

CRITICAL SHAREHOLDING IN THE DEFENCE SECTOR

**THE CASE OF
SFC-SHAREHOLDERS
FOR CHANGE**

Florence, June 2025



**SHAREHOLDERS
for CHANGE**



Shareholders for Change (SfC) is a European network of institutional investors committed to responsible investment through shareholder engagement. Established in 2017, the network brings together asset managers, foundations, ethical banks and pension funds that collectively represent over €45 billion in assets under management.

SfC members conduct joint engagement activities with companies, public institutions and financial intermediaries, with a focus on issues such as human rights, climate risk, corporate governance and tax justice. The network adopts a collaborative and research-driven approach, combining public advocacy with direct dialogue to promote meaningful change in corporate and financial practices.

What distinguishes SfC is its strategic use of shareholder power – not merely to influence

company behaviour, but to reshape the financial system from within. By leveraging its pan-European structure and long-standing expertise in responsible investing, the network positions itself as a critical voice for transparency, sustainability and accountability in capital markets. To do this, SfC members adopt two different styles of engagement:

Shareholder engagement with companies and institutions that, normally, are already part of an investing universe selected according to ESG criteria;

Critical shareholding with companies and institutions that are targeted by NGOs' campaigns or are allegedly involved in serious environmental or social controversies. This latter approach is often implemented in cooperation with NGOs.

EXECUTIVE SUMMARY

The defence industry has re-emerged as a focal point of global investment and political discourse. In the wake of Russia's invasion of Ukraine, governments have scaled up military spending and investors have revisited exclusion policies once considered definitive. Yet, despite this shift, the fundamental sustainability risks and negative impact of the arms sector remain unresolved – and in many cases, insufficiently examined. This report, *Critical Shareholding in the Defence Sector*, outlines how some members of the European investor network Shareholders for Change (SfC) have approached the challenge of engaging with the defence sector through critical shareholding, public positioning, and collaborative advocacy. Covering activities between 2018 and 2025, it provides both an overview of the defence sector's ESG profile and a practical illustration of investor-led strategies to influence corporate and policy behaviour. Even if there are many more problematic ESG issues in the defence sector, the report identifies seven key areas where the arms industry poses serious sustainability concerns:

- arms exports to countries with human rights violations;
- production of weapons of mass destruction;
- controversial weapons;
- autonomous weapons systems;
- final destination risks and diversion to illicit markets;
- carbon footprint of the military sector;
- high ESG risks due to product governance failings and controversial business behaviour.

A wider, more systemic concern, increasingly relevant in the current context, is the financialisation of war. The production of weapons is at risk of being driven more by profit expectations

than by political or defence imperatives. SfC has adopted a targeted critical shareholding strategy that includes direct engagement with companies such as Leonardo, Indra and Rheinmetall, as well as indirect advocacy with sovereign funds, ESG rating agencies, financial institutions and governments. The case studies in this report demonstrate that even in sectors as politically sensitive as defence, responsible investors can exert influence – if supported by evidence, coordinated strategy and long-term commitment. In all the cases analysed, the members of Shareholders for Change did not engage with the companies as active investors in the arms sector, but if at all, only bought a symbolic number of shares with the sole aim of gaining access to the annual general meetings and the right to ask critical questions and receive answers - often in cooperation with NGOs and grassroots campaigns. Among the results documented:

- Italy's partial withdrawal of arms export licences to conflict zones following parliamentary hearings supported by SfC members;
- Namibia's accession to the UN Biological Weapons Convention, prompted in part by investor engagement;
- growing support for the Treaty on the Prohibition of Nuclear Weapons (TPNW) among institutional investors;
- changes in sovereign fund investment criteria and ESG rating agency methodologies in response to SfC-led dialogue.

With this report, SfC aims to provide a replicable framework for critical shareholding in the defence industry, stimulating other investors who are seeking to navigate the intersection of finance, defence and responsibility.

FOREWORD

**Susi Snyder, *Programme Coordinator,
International Campaign to Abolish Nuclear Weapons (ICAN)***

The question of how we choose to shape the world with our money is no longer rhetorical, it is actionable, accountable and urgent. As financial institutions increasingly seek to align their portfolios with sustainability goals, the defence sector presents a clear and persistent test. It demands a response not only grounded in ethics, but in governance, transparency and long-term risk assessment. This report by Shareholders for Change offers a rare and compelling contribution to that response. It brings evidence, not ideology; strategy, not slogans. It documents years of patient, principled engagement with some of Europe's largest defence and finance actors, and it demonstrates that investor pressure – applied constructively and consistently – can influence real-world decisions, including at the level of national policy.

