



**The Global Defence & Security Fund Investment Screening Policy**



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## **I. Introduction**

The Global Defence & Security Fund (the 'Fund') was created to offer investors a vehicle that invests only in the global defence and security (including homeland and cyber security) sectors. The fund will be available to the general public, but is well suited for defence and security personnel who may wish to invest in their own industry.

The purpose of this Policy Statement (the 'Statement') is to establish guidelines for the Fund's investment portfolio (the 'Portfolio') with respect to company screening and evaluation for all companies to determine the degree of exposure to controversial weapons and how those controversial weapons are viewed by the international community. We define controversial weapons as those that have an indiscriminate and disproportional humanitarian impact on civilian populations and whose effects can be felt long after military conflict have ended. Such weapons include anti-personnel landmines, cluster munitions, chemical and biological weapons, depleted uranium and nuclear weapons. In all instances there are a number of international conventions and treaties that have been developed with a view to prohibit or limit the use and availability of these weapons and, where these conventions and treaties have been ratified by the key NATO and OECD member nations, they will also determine the Statement.

The Statement incorporates accountability standards that will be used for monitoring the ongoing progress of countries as new directives are passed into international law and companies must amend their business practices to ensure ongoing compliance with screening criteria.

The screening policy is an integral component that permits the company analysis may proceed to the fundamental, technical and global intelligence stage. Companies that do not pass the screening policy do not proceed for further analysis.

## **II. Role of the Portfolio Manager & the Investment Team**

The Portfolio Manager (the 'Manager') is responsible for evaluating and monitoring the potential and existing companies in an ongoing capacity. Together with the Investment Team (the 'Team') the Manager is jointly responsible for ensuring that the Fund invests in companies that follow international laws and guidelines and refrains from investing in companies that are in breach of international laws. This policy outlines the necessary steps that must be met for any investment object to proceed beyond the ethical and compliance screening to the fundamental analysis stage.

## **III. Role of the Investment Committee**

The Investment Committee (the 'Committee') is acting in a supervisory capacity with respect to the Portfolio and its investors. The Committee is responsible for overseeing the investment of all assets owned by the Fund. The Investment Committee is responsible for ensuring that the company screening follows the steps outlined in this policy and that any potential investment passes all the criteria. The Committee is responsible for ensuring that investments placed into companies not only pass screening criteria but continue to meet those same criteria, and where applicable, meets new requirements as passed into law.



Any company where there are indications of involvement in Nuclear Weapons Production or Depleted Uranium must be submitted for consideration and review to the Investment Committee where no decision can be made for at least 30 days. It is only Nuclear Weapons Production and Depleted Uranium involvement that may still lead to an investment in the company as screening for other factors is a binary pass or fail result. A thirty-day grace, allows the investment committee to review the material and request further documentation from the Team and Manager and to prevent a hasty decision being made.

#### **IV. Role of External Body or Provider**

The External Body or Provider (the 'Body') is acting in an independent capacity to ensure the Statement is followed accordingly and verifies the process so that company screening accurately captures and categorises companies accordingly to their activities. The Body may call upon the Statement at any time but will conduct a review of the Statement at intervals no greater than six months.

#### **V. Controversial Weapons**

The Fund invests in the defence industry with exposure to companies that are involved in the manufacture of equipment that may have extensive negative impact. The focus of the Fund is on NATO and OECD member nations and is aligned with the view that larger defence budgets are necessary to replace outdated equipment but also to modernise defence in this new technological era. The Manager, Team and Committee firmly believe an increase in defence spending by NATO and OECD is necessary for defensive purposes.

The Manager, Team and Committee recognise the indiscriminate and disproportional humanitarian impact of controversial weapons on civilian populations and with this Statement seeks to screen away companies that do not comply with recognised international law, where recognised law is defined as international treaties or conventions that have been signed and ratified by the majority of NATO and OECD member nations. Instances where signatories to treaties and conventions are customers of the said companies helps provide support that the company is not in breach of the treaty or convention.

Treaties and conventions are international without borders. Meaning once they have been adopted there is no exception where this does not apply. That is, no new manufacture shall be sold by any company.

There are several international conventions and treaties that are followed closely by the Statement and in many cases determine if a screen should proceed or terminate. They include;

Prohibition of Nuclear Weapons: This is watched, but currently not relevant given it has been signed by 69 nations and only ratified by 19. None of which include NATO member nations.

