, sustainable finance standards are mainly derived from the components of the Green Deal.

The first is the European Green Taxonomy, which seeks to determine which activities can be considered 'environmentally sustainable'. The Taxonomy does not list any armament-related activities that could fulfil this quality, which, it should be noted, does not mean that sustainable funds are prohibited from investing in weapons. This Green Taxonomy still needs to be supplemented by a Social Taxonomy, the content of which is currently under discussion. In 2022, the expert group in charge of the Social Taxonomy project recommended that weapons that are covered by international charters and treaties should be considered harmful for social objectives.⁹

There is also the Sustainable Finance Disclosure Regulation or SFDR, which sets out transparency rules for financial players. One of its rules is that so-called Principle Adverse Impacts (PAI) must be disclosed, that is: the negative sustainability impact of portfolio positions and the asset manager's management. In the case of arms and defence, PAI 14 only covers exposure to companies that are actively involved in a narrow selection of controversial weapons: anti-personnel mines, cluster munitions, chemical weapons and biological weapons. There is no mention of conventional weapons. Although the Sustainable Finance Disclosure Regulation requires funds that promote sustainable characteristics (article 8) and have sustainability as their objective (article 9) to disclose their Principle

⁷ [Innovatie & dual-use in het oog van de storm](#), Vlaams Vredesinstituut (2025)

⁸ [Anticipatory governance of emerging and disruptive technologies with dual-use potential](#), Multistakeholder Forum on Science, Technology and Innovation for the SDGs (2022)

⁹ [Final Report on Social Taxonomy](#), Platform on Sustainable Finance (2022)

Adverse Impacts, they are not required to exclude any sectors from their investments. As an illustration, a Morningstar report shows that 30% of article 8 funds and 10% of article 9 funds were exposed to controversial weapons¹⁰ in the final quarter of 2023.¹¹

The recent ESMA (European Securities and Markets Authority) guidelines on fund names are a more directly binding European framework.¹² These guidelines require funds with certain terms in their name (like ‘sustainable’) to apply certain minimum policies. One such policy is excluding controversial weapons as defined by PAI 14.¹³ This rule can be considered a sequel to the European Commission’s regulation that established the EU Climate Transition Benchmarks and EU Paris-Aligned Benchmarks, both of which excluded controversial weapons defined as such by PAI 14.

International standards

The Principles for Responsible Investment (PRI, a network supported by the United Nations) and the OECD’s Responsible business conduct for institutional investors¹⁴ are two widely accepted sustainable finance standards. They have a principle-based approach and focus on due diligence to prevent investment in activities that run counter to human rights. As they don’t have a sectoral approach, they do not specifically address the weapons industry. Still, both institutions consider it good practice to exclude controversial weapons. PRI also recently pointed out that the arms sector as a whole entails a significant number of ESG risks.¹⁵

European and international standards are thus struggling to establish a clear sectoral approach to weapons, and seem reluctant to set specific exclusion criteria. Two exceptions are the recent ESMA guidelines and the pre-existing rules that apply to European climate benchmarks. Despite the lack of binding requirements, however, there does seem to be a consensus on not investing in controversial weapons as defined by PAI 14, at least for European standards.

3.2 Asset managers and sustainable labelling agencies

A second set of standards that is worth looking at are Europe’s main public and private sustainability labels for investment products.¹⁶ Not all of these labels approach the sector in the same way: they combine different elements to determine issuers’ eligibility.