The Treaty on the Prohibition of Nuclear Weapons (TPNW) marks a turning point in how the international community views weapons

of mass destruction, all of which are now comprehensively prohibited by international law. But while its effectiveness depends primarily on states, markets – and the investors who choose what to fund and what to reject, play a significant role in its normative impact. Shareholders for Change has been among the first in Europe to recognise that financial actors have both the power and the responsibility to act in strengthening such norms. They have understood that “fiduciary duty” must evolve to account for systemic risks – nuclear, environmental, and humanitarian – and that there is a value generation to be found in prevention.

This is not a report about idealism. It is a report about influence. It shows what can be done when engagement is thoughtful, informed and relentless. I am proud that ICAN has had the opportunity to collaborate with several of the network's members, and I believe that their work will inspire others to take a stand – not just with words, but with capital.

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1. THE PROBLEMS WITH ARMS FROM A SUSTAINABILITY PERSPECTIVE

The ethical implications of investing in the defence sector have long posed a dilemma for sustainable investors. While many sustainable investors – including some SfC members – have always strictly excluded any involvement in the defence sector, the ethical and financial implications of investing in it have long posed a dilemma for others. For these investors, arms manufacturing has consistently ranked among the most contentious exclusions within socially responsible investment frameworks.

Yet, despite this enduring discomfort, the sustainability discourse around the arms industry has remained notably underdeveloped and often lacking in nuance. This absence of a robust and differentiated debate has contributed to limited public scrutiny and weak investor engagement, impeding progress in addressing the sector's substantial sustainability risks.

Recent geopolitical developments – most notably Russia's invasion of Ukraine – have brought the defence sector into sharp focus. The war has not only dominated political and public agendas but has also led finance actors to reconsider long-held assumptions. That this reassessment is only now taking place is surprising, given the Heidelberg Institute for International Conflict Research (HIIC) has consistently recorded¹ more than 200 violent conflicts globally each year. In 2023 alone, the Institute documented over 220 such conflicts, including 22 full-scale wars and 21 limited wars. At Shareholders for Change (SfC), we view

this heightened interest as an opportunity for a differentiated discussion on the topic of armament. Our objective is to direct investor attention towards the tangible sustainability challenges inherent to the arms industry, and to encourage deeper, more consistent engagement aimed at mitigating these issues.

SfC's Charter of Values states unequivocally:

"Disarmament and arms limitation are essential to enhancing international peace and security, as well as for the economic and social advancement of all people". However, we recognise that

certain levels of armament are currently deemed necessary for national security forces, national defence and geopolitical security. The world we aspire to does not yet exist – and until it does, we acknowledge the need for a more balanced and pragmatic discourse. At the same time, we emphasise that military solutions must always be complemented by investments in peacebuilding and the promotion of peaceful economic activities. Whether arms production can ever be deemed "sustainable" or "unsustainable" according to a sustainability definition is a matter for broader debate. Nonetheless, several sustainability concerns surrounding the arms industry are clear and indisputable. SfC actively addresses these through its engagement strategy, targeting not only arms producers but also governments, investors, regulators, and other stakeholders. In general, we have identified seven key areas where the arms industry poses serious sustainability concerns:

¹ Heidelberg Institute for International Conflict Research (2023): Conflict Barometer 2023; ISSN 1616-31X; Heidelberg; <https://hiik.de/conflict-barometer/current-version/?lang=en>; Accessed 24.02.2025

EXPORTING TO COUNTRIES WITH HUMAN RIGHTS VIOLATIONS

The export of arms to regimes that perpetrate human rights violations at home and abroad or are involved in wars that violate international law is neither conducive to global peace nor compatible with sustainable investment principles. Beyond the ethical objections, such practices carry significant financial risks. Defence companies engaged in controversial exports face not only reputational damage but also potential legal litigation and the loss of export licences. The UN Guiding Principles on Business and Human Rights² make clear that corporations bear

responsibility for ensuring their products and services do not contribute to human rights abuses — regardless of state capacity or intent. This obligation exists independently of national export authorisations. Reliance solely on government approvals as a due diligence mechanism falls far short of what is expected under international norms. Indeed, European arms exports to countries like Saudi Arabia, Egypt and Russia — even during the annexation of Crimea — demonstrate the inadequacy of state-based human rights assessments.

WEAPONS OF MASS DESTRUCTION - NUCLEAR, BIOLOGICAL OR CHEMICAL

Nuclear, biological and chemical weapons represent existential threats to humanity. Their use is indiscriminate and devastating, and their mere existence contributes to systemic financial risk. Under the concept of “universal ownership,” institutional investors with diversified global portfolios are inherently exposed to the

economic fallout of any nuclear escalation. Even the threat of deployment can trigger severe market volatility across all asset classes — let alone the consequences of an actual nuclear event. For asset managers with fiduciary responsibilities, this risk should be of utmost importance³.