2008 Convention on Cluster Munitions: The international treaty of more than 100 States that addresses the humanitarian and unacceptable harm caused to civilians by cluster munitions, through a categorical prohibition and a framework for action. The Convention on Cluster Munitions has been widely adopted by NATO member nations and although the USA has not signed this convention, the Statement views negatively any company's involvement in cluster munitions and any company found to produce cluster munition will result in a screen fail.



The Anti-Personnel Mine Ban Convention (Ottawa Treaty): The convention on the prohibition of the use, stockpiling, production and transfer of anti-personnel mines and on their destruction that aims at eliminating anti-personnel landmines around the world. The Convention has been widely signed and ratified by most NATO member nations, but not the USA. The Statement views negatively any company's involvement in land mines and any company found to produce land mines will result in a screen fail.

The Chemical Weapons Convention: Addresses the prohibition of the development, production, stockpiling and use of chemical weapons and on their destruction. The Convention has been widely signed and adopted by all NATO member countries and any company found to be involved in chemical weapons production will result in a screen fail.

The Biological and Toxin Weapons Convention: The Convention on the Prohibition of the development, production, stockpiling of bacteriological and toxic weapons and on their destruction is covered under the Biological and Toxin Weapons Convention and any company found to be involved in the production of biological and toxin weapons will result in a screen fail.

## **VI. Company Screening**

Defence companies are controversial and require tough screening criteria that formalise screening and exclude companies that do not meet the necessary ethical guidelines.

### **A. Domicile**

The Fund will focus on NATO and OECD member nation companies and will therefore explicitly exclude any companies whose domicile is in Russia or China.

### **B. Nuclear Weapons Production**

The Treaty on the Prohibition of Nuclear Weapons has been signed by 69 nations and ratified by only 19. No NATO member nations have signed this Treaty and as such there is no unanimous agreement against the production of Nuclear Weapons.

- a. **Exclusion of Non-Core, Fringe Nuclear Weapon Producing Nations.** The United Nations recognises five nuclear-armed state parties – the United States, Russia, Britain, France and China. Beyond these are a further four countries that are armed with nuclear weapons, India, Democratic People's Republic of Korea, Israel and Pakistan. The Fund will refrain from investing in any company listed on an exchange that is domiciled in a nuclear-weapons producing nation outside of the United Nations recognised five nuclear-armed state parties. As clause IV. A prevents investments in China and Russia, the Fund excludes 6 of 9 nuclear weapons producing nations.
- b. **Describing Company's Involvement in Nuclear Weapons Production.** Any company that is listed on an exchange domiciled in any one of the three permissible nuclear weapons producing nations and is also involved in nuclear weapons production must have complete documentation detailing the extent to the nuclear weapons involvement.
- c. **Listing Percentage of Turnover that is from Nuclear Weapons Production.** Any company that is listed on an exchange domiciled in any one of the three permissible



nuclear weapons producing nations and is also involved in nuclear weapons production must show the extent of that nuclear weapons involvement relative to the company's non-nuclear weapons producing operations to determine the extent of involvement relative to the percentage of the company's turnover. A company whose primary source of income is from nuclear weapons production will be eliminated from the portfolio.

- d. **Trading History with Europe or Sweden.** Any company that is listed on an exchange domiciled in any one of the three permissible nuclear weapons producing nations and is also involved in nuclear weapons production and whose turnover is not primarily from nuclear weapons involvement must exhibit a history of trading with Europe or Sweden. Any company that can exhibit a history of trading with Sweden or Europe has passed the ethical and security requirements placed on defence companies by Sweden and/or Europe.
- e. **Describe Trading History with Europe or Sweden.** Any company that is listed on an exchange domiciled in any one of the three permissible nuclear weapons producing nations and is also involved in nuclear weapons production and whose turnover is not primarily from nuclear weapons involvement and which can demonstrate a history of trading with Europe or Sweden must include a description of that relationship.