- **Revenue tolerance for controversial weapons:** Some labelling agencies use a revenue threshold to screen companies, looking at the proportion of the company’s revenue that is related to weapons. These labels’ exclusion criteria align with international humanitarian law and global disarmament initiatives.
- **Scope and elements of the controversial weapons definition:** Some market participants define controversial weapons the way PAI 14 does, a definition that

¹⁰ According to Morningstar’s definition of controversial weapons, which is broader than that of PAI 14

¹¹ [SFDR Article 8 and Article 9 Funds: Q4 2023 in Review](#), Morningstar (2024)

¹² [Guidelines on funds’ names using ESG or sustainability-related terms](#), ESMA (2024)

¹³ [ESMA puts forward Q&As on the application of the Guidelines on funds’ names](#), ESMA (2024)

¹⁴ [Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises](#), OECD (2017)

¹⁵ [The defence sector in focus: Common ESG risks](#), UNPRI (2024)

¹⁶ We looked at the criteria of seven labelling agencies: FNG Siegel, Greenfin, Label ISR, LuxFLAG, Nordic Swan, Towards Sustainability, and Umweltzeichen.

includes biological weapons, chemical weapons, antipersonnel mines and cluster munitions. Others also consider white phosphorus, depleted uranium and nuclear weapons controversial weapons. Still others include the manufacturing of weapons and/or of essential components in their definition, but not systemically owned entities, which can be relevant for groups or holdings.

- **Stance on conventional weapons:** Some market participants apply revenue thresholds to companies engaged in the manufacturing or sales of conventional weapons. They may consider dual-use technologies a conventional weapon. Revenue thresholds aim to balance responsible investment with the realities of diversified industrial portfolios.¹⁷ Dual-use technologies complicate this landscape, as their civilian applications can blur exclusion lines. As a result, ongoing scrutiny and nuanced policies are essential to maintain ethical standards as well as practical investment strategies.

One key area of divergence is the treatment of nuclear weapons issuers like Airbus, Safran or Thales. These companies participate in strategic defence programs, either because they own entities that are directly involved in defence or because they supply essential components, products, or services.

3.3 Asset managers' internal weapons policies

Asset managers often have one approach for their company-wide exclusions, and another for the exclusions of their sustainable products. Several major asset managers, including Allianz Global Investors, Natixis, and UBS, have each established specific policies to manage investments in the defence sector. These policies are usually published on the asset manager's website, to be transparent towards investors. Allianz's most recent exclusion policy, for example, allows for broader investment in weapons companies at the group level,¹⁸ but has much stricter criteria for Allianz's sustainable and ESG-labelled funds. UBS and Natixis similarly distinguish between conventional and controversial weapons, with more stringent exclusions for sustainable products.

This means that an asset manager's standard funds (which might lack a sustainability label or a separate, more stringent sustainability policy) may allow for a certain level of exposure to the weapon sector, while the asset manager's sustainable funds enforce far stricter exclusions. Retail investors are therefore advised to consult published policies and fund prospectuses to see which criteria were applied, as asset managers' approaches to the weapons sector can vary significantly between conventional and sustainable offerings.

3.4 Public institutions

Having explored the regulatory framework and asset managers' practices, we will now take a closer look at the position of public players. We will do so by analysing the exclusion policies of four public pension funds that are known for their ESG approach, as well as those of two public investment banks.

¹⁷ [An introduction to responsible investment: Screening and exclusions](#), UNPRI (2024)

¹⁸ [Keerpunt bij Allianz GI: defensie niet langer uitgesloten](#), Investment Officer (2025)

Public pension funds

Table 2: Weapons exclusions of public pensions funds

	Government Pension Fund of Norway ¹⁹	Stichting Pensioenfond ABP (Netherlands) ²⁰	AP4 fund (Sweden) ²¹	Fonds de réserve pour les retraites (France) ²²
Controversial weapons exclusion criteria	Companies that produce weapons or key components of controversial weapons, including white phosphorus, nuclear weapons and blinding laser.	Companies that produce weapons or key components of controversial weapons, including nuclear weapons.	Companies that produce controversial weapons, including nuclear weapons.	Companies that are involved in controversial weapons, including nuclear weapons and weapons of mass destruction
Additional exclusion criteria	Companies that sell weapons to states that are engaged in armed conflict and use weapons in ways that constitute serious and systematic violations of the international rules on the conduct of hostilities, or are under UN sanction of other targeted large-scale initiatives supported by Norway.	/	/	/

These four public pension funds seem to agree on excluding controversial weapons, albeit with some differences in scope. It should be noted that their exclusion policies can be implemented with a certain margin. France's fund, for example, publishes a list of companies that it excludes. This list only includes 17 companies, one of which is active in Europe, which differs from what some data providers report (see next section).

