

Pax Christi Scotland is part of the Don't Bank On The Bomb alliance, which seeks divestment from weapons of mass destructions. Together, we work with the International Campaign to Abolish Nuclear Weapons that in 2017 won the Nobel Peace Prize in recognition of its work to bring about the Treaty on the Prohibition of Nuclear Weapons. Is divestment from nuclear weapons realistic? Ethical finance expert Quintin Rayer says 'yes'.



Yes! ICAN avoid investing in nuclear arms firms...

Dr Quintin Rayer DPhil, FInstP, Chartered FCSI, SIPC, is Head of Research and Ethical Investing at P1 Investment Management. An association with Pax Christi Scotland has led him to explore how realistic divestment from weapons of mass destructions might be. Here he explores the moral map of investment and the possibilities of maintaining a profitable portfolio without investing in nuclear weapons.

The Moral Challenge

In its 2021 "Perilous Profiteering" report, ICAN highlighted the UN's 2017 treaty banning nuclear weapons, which came into force in January 2021, and questioned the wisdom of seeking profits from companies involved in their manufacture.

The moral argument is strong. In 1963, Pope John XXIII called for nuclear weapons to be banned. In 1982 the Scottish Bishops' Conference stated that it was also immoral to threaten their use. At Hiroshima, in 2019, Pope Francis described possession of nuclear weapons as immoral, a message he re-iterated in 2020 and 2022.

Harming others through business activities should be avoided according to the founder of Methodism, John Wesley, in his 1872 sermon, "The use of money."

Like any activity, investment has a moral aspect. It can be wrong to buy stocks in a company as investments, which, if made by many, would enable others to do wrong.

Some may feel that avoiding investment in nuclear arms-related firms is challenging. Might it undermine financial returns? Say the arms firms are avoided: would it still be possible to find balanced portfolios meeting the desired level of risk?

Investment managers may argue that exclusions can cause underperformance. But this conclusion is not obvious. Studies suggest that ethical investment approaches can outperform – although much will depend on the manager's skill.

Is it possible to find investment portfolios that avoid nuclear arms firms while being managed to meet the desired level of risk? Our experience suggests this may not be nearly as difficult as suggested.

The challenge for investors is to select companies based on ethical and sustainability considerations. Some funds seek to jump onto the bandwagon and appeal to the ethical market. They may have slender ethical credentials, potentially including holdings unacceptable to ethically minded clients.

At P1, we seek funds with robust ethical policies, guided by input from our external ethical oversight committee. As well as managing investment performance, we dig beneath managers' claims, reviewing their ethical and sustainable investment policies and challenging non-compliance.

Members of Pax Christi Scotland drew our attention to ICAN's 2021 "Perilous Profiteering" report, which lists 25 companies heavily involved in producing, manufacturing, and developing nuclear weapons.

All the funds on our panel either have exclusions policies relating to arms or cannot invest in those areas. We contacted all our managers with arms exclusion policies. They have confirmed that they cannot hold any of the 25 nuclear arms firms on ICAN's list.

Despite the difficulties suggested above, our ethical and sustainable portfolios and fund (the TM P1 Sustainable World fund) have no investments in the ICAN 25 list while also being diversified and covering different risk levels to meet our clients' needs.

So – yes, you can avoid investing in nuclear arms firms!

Quintin Rayer

ICAN 'Perilous Profiteering report:

https://www.icanw.org/perilous_profiteering_companies_building_nuclear_weapons_and_financial_backers

P1, "Ethical Oversight Committee," P1 Investment Management Ltd:

<https://p1-im.co.uk/ethical-investment/ethical-oversight-committee/>

DON'T BANK ON THE BOMB Scotland:

<https://nukedivestmentscotland.org/>