CONTROVERSIAL WEAPONS

The most widely accepted definition of a controversial weapon is one that has a disproportionate effect, causing excessive human suffering and/or affecting the civilian population indiscriminately and/or continuing to affect it years after the end of the conflict. However, there is no universally agreed-upon definition of “controversial weapons,” yet the term typically encompasses anti-personnel mines, cluster

munitions, depleted uranium ammunition, incendiary devices like white phosphorus, non-detectable fragments ammunition and blinding laser weapons. Investment in companies associated with such weapons exposes investors to reputational and regulatory risks, particularly as more jurisdictions enact legislation banning not only their use, but also their production and financing.

2 United Nations (2011): Guiding Principles on Business and Human Rights; New York and Geneva: https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf; Accessed 07.01.2021

3 International Campaign to Abolish Nuclear Weapons ICAN (2022): Investor Statement to the First Meeting of States Parties to the Treaty on the Prohibition of Nuclear Weapons; https://divest.icanw.org/open_statement_to_the_first_meeting_of_states_parties_to_the_treaty_on_the_prohibition_of_nuclear_weapons#fulltext; Accessed 22.11.2022

AUTONOMOUS WEAPONS SYSTEMS

Lethal autonomous weapons – capable of selecting and attacking targets without meaningful human intervention – pose serious ethical, legal and security risks. Though international consensus on their prohibition

remains elusive, momentum is growing within the EU for a binding legal framework. For investors, any association with such systems invites scrutiny, reputational and regulatory risks.

FINAL DESTINATION RISKS

Small arms and light weapons are frequently diverted into illicit markets, arming criminal networks, child soldiers and extremist groups. This leakage often results from poor oversight by manufacturers, distributors and state authorities. Although defence companies are very often well aware of these illegal arms flows, it is not uncommon that they do not take any countermeasures or even look for ways to further expand the sale of weapons that are ultimately smuggled. European arms

companies, for instance, have bypassed regional export controls by operating production facilities in the United States. These practices have enabled weapons to reach destinations such as Mexican drug cartels⁴. Even within legal markets, the widespread sale of small arms and light weapons contributes to tragedies such as mass shootings and terrorist attacks. Arms manufacturers, intermediaries and governments share responsibility for preventing such outcomes through rigorous controls.

CARBON FOOTPRINT OF THE MILITARY SECTOR

The military sector is a significant – yet frequently overlooked – contributor to global greenhouse gas emissions. Estimates suggest it accounts for up to 6% of global emissions, with the US military alone emitting more than entire industrialised

nations like Sweden or Denmark⁵. Crucially, military emissions are not included in countries reporting obligations under the Paris Agreement, undermining global climate strategies and leaving critical data gaps.

4 ENAAT et.al. (17.07.2023): How European weapons fuel armed violence in Mexico; https://www.ohne-ruestung-leben.de/fileadmin/user_upload/startseite/2023/Joint-Briefing-Note-Mexico-July2023-EN.pdf; Accessed 26.11.2024

Stop US Arms to Mexico (06/2024): The Iron River of Weapons to Mexico: Its Sources and Contents; <https://stopusarmstomexico.org/wp-content/uploads/2024/06/Iron-river-of-weapons-web.pdf>; Accessed 26.11.2024

5 Neue Zürcher Zeitung (30.07.2022): Das Militär ist für fünf Prozent des weltweiten Treibhausgasausstosses verantwortlich. Von Beschränkungen ist es ausgenommen; <https://www.nzz.ch/wissenschaft/vernachlaessigte-emissionen-von-treibhausgasen-durch-das-militaer-ld.1693659>; Accessed 24.02.2025

ESG RISK PROFILE

From an environmental, social and governance (ESG) risk perspective, the defence industry is one of the highest-risk sectors at all. According to the sustainability rating agency Morningstar Sustainalytics, 37% of defence companies are rated as high ESG risk, and 11% as very high ESG risk, largely due to product governance concerns. The sector ranks 37th out of 42 in the average ESG risk rating. Moreover, over half of all defence firms are implicated in business ethics controversies, which is also well above average compared to other industries⁶.

For years, we as Shareholders for Change have been addressing these controversial issues in our engagement activities. Because of the problem areas that cannot be solved in isolation and the interconnected dependencies of the stakeholders, a comprehensive engagement is necessary in our view. Therefore, we do not limit our engagement activities to defence companies, but we are engaging also with governments, large institutional investors, banks, sustainability rating agencies, decision making bodies, finance and defence lobby groups and other stakeholders.

In addition to our direct engagement activities, we also consider it useful to take a clear public position on armament issues and our

engagement in order to achieve our demands. Therefore, we regularly report on the contents and background of our engagement activities in the field of armament in the press and engagement reports, at events and training courses.