As for conventional weapons, Norway's fund suggests taking weapons' end use into account. It does so by excluding companies that trade with certain countries that are engaged in condemned conflicts or to which international sanctions apply. This is the only inclusion of conventional weapons among all the funds we analysed.

Public investment banks

The European Investment Bank (EIB) has increased its activity in the defence sector, as part of its support for the European rearmament plan. Policy-wise, the EIB has so far confined itself to financing dual-use technologies that can also benefit the civilian sector. For the time being, it does not directly finance the production of weapons or munitions. It has taken steps to update its defence rules, however, by removing a specific criterion for dual-use projects, which stipulated that more than 50% of estimated revenue had to come from civilian use.²³

¹⁹ [Guidelines for Observation and Exclusion of companies from the Government Pension Fund Global \(GPFG\)](#), Norwegian Ministry of Finance (2021)

²⁰ [Sustainable and responsible investment policy ABP](#), ABP (2024)

²¹ [AP4 does not invest in](#), AP4

²² [Liste d'exclusions](#), FFR

²³ [EIB to loosen rules to fund more defence-related projects](#), Reuters (2024)

France's public investment bank bpiFrance is an interesting case, because its policies contain a duality. On the one hand, the bank excludes controversial weapons (anti-personnel mines, cluster bombs, chemical weapons, biological weapons, and nuclear weapons sold outside signatory countries of the Nuclear Non-Proliferation Treaty). At the same time, the bank is a privileged partner of the French defence industry (including major groups like Dassault, Safran, Thales and Airbus, as well as numerous non-listed small and medium enterprises). It already has two funds dedicated to defence²⁴ and will be launching a new savings product²⁵ focused on defence assets.

3.5 Market exposure

Excluding controversial weapons seems to be a minimum standard in the world of sustainable finance. Now, we will observe these measures' binding impact on sustainable funds by looking at the market's exposure to such weapons. We reviewed main market indices and fund domiciles using Morningstar Direct²⁶:

- Morningstar Developed Markets Target Market Exposure is exposed to 14 different issuers for an equivalent of 1,48%
- Morningstar US Target Market Exposure is exposed to 10 issuers for an equivalent of 1,56%
- Morningstar Eurozone 50 is exposed to 2 issuers for an equivalent of 4,92%

Table 3: Indices' exposure to controversial weapons

Companies	Index		
	Morningstar DM TME	Morningstar US TME	Morningstar Ezn 50
Airbus SE	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
Boeing Co	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
General Dynamics Corp	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Honeywell International Inc	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Jacobs Solutions Inc	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
L3Harris Technologies Inc	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Leidos Holdings Inc	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Leonardo SpA Az nom Post raggruppamento	<input checked="" type="checkbox"/>		
Lockheed Martin Corp	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Northrop Grumman Corp	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
RTX Corp	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Safran SA	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
Textron Inc	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Thales	<input checked="" type="checkbox"/>		
Exposure %	1,48%	1,56%	4,92%

²⁴ [Bpifrance renforce son soutien aux entreprises stratégiques françaises du secteur de la défense](#), BPI (2025)

²⁵ [Le ministre de l'Economie annonce la création d'un fonds de 450 millions d'euros dans lequel les Français pourront investir pour financer le secteur de la défense](#), Franceinfo (2025)

²⁶ ©2025 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

Next, we took a broader approach and determined the number of funds per domicile that invest in companies that are involved in controversial weapons.