#### C. Depleted Uranium

There is no treaty or convention against the use of depleted uranium. The United Nations Scientific Committee on the Effects of Atomic Radiation (UNSCEAR) which continues to review the latest information in scientific literature on the effects on humans of internal exposure due to inhalation or ingestion of uranium, including DU, concluded that no clinically significant pathology related to radiation exposure to depleted uranium was found. In studies in which the International Atomic Energy Agency (IAEA) was involved, the resulting radiological risk to the public and the environment was not significant in situations where depleted uranium is observed in the form of localized contamination of the environment by small particles resulting from the impacts. On the other hand, in the situations where fragments of, or complete, depleted uranium ammunitions were found, there is a potential risk of radiation effects for individuals who come into direct contact with such fragments or ammunitions.

- a. **Company Involvement in Depleted Uranium (DU).** Any company that is involved in the production of, or includes DU in any equipment must be submitted for review to the Investment Committee following the completion of the initial screening policy.

#### D. Cluster Munitions

The 2008 Convention on Cluster Munitions is the international treaty of more than 100 States that addresses the humanitarian and unacceptable harm caused to civilians by cluster munitions, through a categorical prohibition and a framework for action. The Convention on Cluster Munitions has been widely adopted by NATO member nations and although the USA has not signed this convention, the Statement views negatively any company's involvement in cluster munitions and applies the following rule(s):

- a. **Company Involvement in Cluster Munitions.** Any company that is involved in the production of cluster munitions will be excluded from the portfolio selection.



#### E. Land Mines

The Anti-Personnel Mine Ban Convention (Ottawa Treaty) is a convention on the prohibition of the use, stockpiling, production and transfer of anti-personnel mines and on their destruction that aims at eliminating anti-personnel landmines around the world. The Convention has been widely signed and ratified by most NATO member nations, but not the USA. The Statement views negatively any company's involvement in land mines and applies the following rule(s):

- a. **International treaty banning anti-personnel landmines.** Is the domiciled country in compliance with the international treaty banning anti-personnel landmines?
- b. **Company Involvement in anti-personnel landmines.** Any company involved in the production of landmines will be excluded from the portfolio and with the single exception of the United States, no investment will occur in any country that does not support the banning of anti-personnel landmines.

#### F. Proliferation, Terrorist Financing & Money Laundering

The Statement actively supports and follows the Financial Action Task Force (FATF) to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. To ensure compliance with FATF standards the Statement follows a set of procedures for each screening.

- a. **Is Domiciled Country a Member of FATF.** Any company listed in a country that is not a member of FATF will be excluded from the portfolio selection.
- b. **Does the Domiciled Country Place Requirements on Companies to Satisfy FATF Requirements and Guidelines?** Any company listed in a country that may be outed by FATF as failing to follow its requirements and guidelines and where that may pose risks to breach of FATF guidelines will be excluded from the portfolio selection.
- c. **Does the Company Receive Financing from a National Bank, Pension fund, etc?** Banks and other financial institutions are subject to extensive compliance and anti-money laundering regulations and any financing by local banks to the company helps provide confirmation that the company is compliant with local and international laws relating to FATF. Failure for any local banks or other institution to offer services or finance to the company will raise alarms and cause the company to be excluded from the portfolio.
- d. **List Banks.** Any company that is domiciled in a country of a member FATF and that complies with FATF regulations and receives financing or services from a local bank must list those banks.

#### G. Company Code of Conduct

- a. **Company Code of Ethics.** Any company being considered as an investment must have a publicly available code of conduct and ethics that addresses legal responsibilities and ethics.
- b. **Explicit Reference to Compliance with International Law.** Any company being considered as an investment must have a publicly available code of conduct and ethics that explicitly lists how it complies with international laws.



#### H. Chemical Weapons

The Chemical Weapons Convention addresses the prohibition of the development, production, stockpiling and use of chemical weapons and on their destruction. The Convention has been widely signed and adopted by all NATO member countries and the following rules apply:

- a. **Company Signatory to Chemical Weapons Convention.** The domiciled country must be a signatory to the Chemical Weapons Convention.
- b. **No Company Involvement in Chemical Weapons.** The company must not be involved in any chemical weapons manufacturing or supply any material to other companies where there may be involvement with chemical weapons.

#### I. Biological Weapons

The Convention on the Prohibition of the development, production, stockpiling of bacteriological and toxic weapons and on their destruction is covered under the Biological and Toxin Weapons Convention. It has been widely signed and adopted by NATO member nations and the following rule applies:

- a. **Country of domicile signatory to Biological Weapons Convention.** The company's country of origin must be a signatory to the Biological Weapons Convention.
- b. **Company involvement in Biological Weapons.** Production of biological weapons is prohibited and any company involved will be excluded.