A wider, more systemic concern, increasingly relevant in the current context, is the financialisation of war. The production of weapons is at risk of being driven more by profit expectations than by political or defence imperatives. This dynamic, when coupled with the use of citizens' savings to fund the arms industry, raises profound ethical and democratic concerns. It shifts the focus from public accountability to private gain, undermining the role of democratic decision-making in matters of national and international security⁷.

For this reason, it can be argued that the production of armaments should primarily be financed by states rather than private capital. State financing would help ensure that only the necessary quantity of weapons is produced, in contrast to private investment models that may prioritise profit maximisation, potentially leading to overproduction and an unwarranted escalation in arms manufacturing.

⁶ Morningstar Sustainalytics (10/2024): Industry Report Aerospace & Defence; Accessed 24.02.2025

⁷ <https://www.shareholdersforchange.eu/wp-content/uploads/2025/05/Rearm-Europe-Banca-Etica-Groups-Position.pdf>

2. OVERVIEW SFC ENGAGEMENT ACTIVITIES RELATED TO THE DEFENCE SECTOR (2018-2025)

Since 2018, Shareholders for Change (SfC) has undertaken a broad range of engagement activities targeting the defence and security sector. These initiatives reflect the network's commitment to responsible investment and its efforts to address the environmental, social and governance (ESG) risks associated with the arms industry.

SfC's engagement approach is characterised by its breadth and its multistakeholder focus. Rather than limiting its scope to direct engagement with defence companies, the network has also pursued dialogue with institutional investors, banks, rating agencies, supranational bodies and national governments. These engagements aim to enhance transparency, promote accountability, and encourage a shift in business practices aligned with internationally recognised sustainability standards.

As highlighted above, engagement with defence companies has taken place within the framework

of SfC's critical shareholding approach – targeting companies and institutions that are the focus of NGO campaigns or are allegedly involved in serious environmental or social controversies.

In all the cases analysed, the members of Shareholders for Change did not engage with the companies as active investors in the arms sector, but if at all, only bought a symbolic number of shares with the sole aim of gaining access to the annual general meetings and the right to ask critical questions and receive answers - often in cooperation with NGOs and grassroots campaigns.

The following table provides a structured overview of key engagement actions undertaken by SfC and its members between 2018 and 2025. Each entry includes the entity engaged, the sector and jurisdiction involved, the thematic focus of the engagement, the year of initiation, and the member organisation leading the activity.

COMPANY / COUNTRY / INSTITUTION	SECTOR	COUNTRY	ISSUES	START	LEAD
Rheinmetall	Defence	Germany	Autonomous Weapons, Weapons export practice, corruption	2018	BKC / FFE
Leonardo	Defence	Italy	Arms exports, nuclear weapons involvement, transparency, jobs data	2018	FFE
DZ BANK	Financial	Germany	Exclusionary Criteria Weapons Export Practice, Nuclear Weapons, controversial weapons.	2018	BKC
Asset Managers of CAT Bonds Funds (Plenum Investment, Twelve Capital, SCOR Investment Partners, Fermat Capital Management)	Financial	Various	Exclusionary Criteria for weapons of mass destruction and controversial weapons	2018	BKC

COMPANY / COUNTRY / INSTITUTION	SECTOR	COUNTRY	ISSUES	START	LEAD
Indra	Defence/ Tech	Spain	Military contracts with sensitive countries, border militarisation,	2019	Fundación Finanzas Éticas
Royal Bank of Canada	Financial	Canada	Financing of controversial weapons	2019	Ecofi
Generali	Financial	Italy	Investments in controversial weapons	2019	FFE
thyssenkrupp	Industrial/ Defence	Germany	Autonomous Weapons, Weapons export practice, nuclear weapons, corruption	2020	BKC / FFE/ Sanso
Namibian Government	Sovereign	Namibia	UN Biological Weapons Convention	2020	BKC
Norwegian Pension Fund (GPFG), Ministry of Finance, Ethics Committee	Financial/ Public	Norway	Investor of Rheinmetall, Exclusionary Criteria Weapons Export Practice, Autonomous Weapons	2020	BKC / FFE
Asset Managers of different Funds (Erste Responsible Bond EM Corp, Salm-Salm Sustainability Convertible, Sycomore Selection Credit, UniInstitutional Global Convertible Sustainable)	Financial	Various	Investments in companies involved in arms production	2021	fair-finance
Government of Italy	Sovereign	Italy	Nuclear Weapons	2022	Etica Funds
ASD AeroSpace and Defence Industries Association of Europe	Industry Association	EU	Weapons export practice, ultimate destination of weapons	2022	BKC / FFE
United Nations	International	Global	Treaty on the Prohibition of Nuclear Weapons (TPNW)	2022	Etica Funds
Institutional Investors (BlackRock, Capital Group, Fidelity Management and Research, Wellington Management)	Financial	Global	Investors of Rheinmetall, Exclusionary Criteria Weapons Export Practice; Engagement-collaboration	2022	BKC / FFE
Sustainability rating agencies (MSCI ESG Research)	Financial Data	Global	Addition of factor 'Export of Weapons to countries with human rights violations', methodology changes delivery platform, mapping subsidiary revenue	2022	BKC