Table 4: Funds exposed to controversial weapons, per domicile

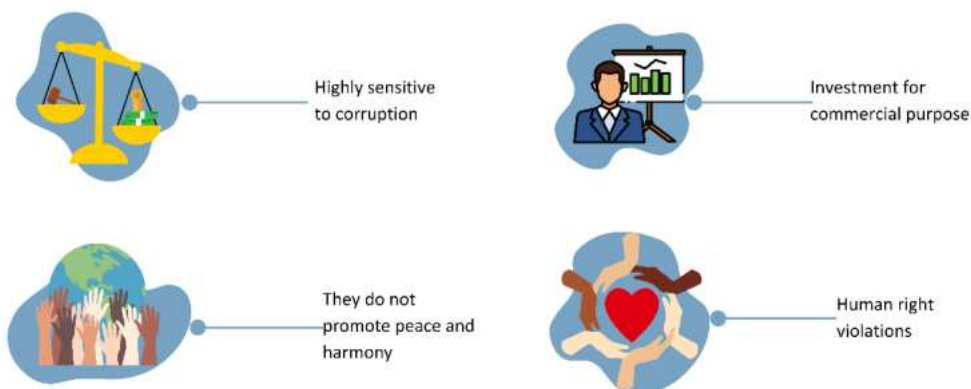
	Italy	France	Switzerland	Luxembourg	Germany	Belgium	Den/Fin/Swe
Exposed Funds	185	612	157	1.110	369	17	130
Total Funds	1.173	4.633	1492	10.922	3.789	555	4.489
Exposed Funds (%)	15,77%	13,21%	10,52%	10,16%	9,74%	3,06%	2,90%
Average exposed Weight	0,94%	3,34%	0,98%	1,73%	2,70%	2,28%	1,49%
Top 5 Holdings	- Leonardo SpA - Airbus SE - Jacobs Solutions Inc - Honeywell Intl Inc - Thales	- Safran SA - Airbus SE - Thales - Leonardo SpA - Honeywell Intl Inc	- RTX Corp - Honeywell Intl Inc - Boeing Co - BAE Systems PLC - Airbus SE	- Airbus SE - Safran SA - Boeing Co - Honeywell Intl Inc - Thales	- Airbus SE - Safran SA - Honeywell Intl Inc - Thales - Leonardo SpA	- Safran SA - Thales - Airbus SE - Honeywell Intl Inc - Leonardo SpA	- Thales - Airbus SE - Honeywell Intl Inc - Leonardo SpA - RTX Corp

In the above markets, exposure to controversial weapons is concentrated around just nine issuers, with Airbus and Honeywell in the top five of controversial weapons investments in all countries. These issuers also show involvement in nuclear weapons, which means asset managers' exclusion criteria reflect the narrower PAI 14 definition, which does not consider nuclear weapons controversial.

4. Three investor approaches to conventional weapons

We've established that excluding controversial weapons (despite the lack of a clear, standardised definition) seems to be a baseline practice. Now, the more delicate question of conventional weapons remains. Having observed market practices, we've distinguished three approaches that sustainable investors seem to take. Below, we list these approaches and the justifications behind them.

4.1 Approach 1: Conventional weapons have no place in sustainable funds



A first approach is to entirely exclude weapons from sustainable funds. This approach is based on a theoretical corpus that was in place before the invasion of Ukraine. One actor that takes this approach is the World Bank Group's IFC (International Finance Corporation), which aims to improve the living conditions of people in developing countries by investing in the private sector growth and which serves as a benchmark for impact investment.

The main argument for excluding weapons from sustainable funds is the idea that weapons are incompatible with the United Nations' Sustainable Development Goals (SDGs), which are widely recognised as the standard objective in the world of sustainable finance. Weapons are particularly at odds with SDG 16 ('Peace, Justice and Efficient Institutions'), which seeks to reduce violence, illegal arms trafficking, and violence-related deaths. While the production and sale of arms alone do not cause conflict, they certainly facilitate the outbreak of inter- and intra-state violence and destruction.²⁷²⁸ This means that anyone who invests in arms plays an indirect role in these conflicts. The use of weapons also poses a significant obstacle to several other SDGs, albeit less directly so.²⁹

