

Policy on responsible investment in the Defence industry



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LBP AM Group's *raison d'être* is to « *enhance financial, natural and human capital and support clients' sustainable transitions* ». At the core of this mission is the ambition, through our responsible investment practices, to protect the value of investments through active sustainability risk management and to contribute to the transition of the economy towards more sustainable practices and assets.

These ambitions, which guide the Group's investment strategies, are reflected in particular in the adoption of thematic and sectoral policies, as well as cross-functional methodologies, systems and committees, with the aim of integrating major societal issues (ESG) into the investment process across all asset classes.

LBP AM Group's Defence industry policy defines and sets out the operational principles of the Group's responsible investment approach with regard to investment in the Defence industry.

Preamble

Defence is a sovereign power of States, which have a monopoly on the legitimate use of force to ensure national independence, territorial integrity and the protection of populations ¹.

To this end, they rely on Defence equipment manufacturers, which play a key role in their strategic autonomy.

Indeed, as stated in the European Union's Common Security and Defence Policy ², Defence capabilities and the Defence industrial base (DIB) are essential levers for States **to maintain peace, prevent conflicts and strengthen international security**, in accordance with the principles laid down³ by the United Nations Charter.

In addition, the Defence industry, which consists of a vast ecosystem of large companies, mid-sized companies and SMEs, is a **sector that can contribute, like other economic activities, to regional development**, particularly through employment and value creation at the local level. For example, in France, the DIB represents more than 200,000 jobs and 4,500 SMEs, mid-cap companies and start-ups.

In line with its objectives of supporting territorial development and its commitment to the principles set out in the United Nations Charter ⁴, the **LBP AM Group can support investment in the Defence industry**, paying particular attention to companies in Europe and NATO countries. The Group refers in particular to the conclusions of the [EU Security and Defence Council](#) ⁵, considering that the European Union must increase its Defence preparedness, strengthen its industrial and technological Defence base and improve access to financing.

1- European Parliament Resolution of 17 September 2020 on arms exports : Implementation of Common Position 2008/944/CFSP (2020/2003(INI)), available at: https://www.europarl.europa.eu/doceo/document/TA-9-2020-0224_EN.html

2- European Union Common Security and Defence Policy (CFSP)

3- In particular, Articles 43 and 51 of the Charter of the United Nations, on the obligation of States to make available to the Security Council the armed forces and facilities necessary for the maintenance of international peace and security, and on the right of individual or collective self-Defence which may be exercised in the event of an 'armed attack' against a Member of the United Nations.

4- Article 51 of the United Nations Charter.

5- Council conclusions on EU security and defence 9225/24, 27 May 2024 <https://data.consilium.europa.eu/doc/document/ST-9225-2024-INIT/fr/pdf>

However, the LBP AM Group acknowledges that ***the Defence industry is exposed to specific risks, particularly in terms of human rights and humanitarian law.***

- Risks of corruption and illegal taking of interest,
- Risks of diversion, arms trafficking, proliferation of weapons of mass destruction,
- Risks of fueling regional conflicts and weakening States,
- Risks of human rights violations,
- Risks of dissemination of dual-use goods,
- Risks of fueling criminal networks and terrorism.

These risks are recognised by the international community and reiterated in the European Union Common Position 944/2008 ⁶ and in resolutions of the UN Human Rights Council ⁷.

These texts reiterate, in particular :

- The potential negative consequences of arms transfers, including the risk of serious human rights violations resulting from or facilitated by the diversion of arms, unregulated or illicit arms transfers, and their multiplier effect on human rights violations and abuses.
- The responsibility of States to prevent and put an end to all violations and abuses of human rights and international humanitarian law resulting from arms exports and transfers, and to refrain from transferring arms when there is a clear risk that they will be used to commit or facilitate serious violations or abuses of human rights or international humanitarian law.
- In addition to confirming the obligations of States under international law, the resolutions of the UN Human Rights Council also reiterate the responsibility of companies to exercise human rights due diligence in accordance with the United Nations Guiding Principles on Business and Human Rights (UNGPs).