COMPANY / COUNTRY / INSTITUTION	SECTOR	COUNTRY	ISSUES	START	LEAD
Dassault Systemes	Tech / Industrial	France	Involvement in weapons	2022	Ethius
European Commission & DG DEFIS	Public/ Policy	EU	Weapons as a sustainable investment + controversial weapons	2024	BKC / FFE

BKC = Bank für Kirche und Caritas
FFE = Fondazione Finanza Etica

This comprehensive engagement portfolio demonstrates SfC's determination to address both direct and indirect ESG risks within the global defence ecosystem. It further highlights the value of

strategic collaboration across geographies and sectors to drive meaningful change. The network's approach goes beyond exclusionary policies by engaging constructively with a wide array of financial actors and public institutions, promoting a systemic response to a sector marked by high complexity and global impact.

3. CASE STUDIES: SFC ENGAGEMENT ACTIVITIES

3.1 LEONARDO AND INDRA

LEONARDO S.P.A.

Leonardo S.p.A., a leading Italian company operating in the defence, aerospace and security sectors, is 30.2% owned by the Italian Ministry of Economy and Finance. In 2016, at the suggestion of the NGO Rete Italiana Pace e Disarmo (*Italian Network for Peace and Disarmament*), Fondazione Finanza Etica (FFE) bought three shares in the then Finmeccanica (now Leonardo) to initiate a process of critical shareholder engagement.

Between 2016 and 2019, FFE raised questions regarding the company's alleged involvement in international corruption cases, the export of military equipment to conflict zones – including Eurofighter jets to Kuwait (implicated in the Yemen war) and helicopters to Turkmenistan – and its indirect involvement in nuclear weapons development. Several Annual General Meetings (AGMs) were marked by inquiries into Leonardo's use of intermediaries in international contracts, the presence of whistleblower protection mechanisms, and compliance with anti-corruption standards, particularly in light of investigations involving India, Panama and South Korea. The company's responses were typically evasive or generic, underscoring persistent governance and transparency concerns.

In 2020 and 2021, the engagement focus shifted towards requesting disaggregated data on production volumes, job creation and military export activity, including details by product type and geographic destination. While some data was available through the Italian Parliament's report under Law 185/90, Leonardo refused to disclose further details citing "confidentiality constraints with customers." Questions regarding the economic and social impact of public investment in the company's defence programmes were left largely unanswered.

The COVID-19 pandemic curtailed direct shareholder participation in AGMs. Leonardo, availing itself of emergency legal provisions, restricted shareholder interaction to written questions, further limiting the scope for constructive dialogue. Written responses mirrored previous years in their vagueness and lack of substantive engagement.

In 2023, engagement resumed with a focus on Leonardo's 25% stake in MBDA, the European missile consortium. MBDA France is the design authority and prime contractor for the ASMP-A nuclear cruise missile and its successor, the ASN4G. Although Leonardo denies involvement – arguing that production is conducted solely by the French branch –

the rationale is contested, given its ownership and governance role.

Additional concerns stem from Leonardo's role in producing components for the F-35 fighter jet, which is nuclear-capable. This association has resulted in the company's exclusion from the portfolios of multiple institutional investors. The risks are not only reputational and humanitarian, but also financial, as exclusion by asset owners translates into capital flight and reduced investor confidence.

A broader strategic concern is Leonardo's progressive shift away from civil industrial activities. While civil revenue accounted for over 50% of the group's turnover in 2013, by the early 2020s it had dropped to just 17%,

with 83% of revenue derived from military activities. This trajectory reflects a deliberate divestment from sectors such as automation, rail transport, and energy, in favour of expanding arms production. Rete Italiana Pace e Disarmo and Fondazione Finanza Etica have both questioned the economic rationale of this shift, noting that, in the long term, the military sector tends to be less profitable, more volatile, and generates fewer jobs than its civil counterpart. For instance, Italy's participation in the F-35 programme was initially promoted on the basis of creating 10,000 domestic jobs, yet fewer than 1,000 have materialised. Moreover, the dividends received by the Italian state from its shareholding in Leonardo amount to just €24.5 million annually – calling into question the return on public investment.