#### J. Absent from International Sanctions

The company and country must be absent from:

- a. United Nations Sanctions (UN)
- b. EU Financial Sanctions
- c. UK Financial Sanctions
- d. US Consolidated Sanctions
- e. Department of State, AECA Debarred List (US)
- f. Department of State, Non-Proliferation Sanctions (US)
- g. Switzerland Sanctions List

### VII. Exclusion list

The Statement maintains an exclusion list (the 'List') of un-investable companies. The List contains defence and security companies that fail the screening process.

Companies placed on an exclusion list should be identified prior to sourcing international sanctions, but publications offered by government and non-government organisations introduces a cross reference.

The List is reviewed on each company screen and formally updated every six months. Any company that is placed on an exclusion list is prohibited from investment and if placed on the exclusion list during the investment holding period will follow the divestment process.



### **VIII. Controversial Companies**

The Statement maintains a controversial companies list ('Controversial Companies') that includes companies that operate within the boundaries of the United Nations, international laws, treaties and conventions, but are involved in weapons production that is legal yet highly controversial, where controversial is defined as involvement in Nuclear Weapons Production or Depleted Uranium as involvement in other controversial weapons will result in being placed on an exclusion list. The companies in this list are the primary suppliers for NATO and OECD member nations and are approved by NATO and OECD state governments. Any company on the Controversial Companies list may not have an individual investment exceeding 8 percent of the total portfolio value and the total holdings of Controversial Companies may not exceed 50 percent of the total portfolio value.

### **IX. Disinvestment Process**

Any company holding that, during the investment holding period, is placed on the exclusion list will be liquidated as per the disinvestment process. The disinvestment process states that any holding must be liquidated within 90 days following the submission of the exclusion list updates and supporting documentation to the Committee.