Therefore, while recognising the importance of maintaining an innovative and efficient industrial Defence base, **the LBP AM Group's responsible investment policy in the Defence industry** aims at clarifying the Group's expectations towards companies operating in the industry, in relation to the specific risks aforementioned, which are associated with their activities.

The LBP AM Group's investment and financing activities in the Defence industry are aligned with Common Position 2008/944 of the Council of the European Union of 8 December 2008, which defines common rules on the export of military technology and equipment, and with the Arms Trade Treaty negotiated under the auspices of the United Nations.

In addition, the LBP AM Group is committed to complying with international standards of responsible business conduct and remains attentive to developments in national and multilateral initiatives on arms control.

6- EU Council Common Position 2008/944/CFSP of 8 December 2008 defining common rules governing control of exports of military technology and equipment.

7- Resolutions 24/35, 32/12, 41/20 and 53/15 of the UN Human Rights Council.

1. 1. Definitions and scope of application

A. Definition

Within the framework of this policy, it is considered that:

Defence industry companies are : any company, group, institution, state agency or organisation active in the development, manufacture, production, acquisition, storage, conservation, supply, transfer, import, export, trade, brokering, transfer or use of Defence and security equipment, or active in operational or logistical services in the field of Defence, intelligence or security.

Defence and security equipment includes :

- All types of conventional weapons and ammunition, including small arms and light weapons, as defined by the [Arms Trade Treaty](#) and the [UN Protocol against the Illicit Manufacturing of and Trafficking in Firearms](#);
- Any item mentioned on the [European Union's Common Military List](#);
- Any equipment that could be used for internal surveillance or repression, as defined by [Regulation \(UE\) 2012/36](#) ;
- Dual-use goods, as defined by [Regulation \(UE\) 2021/821](#) ;
- Any weapons of mass destruction, as referred to in [UN Security Council Resolution 1540](#).
- In addition, the LBP AM Group pays particular attention to equipment and services related to robotics, drones and artificial intelligence for military, Defence or national security purposes. The Group refers to the definitions and recommendations issued by the French Defence Ethics Committee in this regard ⁸.

B. Scope

This policy applies to assets under management by LBP AM as follows :

- All open-ended funds ;
- Real and private asset funds ;
- To mandates and dedicated funds, subject to the solicitation of investor clients of these investment vehicles and their approval of the application of this policy.

8- Established on 10 January 2020 by the Minister of the Armed Forces, the Defence Ethics Committee is empowered to make proposals or recommendations on issues related to developments in the military profession or the emergence of new technologies in the field of defence. For more information: <https://www.defence.gouv.fr/comite-dethique-defence>

2. Key principles

Defence industry companies that produce, develop, use, store, market or distribute prohibited weapons systems⁹, as defined below, or component and services specifically designed for such weapons, regardless of the share of the company's turnover represented by these prohibited weapons, are excluded from the investment universe.

With the exception of these assets, the LBP AM Group may invest in companies in the Defence industry, through specific or general investment strategies, **provided that they comply with the Group's other policies and, in particular, with the norm-based exclusion policy and fundamental ethical standards set out in this policy.**

The LBP AM Group intends to consider the environmental, social and governance (ESG) issues associated with the DIB in all of its investment activities, in order to identify, understand and manage the risks of critical impacts, as well as to promote best practices. To this end, the Group relies on GREaT ratings, their equivalent for real and private assets, as well as additional qualitative due diligence, to assess the issuer's compatibility with the Group's fundamental ethical standards and responsible investment objectives.

In addition, the Group expects issuers to comply with export or re-export licensing requirements and international conventions ratified by the countries in which they operate, as well as all regulations applicable to the trade in arms, security equipment and services, and dual-use goods.