INDRA SISTEMAS S.A.

Indra, a Spanish multinational specialising in information technology and defence systems, has been subject to engagement by Fundación Finanzas Éticas since 2019. In 2021, the organisation launched the #DesarmandoIndra ("Disarming Indra") campaign, in partnership with civil society actors, and raised questions during the AGM regarding the company's involvement in the arms trade and the militarisation of borders – particularly the impact on forcibly displaced populations.

Indra is a key contractor for EU-funded border security programmes and is one of Spain's top recipients of funds earmarked for migration control and defence research. Around 27% of its operations are dedicated to military applications, including electronics, flight simulation, and defence systems. These technologies are deployed in border management infrastructure across Europe and beyond, including in Morocco, Latvia, Poland, Hong Kong and the United Kingdom. Indra

has also supplied infrared surveillance systems and motion sensors to reinforce Bulgaria's border with Turkey along the Balkan route. Despite its extensive involvement in defence and security, Indra maintains in its official communications that it is not an arms company. Its corporate charter describes its mission as providing business and technology consulting services across various sectors. Nevertheless, the company recognises defence as a strategic activity and defends its involvement by arguing that "security is the precondition for sustainability." Engagement efforts have also addressed the environmental consequences of Indra's defence-related activities, including pollution linked to military supply chains, degradation of natural ecosystems in conflict areas, and the resource-intensive processes associated with weapons production. However, responses from the company have thus far failed to lead to greater transparency or measurable commitments.

3.2 RHEINMETALL, INSTITUTIONAL INVESTORS AND NORWAY

The engagement strategy adopted by Bank für Kirche und Caritas (BKC), a German member of Shareholders for Change, is distinguished by its willingness to initiate dialogue even with companies that do not meet its investment criteria. This approach, rooted in BKC's Christian values, seeks to exert influence beyond the confines of the portfolio by encouraging controversial companies to reform their practices through what the organisation calls "shareholder criticism". This model was first applied to the German defence and automotive manufacturer Rheinmetall in 2018. Together with Fondazione Finanza Etica, BKC initiated a long-term engagement with the company, targeting in particular the activities of its Italian subsidiary RWM Italia S.p.A. Rheinmetall had become the subject of mounting international criticism for the export of aircraft bombs to Saudi Arabia, which were reportedly used in the Yemen conflict against the civilian population and linked by the United Nations to grave violations of international humanitarian law. Although neither BKC nor other SfC members held shares in Rheinmetall at the time, Fondazione Finanza Etica acquired a single share to secure access to the company's Annual General Meeting (AGM) and to exercise formal shareholder rights. Since then, representatives of the SfC network have used successive AGMs to question the company's executive and supervisory boards about its arms export practices, focusing in particular on human rights and legal risk. These interventions have consistently highlighted the potential financial repercussions of Rheinmetall's activities – including reputational damage, litigation exposure, and the possible revocation of export licences. The engagement strategy has been structured to appeal not only to ethical considerations but also to financial materiality,

aiming to catalyse concern among mainstream investors. In this respect, public awareness and pressure on management have been key tools.

In parallel with direct engagement, SfC has pursued an indirect strategy aimed at shaping the regulatory and investor environment in which Rheinmetall operates. A milestone in this effort occurred in 2019, when BKC and Fondazione Finanza Etica participated in a hearing at the Italian Chamber of Deputies on arms production and trade. Although it is difficult to draw a direct line of causality, the Italian government subsequently suspended RWM Italia's export licences to Saudi Arabia and the United Arab Emirates, a ban that applied from January 2021 to April 2024. A further strand of engagement focused on the Norwegian Government Pension Fund Global (GPFG), one of the world's largest sovereign wealth funds and a significant shareholder in Rheinmetall. In May 2020, BKC and Fondazione Finanza Etica, together with a coalition of responsible investors and NGOs, wrote to the GPFG, urging it to divest from arms companies that export weapons to countries that contribute to human rights violations and to engage directly with Rheinmetall on its export policies. These efforts bore fruit in June 2020, when the GPFG Ethics Committee considered our demand and recommended the adoption of exclusion criteria based on arms exports to countries implicated in breaches of international law. To support the institutional decision-making process, the SfC members sent a broad basis of briefing materials to the Norwegian Ministry of Finance and to parliamentarians on the Finance Committee. On 8 June 2021, the Norwegian Parliament approved the Ethics Committee's recommendations, setting a new precedent for sovereign investment policy and applying

indirect pressure on companies like Rheinmetall.

Building on this success, SfC extended its engagement in 2022 to include major institutional investors in Rheinmetall, such as BlackRock, Capital Group, Fidelity Management and Wellington Management. These efforts aimed to broaden the base of investor scrutiny, although none of the targeted institutions entered into substantive dialogue with SfC representatives.