The weapons industry is also characterised by high levels of opacity and corruption, not least because of its national security dimension and resulting close ties with political leaders.³⁰ This corruption is a key driver of the diversion of weapons to rogue actors.³¹ Combined with the difficulty of controlling the movement of weapons during conflict, this makes it very difficult to trace what weapons will ultimately be used for. Weapons that are produced for the war in Ukraine, for example, risk ending up in controversial conflicts later on, or being used by abusive regimes or criminal organisations that violate human rights.³²

Investors who favour this approach also argue that ensuring citizens' safety is the exclusive business of nation states. They believe public defence agencies should be in charge of arms orders (and of ensuring their suppliers have the financial means to fulfil their orders) to safeguard national security.³³ Sustainable finance, meanwhile, should steer clear of the defence sector and remain faithful to its initial objectives.

Historically, the armaments sector also didn't have any financing needs, unlike other sectors linked to ecological and social transitions, like the renewable energies sector.³⁴ Meeting these sectors' financing needs is one of the *raison d'être* of sustainable finance.

²⁷ [The Arms Trade and the Incidence of Political Violence in Sub-Saharan Africa, 1967-97](#), Craft and Smaldone - Journal of Peace Research (2002)

²⁸ [The build-up of coercive capacities](#), Pamp, Rudolph, Thurner, Mehlretter and Primus - Journal of Peace Research (2018)

²⁹ [Assuring our Common Future - A guide to parliamentary action in support of disarmament for security and sustainable development](#), Disarmament Handbook (2020)

³⁰ [Investeren in wapens – Waarom financiële instellingen terughoudend zijn en hoe Europa stappen vooruit kan zetten](#), Vlaams Vredesinstituut (2025)

³¹ [Industry Integrity](#), Transparency International Defence & Security

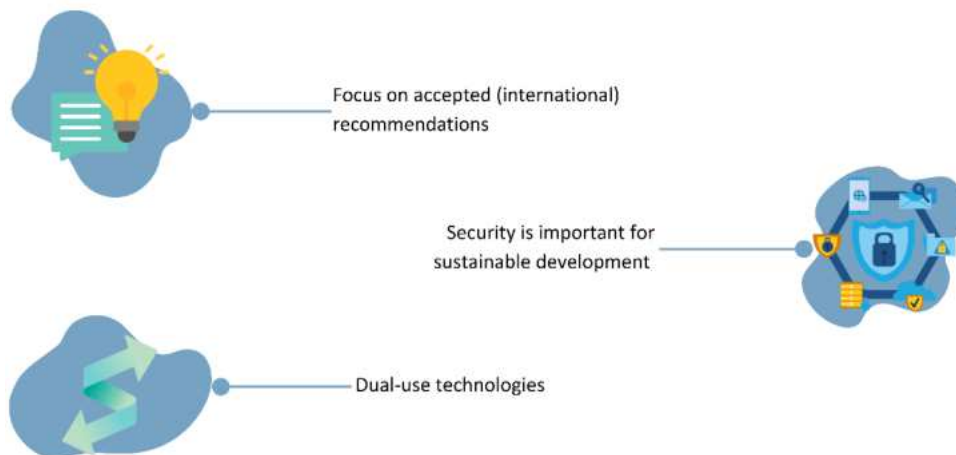
³² [Heavy metal, A new phase of arms trafficking in Ukraine](#), Global Initiative Against Transnational Organized Crime

³³ [Les armes, c'est fait pour les gouvernements, pas pour les investisseurs durables](#), Triodos (2025)

³⁴ [Quo vadis sustainable finance: why defensive weapons should never be classified as an ESG investment](#), Causevic, Beslik and Causevic - Journal of Sustainable Finance & Investment (2022)

Lastly, the armaments sector is a heavy polluter, resource-intensive, and causes significant and lasting environmental degradation. As such, it fails to respect the Do-No-Significant-Harm³⁵ principle of environmental objectives.

4.2 Approach 2: Conventional weapons have a place in sustainable funds



A second approach is to generally accept the principle of conventional weapons in sustainable portfolios.

One argument behind this approach is that there is currently no legal framework with clear recommendations on conventional weapons in sustainable funds.