In the event of specific critical risks being identified or repeated controversies, the companies concerned may be subject to in-depth fundamental analysis and, where appropriate, **exclusion, downgrading of SRI ratings, engagement or any other relevant action.**

In order to ensure that companies in the Defence industry comply with the objectives and expectations of this policy, **the LBP AM Group engages in regular dialogue with companies to encourage them to implement policies and practices that comply with its ethical and regulatory expectations.**

In addition to these cross-cutting principles, additional provisions apply to funds with ESG characteristics:

- **ESG selectivity** : multi-sectoral ESG selectivity methodologies apply to companies in the Defence industry, as in other sectors of the investment universe, and may therefore influence the eligibility of investments.
- **Minimum sustainable investment and sustainable investment objective funds with the meaning of the SFDR Regulation** : sustainability criteria as defined by SFDR and described in the [Sustainable Investment Methodology](#) apply to companies in the Defence industry and may therefore affect the eligibility of investments
- **Investment restrictions related to specific labels or client requests may apply.**

⁹ The term "prohibited weapons" will serve as the basis for implementing the Principal Adverse Impact (PAI) indicator "14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons, and biological weapons)" of the European Union's SFDR regulation.

3. Prohibited weapons exclusion

The LBP AM Group excludes from its investment activities all equipment and weapons prohibited¹⁰ by international conventions ratified by France or by European Union regulations. The scope of the equipment concerned is as follows :

- **Cluster munitions** (Oslo Convention, 2008, ratified by France in 2009): The term “cluster munition” refers to conventional munitions designed to disperse or release explosive submunitions.
- **Anti-personnel mines** (Ottawa Treaty, 1997, ratified by France in 1998): Anti-personnel mines are mines designed to explode due to the presence, proximity or contact of a person and are intended to incapacitate, injure or kill one or more persons. Mines designed to explode due to the presence, proximity or contact of a vehicle, rather than a person, and equipped with anti-handling devices, are not considered anti-personnel mines.
- **Chemical weapons** (Convention on the Prohibition of the Development, Production, Stockpiling, and Use of Chemical Weapons and on their Destruction, 1992, ratified by France in 1995): Chemical weapons means toxic chemicals and their precursors, munitions and devices specifically designed to cause death or other harm through the toxic action of chemicals, as well as any equipment specifically designed for use in direct connection with the use of such munition and devices.
- **Biological weapons** (Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction, 1972, ratified by France in 1984) : Biological weapons means any microbiological or biological agent, as well as toxins, that are not intended for prophylactic, protective or other peaceful purposes, as well as any weapons, equipment or carriers designed for the use of such agents or toxins for hostile purposes or in armed conflict.
- **Incendiary weapons** (Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons Which May Be Deemed to be Excessively Injurious or to Have Indiscriminate Effects and its Protocols, 1980, Protocol III on Incendiary Weapons, ratified by France in 1988): Incendiary weapons means any weapon or munition designed primarily to set fire to objects or to inflict burns on persons through the action of flames and heat.
- **Laser-blinding weapons** (Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons Which May Be Deemed to be Excessively Injurious or to Have Indiscriminate Effects and its Protocols, 1980, Protocol IV on Laser Blinding Weapons) : Laser blinding weapon means any weapon specifically designed so that its sole or one of its primary combat functions is to cause permanent blindness.
- **Nuclear weapons outside the Non-Proliferation Treaty** (Treaty on the Non-Proliferation of Nuclear Weapons, 1968, France acceded in 1992) : The Non-Proliferation Treaty aims to prevent the proliferation of nuclear weapons, promote cooperation for the peaceful use of nuclear energy and advance the goal of nuclear disarmament. Under this Treaty, non-nuclear-weapon States undertake not to manufacture or otherwise acquire nuclear weapons or other nuclear explosive devices, while nuclear-weapon States undertake not to assist, encourage, or induce, in any way, a non-nuclear-weapon State to manufacture or otherwise acquire nuclear weapons or other nuclear explosive devices. The Non-Proliferation Treaty is without prejudice to the nuclear programs of States that possessed nuclear weapons at the time of its signing in 1968.

