

I don't believe that my avoiding such companies changes the world – it is simply a personal principle that I don't wish to be an owner of such businesses.

It is no part of my investment purpose to help the companies whose shares I own. (I do normally take up rights issues because I regard doing so as sensible purely from an investment point.)

I regard what is referred to as “home country bias” as inherently foolish, although I recognise that it is understandable in the same way that people do many other silly things.

In particular, home country bias increases your concentration risk since you are already heavily dependent for your financial future on the economic success of your home country so it is better to diversify your risks by investing outside your home country.

Consider for example a Japanese individual wholly invested in the Japanese stock market in the late 1980s. For the next 30 years, his pay rises suffered from the poor performance of the Japanese economy while his shares suffered because the Japanese stock market went nowhere. He was not diversified!

The only logical reason for investing in your home country is that you may have a better understanding of the companies located there due to being more familiar with them. However, in practice such “better understanding” is usually illusory!

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## 9 The Ethics of Excluding Investment in Weapons: Quintin Rayer

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In March 2025, over 100 Labour Westminster MPs and peers urged ethical fund managers to relax 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 doing so. One fund manager contacted the author (an ethical fund selector), asking whether they should drop their conventional weapons exclusions. Our response was robust; if they did, we would no longer use their fund [5].

Ethical investors also seek profits while avoiding enabling harms. Weapons companies' share prices have surged as countries increase defence spending [2], [3], making arms sector investments

profitable. 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 appears straightforward. Christian teaching is that possessing or threatening to use nuclear weapons is immoral [7], [8], [9]. Pope Francis has denounced the conventional arms industry for “profiting from death”[10]. Methodism’s founder, John Wesley, stated that business activities harming others should be avoided [11]. Academics agree; it can be wrong to invest in a company which, if made by many, would enable wrongdoing by others. Like any activity, investment has a moral aspect [12].

Proponents supporting relaxing weapons exclusions may not advocate investment in controversial weapons (including nuclear, landmines, and bioweapons) [1], [13]. Nor civilian firearms investments (which can enable mass shootings) [14], 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 [13], [14]. 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 obtain (often following international law). Further, as Government finances face scrutiny, this motivates ending conflicts quickly and peacefully. Contrastingly, weapons manufacturers profit from arms sales, incentivising prolonged warfare. Meanwhile, their investors benefit from protracted conflict [14]. The moral case for weapons investment appears dubious. Defence financing 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” [15]. 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 you do?

Contact your 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 [16], [17]. 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 [18].

At P1, we select funds with robust ethical policies, guided by our external ethical oversight committee [19]. 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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