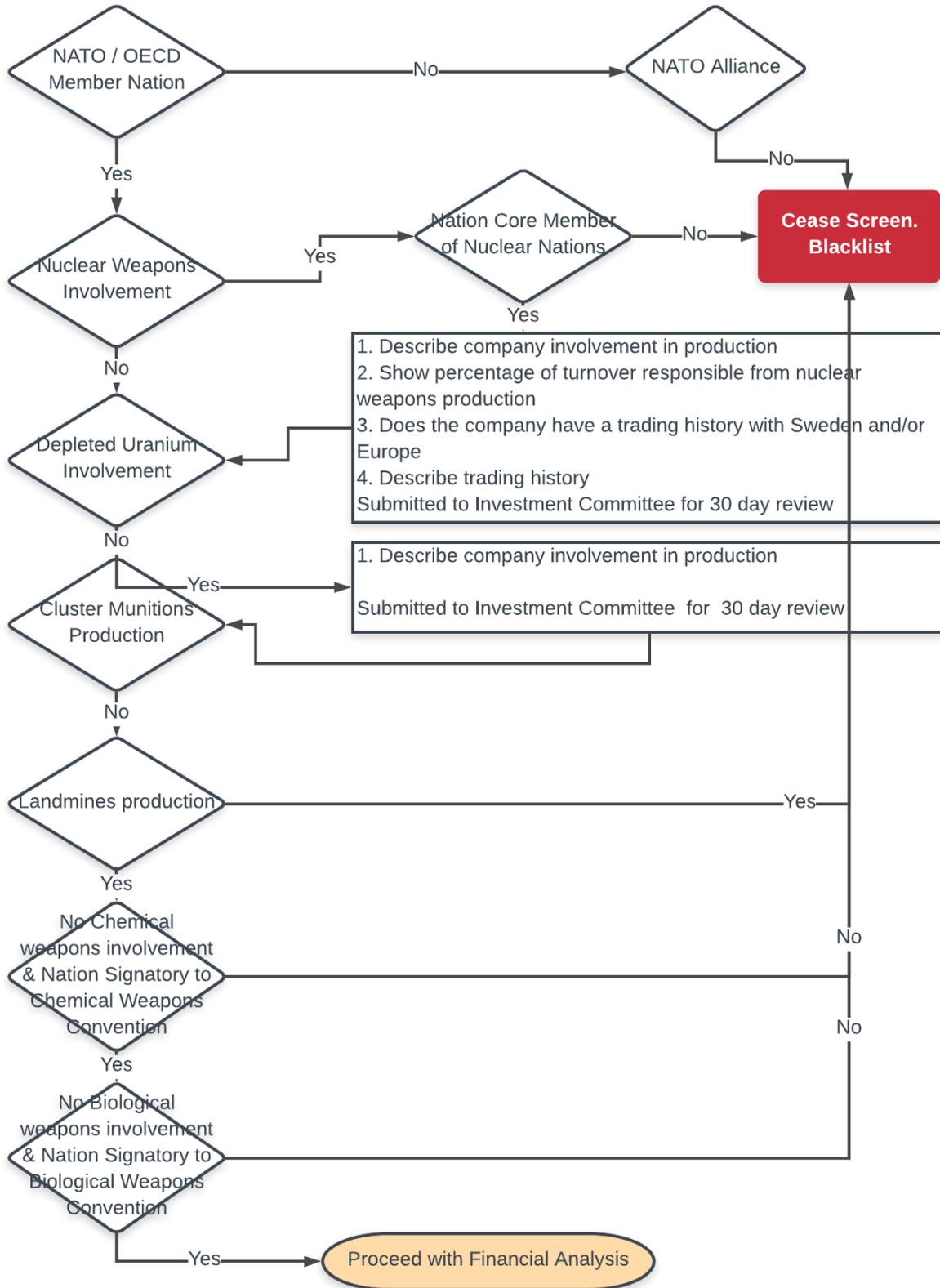
## X. APPENDIX

<b>Company Name</b>
<b>Domicile</b>
<b>Nuclear Weapons Production</b>
Is domiciled country within the three permissible exceptions
Describe company involvement in nuclear weapons production
Show percentage of turnover that is from nuclear weapons production
Does the company have a trading history with Sweden and/or Europe
Describe this trading history
<b>Depleted Uranium</b>
Is the company involved in the production of depleted uranium
<b>Cluster Munitions</b>
Is the company involved in the production of cluster munitions
<b>Land Mines</b>
Is the country compliant with the treaty banning anti-personnel mines
Is the company involved in production of anti-personnel mines
<b>Proliferation, Terrorist Financing &amp; Money Laundering</b>
Is domiciled country a member of FATF
Does the domiciled country place requirements on companies to satisfy FATF requirements and guidelines
Does the company receive financing from a national bank
List banks
<b>Company Code of Conduct</b>
Does the company have a code of ethics that addresses legal responsibilities and ethics
Does the company explicitly reference international laws and responsibilities
<b>Chemical Weapons</b>
Is the domiciled country a signatory to Chemical Weapons Convention
Is the company involved in chemical weapons
<b>Biological Weapons</b>
Is the domiciled country a signatory to the Biological Weapons Convention
<b>Ongoing Evaluation</b>



## **XI. APPENDIX DECISION TREE**





## XII. EXCLUSION LIST APPENDIX

Company Name	Country Domicile	Reason
Larsen & Toubro	India	Responsible for developing the launcher system for the nuclear-capable short-range surface-to-air Akash missile system for the Indian nuclear arsenal
Bharat Dynamics	India	Involved in the development of the nuclear capable Akash missile for the Indian nuclear arsenal
Bharat Electronics	India	Involved in the development of the nuclear capable Akash missile for the Indian nuclear arsenal
Walchandnagar Industries	India	Walchandnagar Industries Limited (India) supplies infrastructure and facilities for the production of the surface-to-air short-range Akash missile and the launching systems for Agni and Akash missiles for the Indian arsenal. It also manufactures the main thrust motor casing segment for the intercontinental ballistic Agni-V missile.
Almaz-Antey	Russia	Russian
High Precision Systems	Russia	Russian
Irkut (United Aircraft Corp. Russia)	Russia	Russian
KRET	Russia	Russian
Russian Helicopters	Russia	Russian
Sukhoi (United Aircraft Corp. Russia)	Russia	Russian
Tactical Missiles Corp.	Russia	Russian
UMPO (United Engine Corp. Russia)	Russia	Russian
United Aircraft Corp.	Russia	Russian
United Engine Corp.	Russia	Russian
United Instrument Manufacturing Corp.	Russia	Russian
United Shipbuilding Corp.	Russia	Russian
Uralvagonzavod	Russia	Russian
China Aerospace Science and Industry	China	China / Cluster Munition Producer
Norinco	China	China / Cluster Munition Producer
Hanwha	South Korea	Cluster Munition Producer
Poongsan	South Korea	Cluster Munition Producer