¹⁰ The term “prohibited weapons” will serve as the basis for implementing the Principal Adverse Impact (PAI) indicator “14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons, and biological weapons)” of the European Union’s SFDR regulation

The LBP AM Group excludes any company that manufactures, develops, uses, stores, markets or distributes weapons systems commonly referred to as prohibited weapons systems, as defined above, or components and services specifically designed or modified for such weapons, regardless of the share of the company's turnover represented by the prohibited weapons.

Dedicated components or services are defined as follows :

- ➔ The component or service plays an essential role in the functionality of the weapons system and therefore constitutes a key component or service.
- ➔ The component or service is specifically designed or adapted for use in a controversial weapon system.

This exclusion applies to all of the Group's asset classes.

With regard to real and private assets, equipment that has « no other practical use than to inflict capital punishment, torture or other cruel, inhuman or degrading treatment or punishment », as defined by Regulation (EU) 2019/125 of the European Parliament and of the Council of the European Union, is also excluded.

4. Norm-based exclusions and expectations of companies

Under its norm-based exclusion policy, the LBP AM Group may exclude companies for which there is an unacceptable risk that they cause, contribute to or are linked to particularly serious violations of the LBP AM Group's fundamental ethical standards, or which are the subject of serious, proven and repeated controversies and for which exclusion is the most effective means of reducing the risk of continued violation of these standards.

The LBP AM Group's fundamental ethical standards include :

- **The OECD Guidelines for Multinational Enterprises** : Recommendations on corporate responsibility in the areas of human rights, the environment and governance, which governments address to multinational enterprises operating in or from OECD countries.
- **The United Nations Guiding Principles on Business and Human Rights** : the first global standard of conduct for businesses, aimed at preventing, mitigating and remedying the risks of negative human rights impacts associated with business activities.
- **The United Nations Global Compact** : a United Nations initiative launched in 2000 to encourage companies to align their operations and strategies with ten universal principles in four areas: human rights, the environment, international labour standards and anti-corruption.

With regard to the Defence industry, **the LBP AM Group strictly expects Defence industry companies to comply with applicable legislation, in particular their licensing obligations, as well as international conventions ratified by the countries in which they operate.**

In addition, with regard to the in-depth fundamental analysis of companies' due diligence and their compliance with the LBP AM Group's fundamental ethical standards, the Group will also rely on dedicated regulations, standards and recommendations, to assess the compliance of the companies under review with its norm-based exclusion policy and, more specifically :

- [Common Position 2008/944/CFSP of the Council of the EU of 8 December 2008 defining common rules governing the control of exports of military technology and equipment;](#)
- Resolutions [24/35](#), [32/12](#), [41/20](#) and [53/15](#) of the UN Human Rights Council ;
- [Specific case "Etienne Lacroix – Alsetex in Bahrain"](#), 4 July 2016, Report of the French National Contact Point of the OECD;
- Recommendations and Opinions of the French [Defence Ethics Committee](#);
- [Defence Industry Human Rights Due Diligence Guidance](#), July 2022, American Bar Association.

In this regard, the LBP AM Group expects Defence industry companies to :

- Demonstrate the robustness of the export management control, human rights and compliance policies, and the practical implementation of these policies in cases subject to heightened due diligence.
- Transparency regarding the consideration of human rights risks related to arms exports or the use of products or services by end customers.
- A clear ethical framework for the development, production and marketing of products and services.

5. ESG assessment and selectivity

A. Listed assets

The LBP AM Group incorporates specific indicators, tailored to the specific risks encountered in the Defence industry, into its proprietary ESG analysis tool, GREaT.

GREaT ratings, which are central to the SRI fund selection process, are integrated into LBP AM Group's management decision-making tools. These tools enable the identification, selection and monitoring of companies based on their ability to respect the environment, human rights and good governance principles throughout their value chains.

With regard to companies in the Defence industry, GREaT's assessment criteria are applied in a proportionate manner according to the significance of the environmental, social and governance risks inherent in the activities of companies in the sector and in Defence equipment.

For example, issues related to human rights risks and responsible management of arms exports are assessed using the "Management of the societal impacts of products and services" criterion of the proprietary GREaT tool.