While Rheinmetall has not yet altered its export practices, the engagement process has succeeded in drawing high attention to the company's role in the Yemen war and its

broader approach to human rights due diligence in arms exports. The public discourse has expanded, and legislative, investor and civil society actors have become more attuned to the ESG risks associated with arms trading. This is particularly relevant in light of current armed conflicts and historical patterns. Media investigations have revealed that German and European armaments were exported to Russia even during the annexation of Crimea in 2014⁸. It is plausible that some of the weapons currently being used in the war in Ukraine may have originated from those exports – a sobering reminder of the long-term consequences of weak controls and fragmented due diligence.

8 Zeit Online (17.04.2014): Deutsche Waffen für Russland;

https://www.zeit.de/politik/deutschland/2014-04/deutschland-waffenexport-russland?utm_referrer=https%3A%2F%2Fwww.google.com%2F; Accessed 24.02.2025

Zeit Online (27.03.2014): Öffentliches Trara; <https://www.zeit.de/2014/14/rheinmetall-ruestungsdeal-russland>; Accessed 24.02.2025

Welt (13.02.2022): Deutsche Unternehmen lieferten militärisch nutzbare Güter für Russland;

<https://www.welt.de/politik/deutschland/article236869121/Umstrittene-Exporte-Deutsche-Unternehmen-lieferten-militaerisch-nutzbare-Gueter-fuer-Russland.html>; Accessed 24.02.2025

3.3 NAMIBIA AND THE UN BIOLOGICAL WEAPONS CONVENTION

In January 2020, Bank für Kirche und Caritas (BKC) revised its exclusion criteria for investments in sovereign bonds. A new criterion was added: countries not party to the United Nations Biological Weapons Convention (BWC) would be excluded from eligible investment. At the time, Namibia was one of the few remaining non-signatories to the BWC, raising a potential red flag for continued investment in its government debt. However, BKC identified early signals that Namibia was not longer opposed in principle to joining the Convention. The country's solid record on other sustainability metrics – such as political rights and civil liberties, as well as its prior ratification of the Chemical Weapons Convention – suggested that constructive engagement could be more effective than exclusion. Based on this assessment, BKC initiated a diplomatic engagement effort also in the name of Shareholders for Change, with the goal of encouraging Namibia's accession to the BWC. This marked the first time that SfC engaged directly with a sovereign government rather than a corporation. It also underscored the network's commitment to peacebuilding and the prevention of weapons of mass destruction – not only through financial pressure, but also through institutional dialogue. The urgency of the initiative was further reinforced by evidence that non-state actors, including terrorist groups in parts of Africa, were attempting to acquire weapons of mass destruction alongside small arms. Throughout 2020 and 2021, BKC conducted a broad-based correspondence engagement campaign, writing to various Namibian government officials and diplomats, including the country's Permanent Mission to the United Nations in Geneva. The letters – formally framed as communications from bondholders and institutional investors – expressed support for Namibia's progress and encouraged timely accession to the BWC. They also emphasised that alignment with international norms on weapons control would

enhance Namibia's standing in global capital markets. Simultaneously, BKC established connections with stakeholders across EU and UN institutions, NGOs, and expert networks focused on biological weapons disarmament. These contacts were not only used to strengthen BKC's technical understanding of the Convention but also to convey to the international community that responsible investors were actively encouraging Namibia to join. Media outreach was also pursued, with engagement efforts highlighted in international, regional and Namibian outlets to increase transparency and stimulate public debate. These efforts led to a series of positive developments. BKC engaged in direct discussions with Namibian diplomats and government representatives, including a call with the Geneva-based UN mission. It became evident that the government viewed the Convention as important and was primarily seeking guidance on its practical implementation. In response, BKC connected Namibian authorities with experts and institutions familiar with BWC ratification processes, facilitating a networked approach to support accession. In August 2021, the Namibian government formally confirmed in writing its intention to join the Convention and stated that a resolution had been submitted to Parliament. The process continued to be closely monitored by BKC, and dialogue with relevant stakeholders was maintained to ensure follow-through. On 25 February 2022, Namibia officially acceded to the UN Biological Weapons Convention. While this achievement resulted from the convergence of multiple actors and motivations, various parties – including diplomatic contacts – acknowledged the critical and constructive role played by BKC's persistent and cooperative engagement. The case demonstrates the potential of principled investor dialogue to support disarmament objectives and influence sovereign behaviour in alignment with international legal frameworks.