### XIII. Controversial Companies List Appendix

Company Name	Country Domicile	Reason
AECOM	USA	Aecom is the main contractor for US nuclear weapons laboratories where modernisation and development of new nuclear weapons takes place.
Aerojet Rocketdyne	USA	Aerojet Rocketdyne, produces propulsion systems and other key components for US & UK Trident II (D5) missiles & US Minuteman III ICBMs
Airbus Group	Europé	Airbus Group, produces key components for both submarine and air launched French nuclear missiles, both submarine and air launched.
BAE Systems	UK	BAE Systems provides logistics, systems, and readiness support for the US and UK Navy Trident and US Air Force Minuteman missiles programmes.
Bechtel	USA	Bechtel, key contractor at US nuclear weapons laboratories.
Boeing	USA	Boeing, produces key components for US & UK Trident II (D5) missiles & US Minuteman III ICBMs
BWX Technologies	USA	BWX Technologies, a key contractor at US nuclear weapons laboratories.
CH2M Hill	USA	CH2M Hill is a key contractor at US nuclear weapons laboratories it's been recently bought by Jacobs Engineering.
Flour	USA	Fluor is the lead contractor for US nuclear weapon facility responsible for Tritium production
General Dynamics Corp.	USA	General Dynamics produces key components for US & UK Trident II (D5) missiles
Honeywell Intl. Inc.	USA	Honeywell International manages and operates the facility where an estimated 85% of the non-nuclear components for US nuclear weapons are produced.
Huntington Ingalls Industries Inc.	USA	Huntington Ingalls Industries is an additional contractor for US nuclear weapon facility responsible for Tritium production
Jacobs Engineering Group Inc.	USA	Jacobs Engineering manages the main UK nuclear weapons laboratory
Lockheed Martin Corp.	USA	Lockheed Martin is involved in Trident II (D5) missile upgrades (for US & UK), Minuteman III missiles (US), managing UK nuclear weapons laboratory, and several US nuclear weapons facilities.
Northrop Grumman Corp.	USA	Northrop Grumman is involved in Trident II (D5) missile upgrades (for US & UK), Minuteman III missiles (US), and involved in managing some US nuclear weapons facilities.
Safran	France	Safran is building M51 missiles for French arsenal
Serco	USA	Serco is involved in managing UK nuclear weapons laboratory
Thales	France	Thales is building M51 missiles for French arsenal
Atlantic CommTech Corp	Germany	Atlantic CommTech Corp. (ACT-Corp) is updating the nuclear weapon storage facilities at the bases hosting B61s in Europe.
Babcock International	UK	Babcock International is engaged in producing key components for the next generation of nuclear armed submarines for the United Kingdom. The Don't Bank on the Bomb methodology does not include delivery vehicle producers, but some financial institutions continue to exclude any investments in this company.
Battelle	USA	Battelle is a US 501(c)3 charitable trust. It is involved in the site maintenance at Lawrence Livermore National Laboratory. However, it is a not-for-profit corporation. Under examination of the tax records filed (form 990), the company reported income solely from government grants. They are likely involved in production activities, however, they appear to have no external or private financing.
Charles Stark Draper Laboratory	USA	Charles Stark Draper Laboratory ("Draper") is the prime contractor for the Trident Life Extension (LE) boost guidance and is manufacturing the guidance system for the Trident missile system in use by the UK and the US
Engility Holdings	USA	Engility Holdings is involved in the research and development for the Minuteman III system for the US arsenal.
Leonardo	Italy	Leonardo (Italy) (formerly Finmeccanica) is involved in the design, development and delivery of Transporter Erector Replacement Vehicles for the US Minuteman III intercontinental ballistic missile fleet. It is also involved in the production of medium-range air-to-surface missiles for the French.
Moog	USA	Moog develops launch vehicle and strategic missile controls for the Minuteman III (US) and Trident (D5) (US & UK) missiles.
Raytheon	USA	Raytheon (United States) is involved in the Minuteman III missile system for the US nuclear arsenal. It is also producing key components for the new US Long Range Standoff weapon.
Textron	USA	Textron (United States) designs and builds re-entry vehicles for the US Minuteman III intercontinental ballistic missiles (ICBM).