



Be Aware

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Be Aware: Check your Ethical Funds' Weapons Exclusions

By Dr Quintin Rayer

We demand that our banks, universities and local authorities stop investing in nuclear and conventional weapons – but what about our own investments? Whether we have an ISA or we've squirrelled away our pension money, do we really know what it's being invested in? Dr Quintin Rayer, DPhil, FInstP, Chartered FCSI, SIPC, who is a Chartered Wealth Manager and Head of Ethical

Investing at P1 Investment Management, says we shouldn't be afraid to check out the exclusion clauses on our investments.

In March 2025, over 100 Labour Westminster MPs and peers urged fund managers to relax ethical rules blocking financing weapons companies.[1] [2] [3] [4] They argued that relaxing ethical arms exclusions would bolster UK defence, promote economic growth, and support Ukraine. Some ethical fund managers seriously considered such steps. One contacted me (I'm an ethical fund selector), asking whether they should drop their conventional weapons exclusions.[5] Our company's response was robust; if they did, we would no longer use their fund.

Alongside avoiding enabling harms, ethical investors also seek profits. Weapons companies' share prices have surged as countries increase defence spending. [2] [3] Permitting arms sector investments will likely increase profits. Although, as ethical funds only comprise 6.6% of UK fund assets,[6] arguing that arms companies require their finance appears doubtful.

For mass destruction weapons, the moral position is clear. In 1963, Pope John XXIII called for nuclear weapons to be banned.[7] The 1982 Scottish Bishops' Conference stated that threatening their use was also immoral.[8] At Hiroshima, in 2019, Pope Francis described possessing nuclear weapons as immoral, reiterating his message in 2020[9] and 2022[10]. Pope Francis also denounced the conventional arms industry for "profiting from death." [11] In 1872, John Wesley, Methodism's founder, stated that business activities harming others should be avoided.[12] Like any activity, investment has a moral aspect. It can be wrong to invest in a company which, if made by many, would enable wrongdoing by others.[13]

Proponents of relaxing weapons exclusions may not advocate investment in controversial weapons (including nuclear, landmines, and bioweapons). [1] [14] Nor civilian firearms investments (which can enable mass shootings),[15] but support defence investment,[4] which appears more justifiable.

UK arms company investments support UK defence. However, these firms sell weapons elsewhere, including to foreign governments. Weapons may be sold to oppressive regimes and used to abuse human rights, potentially reaching terrorists. [14] [15] Investors cannot determine how weapons manufacturers' products are used, potentially enabling harm

Governments buying weapons can control them (including storage and deployment) and decide which types to buy (often following international law). Further, as Government finances face scrutiny, this provides motivation to end conflicts quickly and peacefully.[15] Contrastingly, weapons manufacturers' arms sales profits incentivise prolonged warfare. Their investors, meanwhile, benefit from protracted conflict. [15] The moral case for weapons investment appears dubious. Financing defence appears better reserved for Government.

Ethical investors select funds based on their policies. Even if weapons have not been explicitly discussed, clients may have "reasonable expectations", based on claims of ESG risk mitigation or "sustainability".[16] Changes to weapons exclusions may breach clients' expectations. Fund managers making such changes should tell their clients, who may wish to invest elsewhere.

What can we do as individuals?

We suggest you contact your financial advisor or fund manager to check that your ethical investments have your required weapons exclusions. If you selected funds because of arms exclusions, explain that relaxing these will mean you wish to invest elsewhere. In investment terms, your weapons exclusion requirement is "material" to your investment decisions and must not be set aside without your permission.[17] [18] If your adviser argues it could affect investment performance, you are entitled to hold your position. Research suggests that sector exclusions may affect long-term performance less than many believe.[19]

At P1, we select funds with robust ethical policies, guided by our external ethical oversight committee.[20] All the funds in our ethical portfolios and fund (the TM P1 Ethical World fund) either have arms exclusions or cannot invest in those areas.

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