Those who subscribe to this approach also argue that weapons are primarily a means of deterrence and ensuring security, which means they are necessary to ensure the conditions for sustainable development.³⁶ This argument has become increasingly important in public debate since Russia invaded Ukraine, and even more so since the publication of the White Paper for European Defence – Readiness 2030, which provides for the mobilisation of European private capital (aimed at SMEs and mid-caps in particular) to support the remilitarisation of the EU in the current hostile geopolitical context.³⁷

A third argument is that the defence sector is of strategic importance for nation states and constitutes a major source of innovation, especially through dual-use technologies.

While investors who take this second approach do not directly exclude weapons from their policies, they are still required to perform general due diligence to identify, assess, and prevent the ESG risks of the companies they invest in. In principle, this should ensure that the risks associated with the conventional arms trade are taken into account. But asset managers' due diligence efforts vary greatly and there is plenty of room for interpretation in terms of how to deal with identified risks.

Sustainable funds regularly look to data providers' ESG ratings to select listed companies based on the ESG risks they present. These ratings can have a financial materiality approach, though, which means they only take ESG risks into account if they risk financially impacting a company's realisation. This is not the same thing as covering all risks that a product (like a

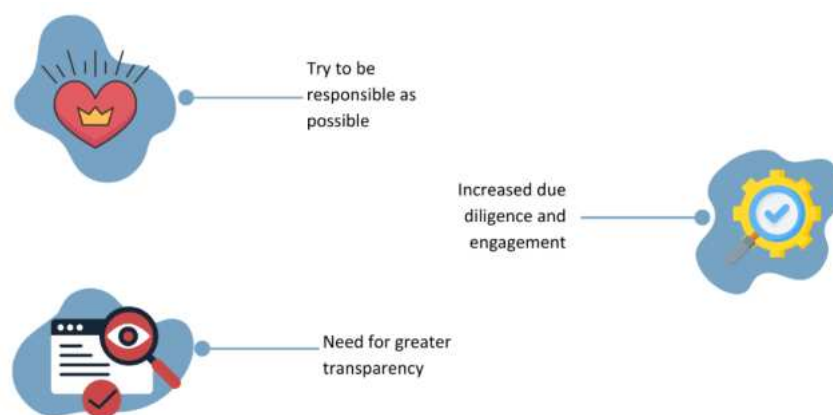
³⁵ [Commission Delegated Regulation \(EU\) 2022/1288](#), EU (2022)

³⁶ [Rüstungsindustrie im Kontext eines nachhaltigen Bankwesens – Finden Rüstungsunternehmen einen Platz im ESG-Universum?](#), Riegler and Reichel - List Forum (2022)

³⁷ [White Paper for European Defence – Readiness 2030](#), European Commission (2025)

conventional weapon) has in social and environmental terms, for example when it is exported to conflict zones.³⁸ Sustainable funds also tend to look to data providers to identify and exclude companies that are subject to controversy, which should technically help them avoid investing in companies involved in human rights abuse. But the way controversies are identified tends to rely heavily on media reporting, alongside some further desk research, necessarily implying incomplete coverage. Additionally, different data providers view different controversies as more or less severe. It is therefore difficult to assert that controversy-based screening can sufficiently capture the risk of participating in human rights violations or exporting arms to conflict zones or authoritarian regimes. In the case of unlisted companies, the lack of readily available information means due diligence work hinges even more on the investor's involvement.

4.3 Approach 3: Weapons may be included in sustainable funds under certain conditions



The third and final approach is to try, to the best of one's abilities, to balance the above two approaches, that is: approaching arms investment with caution and trying to invest as responsibly as possible. Today, however, there is anything but a consensus on how to invest responsibly in conventional weapons. There are two strategies that investors can combine to try and solve the issue.

The first is to finetune the classification of weapons, isolating those that are potentially less harmful. The most frequently mentioned solution here is to prioritise defensive weapons or dual-use items that could benefit society.³⁹ From a practical point of view, however, we then once again run into the difficulty we discussed earlier: how does one determine whether a weapon is offensive or defensive, and how does one estimate the positive societal impact of dual-use goods and technologies?