The ratings are integrated into the management of SRI funds using two selectivity methods: the exclusion of the lowest-rated issuers, or the definition of an average portfolio rating to be achieved. These methodologies tend to disqualify issuers most exposed to critical impact risks on environmental, social and governance issues, and to favour those that best control their exposure to these risks.

B. Unlisted assets

With regard to real and private assets, the GREaT grids adapted to each class of real assets (corporate, infrastructure and real estate) incorporate these same issues. An additional analysis of the specific risks associated with the Defence industry, as mentioned above, and of issuers' practices is also conducted before any decision is made to invest in a Defence company or equipment :

- The risk profile of Defence companies or equipment, particularly with regard to their geographical location or technical characteristics. Companies incorporated in countries not committed to implementing the 2014 Arms Trade Treaty, or in States that do not have a national Defence and security export control regime that is at least equivalent to the expectations of the EU Council's Common Position, will be subject to heightened due diligence to ensure that their procedures are policies nevertheless allow for the management of the risks mentioned above.
- The existence of litigation, convictions or controversies, having emerged within the last three years, concerning acts of corruption, illegal taking of interest or misappropriation of public funds in connection with transactions relating to arms and equipment covered by this policy.
- Exposure to countries, customers, territories or geographical areas subject to extensive sanctions, or presenting critical risks in relation to the eight criteria for examination in EU Council Common Position 2008/944/CFSP (*compliance with international commitments, respect for human rights, internal situation in the country of final destination and counter-terrorism policy, impact of the transaction on regional security and stability, existence of a risk of diversion of arms and control of the risk of corruption*).

If the assessment shows that there are particular risks associated with the issuer or counterparty, additional due diligence is required from them. Positive changes in practices are expected within a limited and responsible time frame, which can be formalized through an action plan or contractual clauses.

The results of the risk and practice assessment, based on the various ESG criteria, enable the LBP AM Group to make its investment decisions based on information consistent with the principles set out in this policy.

9- SRI funds are UCITS that have a significant extra-financial approach within the meaning of AMF position 2020-03

6. Engagement with companies in the Defence industry

In order to encourage companies to strengthen their due diligence in the area of human rights, in line with the OECD Guidelines, the UNGP and the Global Compact, the LBP AM Group engages in regular dialogue with the companies in which it invests to encourage them to implement policies and practices that comply with its ethical and regulatory expectations.

With regard to Defence industry companies, the LBP AM Group encourages companies to :

- ➔ **Adopt a clear public commitment to comply with the following standards :**
 - International Bill of Human Rights,
 - ILO fundamental conventions and protocols,
 - UNGPs and OECD Guidelines.
- ➔ **Identify the risks in terms of human rights and international humanitarian law in relation to their products and services, as well as those related to their customers, throughout the entire lifecycle of the product or service.** More specifically, they are expected to define criteria for triggering in-depth due diligence in the event of critical risks of impacts or violations of human rights or international humanitarian law by the end customer.
- ➔ **Monitor risks related to their products or services and their customers,** by setting up dedicated teams, monitoring systems or any other means of verification.
- ➔ **Demonstrate transparency and publish periodic report(s) on the implementation of their due diligence,** including relevant qualitative or quantitative indicators on all salient risks identified at Group level.
- ➔ **Specify the responsibilities of staff and management in supervising and implementing their human rights policy and export control procedures,** as well as the training provided to ensure that all relevant staff are familiar with these policies.
- ➔ **Specify the procedures for handling alerts** relating to human rights, ethics and compliance, and publish relevant quantitative or qualitative indicators on alerts relating to exports and/or human rights risks associated with the use of the products or services.
- ➔ **Specify the consultation efforts** undertaken in the development and review of their human rights and export control policies, as well as during their implementation.

7. Application and update

LBP AM relies on internal and, where necessary, external expertise to implement this policy. The SRI and asset management teams are responsible for its implementation.

This policy applies from the date of its publication. It is subject to change over time, in line with legislative and regulatory developments and discussions between the Group and internal and external stakeholders. Updated versions are published on the Group's website.



<https://www.lbpam.com>
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LBPAM

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