3.4 THE UN TREATY ON THE PROHIBITION OF NUCLEAR WEAPONS (TPNW)

The escalating modernisation of nuclear arsenals among the nine nuclear-armed states continues to pose a significant threat to global security. According to the Stockholm International Peace Research Institute (SIPRI), the number of “operational” nuclear warheads ready for deployment is rising, while transparency surrounding nuclear capabilities is simultaneously declining. Russia’s invasion of Ukraine has further intensified nuclear rhetoric and strategic uncertainty, contributing to what many analysts describe as the most precarious nuclear climate since the end of the Second World War.

In this context, Shareholders for Change (SfC) and its member organisations have increasingly recognised the need for investor engagement on nuclear disarmament. A landmark initiative took place in June 2022, when Etica Funds participated in the first Meeting of States Parties to the Treaty on the Prohibition of Nuclear Weapons ([TPNW](#)). During the meeting, Etica presented a joint statement co-authored with ICAN (International Campaign to Abolish Nuclear Weapons), the 2017 Nobel Peace Prize laureate, and initially endorsed by over 30 investors. Since then, the number of signatories has grown to over 100, collectively representing €230 billion in assets under management. SfC members – including ABS, Bank für Kirche und Caritas, Ethius, fair-finance, Fondazione Finanza Etica and Forma Futura – have all signed the statement.

The financial dimension of nuclear weapons proliferation is substantial. According to the 2022 report *Risky Returns: Nuclear Weapon Producers and Their Financiers*, jointly published by ICAN and PAX, 306 financial institutions channelled over \$746 billion to 24 companies involved in the production of nuclear weapons between January 2020 and

July 2022. Among the most heavily exposed investors were Vanguard, State Street, Capital Group, BlackRock and Bank of America. The report underscores a central message: the financial sector has the power to curtail the production of weapons of mass destruction by cutting off funding.

The joint investor statement presented at the TPNW conference calls for a comprehensive ban on all forms of financial assistance to the nuclear weapons industry. It urges states parties – and actors under their jurisdiction, including central banks, sovereign wealth funds and private financial institutions – to prohibit investment in any entity engaged in the development, production, stockpiling or transfer of nuclear weapons or their key components.

In addition to halting financial flows, the statement advocates for increased support for victims of nuclear weapons and environmental remediation in affected areas. It references the UN Guiding Principles on Business and Human Rights, which stipulate that companies – including institutional investors – have a duty to “seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.”

Through these initiatives, SfC and its partners are working to embed nuclear disarmament into the core of responsible investment practice. Their strategy is not only to influence asset allocation decisions but also to shape norms, expectations and regulations around the financial sector’s complicity in nuclear armament.

The statement, now called **Nuclear Weapons Free Finance Initiative**, is still **open for subscription** by concerned financial institutions and **can be accessed [here](#)**.

4. CONCLUSION

Russia's invasion of Ukraine has reignited global debate around defence spending and military preparedness. In the political and public arena, the role of armaments in ensuring national and geopolitical security is once again at the forefront. Within this context, Shareholders for Change (SfC) acknowledges the reality: national defence capabilities remain a necessity in today's world. However, this recognition does not equate to an endorsement of the arms industry as a 'sustainable' sector in the context of responsible finance because of the social and environmental damage caused by its intended purpose. Without delving further into the fundamental question of whether armaments are sustainable or not, it is clear that every investor must decide for themselves whether to invest in them and earn money from them.

From a sustainability perspective – whether environmental, social, or governance-related – the defence industry presents systemic and multifaceted risks. Arms exports to authoritarian regimes, involvement in weapons of mass destruction, lack of transparency, and poor human rights due diligence are not isolated issues. Rather, they are indicative of a structural misalignment with the principles of sustainable and responsible investment. For financial market participants – particularly those with fiduciary duties – such risks cannot be ignored or externalised.

SfC maintains that sustainability challenges

linked to the arms sector are too complex to be addressed through simplistic exclusions or isolated interventions. What is required is a differentiated and strategic approach to engagement – one that targets not only defence manufacturers but also investors, public authorities, financial intermediaries, and rating agencies. By building multi-level alliances and applying consistent pressure, it is possible to drive improvements in transparency, accountability and practice.

While SfC does not claim to offer definitive answers on the ethical legitimacy of defence investment, it firmly believes in the importance of informed, values-driven decision-making. Investors must weigh the long-term implications of their capital allocations and assess whether alignment with arms-related activities and the associated ESG-risks is compatible with their mandate, risk appetite and public commitments.

With this report, SfC reiterates its willingness to engage defence companies and to collaborate with institutional investors, regulators, civil society organisations and policy-makers to address the sustainability risks of the defence industry in a rigorous and constructive manner. At the same time, the network encourages financial actors to contribute with credible engagement dialogues that acknowledges the nuanced realities of security, human rights, climate crisis and ethics in a time of global instability.

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