

# Nest's controversial weapons divestment policy



## Short policy statement

In general, divestment or exclusion goes against our principles of corporate engagement and responsible investment. However, in certain rare circumstances we believe it's merited for the reasons set out in this policy. For example, Nest supports internationally recognised norms of corporate practice. As such we actively seek to avoid investing in companies directly involved in the production or sale of cluster weapons, anti-personnel landmines or chemical and biological weapons.



### The objectives of our policy on the exclusion of controversial weapons are to:

- › demonstrate alignment with UK and international law in this area and the latest evidence on the role of fiduciaries in the UK<sup>1</sup>
- › show responsibility and alignment with our members' likely values and interests

## Definition and legal status of controversial weapons

A number of categories of weapons are widely considered to be controversial because they are weapons of mass destruction or can have indiscriminate impacts on civilians. We believe the direction of travel indicated in:

- › the ratification into UK law of international agreements on certain weapons
- › the latest guidance provided by the law commission
- › our assessment of there being no financial detriment for making limited exclusions, and
- › our assessment of likely member sentiment has led us to a policy of excluding specifically:
  - cluster munitions
  - anti-personnel landmines
  - chemical and biological weapons

Our interpretation includes the investment in shares or bonds issued by companies whose business is involved in the production of these weapons.

## Implementation

Nest appoints and works with fund managers that implement a firm-wide exclusion policy or that exclude controversial weapons from a particular investment strategy managed for Nest. We believe the most practical and effective way of implementing Nest's policy is to hold our fund managers to account for excluding controversial weapons in broad accordance with our policy.

We require our current and future fund managers to implement this policy in accordance with their own exclusion approaches. Operating with multiple fund managers means there is likely to be a small degree of divergence in

<sup>1</sup> Law Commission, 'Fiduciary Duties of Investment Intermediaries', <https://www.lawcom.gov.uk/document/fiduciary-duties-of-investment-intermediaries>

application of policy because of the implementation of different thresholds and where in the supply chain a line is drawn.

Each of our bond and equity fund managers operates its own exclusion policy and may have made slightly different decisions on which weapons to exclude. These distinct policies between fund managers can arise from differences in:

- › funds' investment universe
- › information from third-party research providers
- › the detail of funds' policies, for example on the percentage ownership of a subsidiary that actually makes a weapon that justifies exclusion
- › funds' in-house resource levels and decision-making procedures, for example whether in-house staff contact companies to ensure information is correct before deciding to exclude

### Monitoring approach

The Nest investment team reviews the implementation of its controversial weapons policy annually and reports these findings to the investment committee. The review will consider the suitability, adequacy and effectiveness of our policy. We will continue to hold our fund managers to account on the implementation of their individual policies and ask that they review their exclusion lists periodically as stated and update accordingly. We will seek to share information across our fund managers in order to promote a closer alignment of policies.

### Future procurement

As part of our procurement approach we will require potential new fund managers to supply their policy on controversial weapons where relevant. If they have no policy in place we will expect the development of one if they are to be successful in their application to manage money for Nest.

### Monitoring and compliance

As supporters of good corporate governance standards and practices, we write to each of the companies that have been excluded from our funds setting out our concerns and reasons for divestment.

The aim of our engagement is to encourage these companies to adjust their business strategy and stop producing these weapons so we can consider reinvesting in future. We will record and monitor how these companies respond to our concerns and how they adapt going forward.

### Version control

Version	Change	Date implemented
1	Document created	1 March 2017
2	Included new wording to address our move into segregated funds and minor change to the title of the policy.	23 June 2021