These elements can be integrated into an investment policy, but then require a case-by-case analysis. The investor has to make an active decision, without any standards to guide them in their decision-making. Furthermore, while an advanced classification may make sense for the targeted activities of small and medium enterprises, large arms companies are often involved in several types of activities, which makes it impossible to carefully discriminate between companies.

³⁸ [ESG ratings of defense companies and arms exports to war zones](#), ExitArms.org (2023)

³⁹ [The evolving role of ESG in the defense industry](#), Strategy& (PwC) (2024)

The second and perhaps most important strategy that investors can pursue is to prioritise the end use of weapons. Exports to authoritarian regimes that might use weapons against their populations or to illegitimate inter- and intra-state conflicts should be avoided. One option, then, is to invest only in arms companies from countries that control the export of weapons, for example those that have ratified the Arms Trade Treaty. Unfortunately, countries are not always able to effectively control export locations. Export permits can be distributed on the basis of false information, for example, as was the case in Germany for arms transfers to Mexico between 2006 and 2009.⁴⁰

Institutional investors could instead try to monitor a company's exports themselves. This is dependent on the investor having access to data on weapons transfers and corruption, though. Valuable resources on the subject include databases published by NGOs. The NGO ExitArms,⁴¹ for example, lists all the arms exports to war-waging actors that it has been able to identify. A public source that can help identify risks of corruption is the Transparency International Defence Companies Index 2020.⁴² This index evaluates the anti-corruption policies and level of transparency of major defence groups. A second obstacle to monitoring weapons exports oneself is how to define what, exactly, constitutes a conflict, an illegitimate party, and an authoritarian regime. Although it is difficult to find definitions that suit everyone, investors could refer to countries under UN or EU embargo, use Freedom House's list of 'unfree' countries,⁴³ or turn to Transparency International's Government Defence Anti-Corruption Index.⁴⁴

Some fund managers who want to invest in the arms sector for the abovementioned reasons may be reluctant to strictly integrate these databases and standards into their investment policies, however, as doing so could result in an almost total restriction of the weapons sector. As Luca Schiewe, Analyst at ExitArms pointed out to us: "Our database shows that there are very few major defence producers (that issue stocks and bonds and are thus relevant to investors) that currently do *not* supply weapons to illegal wars". What investors could do instead is integrate these databases and standards into a specific due diligence process tailored to the defence and weapons sector. The aim would be for the investor to have as comprehensive a view as possible of the company's activities before investing in it, including any potentially harmful activities. This process should then be accompanied by a strict and transparent process of engagement, whereby the investor urges the company to adopt risk-reducing practices. This is typically done by implementing anti-corruption measures, increasing transparency, and performing due diligence, taking into account weapons' use and any violations of human rights the weapons could result in.

Another way to respect sustainability criteria would be to establish a 'European defence bond' standard similar to European green bonds standards as proposed, for example, by Mirova.⁴⁵ Defence bonds would allow sustainable investors to finance the rearmament of Europe by investing in specific projects rather than entire companies, while including criteria aimed at minimising the ESG risks of weapons and ensure transparency throughout the

⁴⁰ [Due diligence and corporate liability of the defence industry](#), Vlaams Vredesinstituut (2023)

⁴¹ [Database On Arms Exporters Fueling Wars](#), ExitArms.org

⁴² [Defence Companies Index 2020](#), Transparency International Defence & Security

⁴³ [Countries and Territories](#), Freedom House

⁴⁴ [Government Defence Anti-Corruption Index](#), Transparency International Defence & Security

⁴⁵ [Defense: A Challenge for Sustainable Finance](#), Mirova (2025)

project. This type of financing system could significantly broaden the selection margin for responsible investors.

5. Conclusion

With his Viewpoint, we tried provide an overview of the debate about the place of weapons in sustainable finance (particularly in the context of the invasion of Ukraine, the weakening of NATO, and the ReArm Europe Plan/Readiness 2030), without settling on a definitive answer to the dilemma.

Weapons can broadly be divided into conventional weapons and controversial weapons (that is: weapons banned by international treaties). As our analysis showed, a minimum practice for sustainable investors seems to be to exclude companies that are active in controversial weapons, which is easily achieved by turning to data providers. Still, defining controversial weapons is not entirely straightforward, as nuclear weapons, white phosphorus (incendiary), and depleted uranium are not systematically classified as controversial, especially by European standards (SFDR PAI 14).

As for conventional weapons, there is currently no consensus in the sustainable finance sector. Instead, investors seem to take on of three approaches.

Approach one: Conventional weapons have no place in sustainable funds

Investors favouring this approach do not invest in weapons at all, as they consider them socially and environmentally incompatible with the objectives of sustainable finance, especially the UN Sustainable Development Goals, which are a globally accepted framework. They also consider national security the responsibility of the state, which means public authorities should be the sole responsible for investing in defence. Finally, investors are concerned about the corruption and opacity of the arms sector, which makes it difficult to track the end use of weapons. Weapons can end up fuelling illegitimate conflicts or being used against civilians by authoritarian regimes.

Approach two: Conventional weapons have a place in sustainable funds

With this approach, conventional weapons are not excluded as long as they are not banned by international laws. Those who follow this approach also point out that the defence sector is important from an industrial and innovation point of view and that it contributes to Europe's security – which in turn helps provide the necessary conditions for sustainable development. While arms aren't considered sustainable per se, they are seen as a necessary precondition for sustainability. This argument is in line with the EU's call for private capital to be channelled into the defence sector as part of its rearmament plan. Still, the defence sector faces a number of ESG risks, which usual ESG integration strategies not always adequately address.

Approach three: Weapons may be included in sustainable funds under certain conditions

The third and final approach sit somewhere in between the first two: while it condones investment in conventional weapons, it urges investors to do so responsibly. Some financial players have adopted this approach, but there doesn't seem to be a consensus on how to implement it. The combination of two strategies could help investors do so.

The first is to sharpen the classification of weapons. Dual-use items (which also have a civilian use and which are a driver of innovation) would be prioritised, as well as defensive weapons that cannot be used for aggressive purposes. Unfortunately, there is no clear and globally recognised definition of 'offensive' versus 'defensive' weapons, and of 'pure' weapons versus dual-use weapons. On top of that, many companies are active in several sectors simultaneously. The second strategy is to consider weapons' end use and limit the risk of corruption. To do so, investors can draw on several data sources, integrating these either into their exclusion policies or into an enhanced due diligence process, engaging with arms companies to strengthen their practices.

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Disclaimer:

This Viewpoint paper was co-written by LuxFLAG and Forum Ethibel, two actors in the sustainable finance sector.

LuxFLAG (Luxembourg Finance Labelling Agency) is an independent and international non-profit association created in Luxembourg in July 2006 by seven private and public founding partners to support sustainable finance: ABBL, ADA, ALFI, the European Investment Bank, Luxembourg for Finance, the Luxembourg Stock Exchange and the Government of Luxembourg. In 2023, ACA has become the eighth Charter Member of LuxFLAG. The agency aims to promote the raising of capital for the Responsible Investment sector by awarding a recognizable label to eligible investment vehicles amongst others. The labels' objective is to reassure investors that the applicant invests in the responsible Investment sector.

Forum Ethibel is a non-profit association dedicated to promoting sustainability in business and financial markets. Among other things, Forum Ethibel provides sustainability certifications to companies and financial institutions. It also acts as verifier for the Belgian Towards Sustainability label, which is a benchmark label for sustainable financial products in Europe. Forum Ethibel's ambition is to make sustainable investment more transparent.

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Jérôme Voglaire & Ahmed Ouamara

Resp. Editor: Kenny Frederickx,

Vooruitgangsstraat 333/7, 1030 Brussels - Belgium

