

## 20 August 2024 - Changes to weapons-related exclusions for CT Responsible Funds

Applying to “Responsible Funds”.

As we have entered into an era of heightened geopolitical instability, it appears likely that the number of companies with defence exposure (particularly in the technology and telecommunication sectors) will rise, and we are mindful that new defence technologies will become increasingly complex.

Against this backdrop, our Responsible Investment team recognises potential complications for Funds which apply a zero tolerance approach to all military-related products or services. We have therefore amended the current weapons-related exclusions criteria as follows:

Previous criteria wording	New criteria wording
<p>Exclude companies that derive:</p> <ol style="list-style-type: none"> <li>&gt;0% of their revenue from the manufacturing or sale of weapons, weapons systems or platforms, including products or services specific to such systems</li> <li>&gt;0% of their revenue from supplying goods and services designed for strategic military use</li> </ol>	<p>Exclude companies that derive:</p> <ol style="list-style-type: none"> <li>&gt;0% of their revenue from the manufacture or sale of weapons</li> <li>&gt;0% of their revenue from the manufacture of controversial and/or nuclear weapons components*</li> <li>&gt;5% of their revenue from the manufacture of other weapons components and/or support systems and services which are customised for strategic military use</li> </ol>

\*Our definition of controversial weapons encompasses the following types of weapons: biological; blinding lasers; chemical; cluster munitions; depleted uranium (incl. armour); land mines; non-detectable fragments

We still believe it is appropriate to apply robust exclusionary criteria to companies involved in the manufacturing or sale of weapons and/or weapons components and systems which are customised for strategic military use. However, it is becoming increasingly challenging to evaluate “goods and services designed for strategic military use” (point 2 in the previous criteria wording section in the table above), because companies are not necessarily transparent about the revenue derived from these solutions nor the degree to which they are specifically designed or customised for strategic military use. This is especially true when we evaluate companies in the technology and telecommunications sectors. Defence-linked products provided by companies in these sectors are highly diverse, ranging from satellite fleets supporting situational awareness in military operations to software products used in defence organisations’ day-to-day business affairs. It has become evident that there is a fine line between products and services *specifically designed* for strategic military use and those which are *off-the-shelf with comparatively minor adaptations* (i.e. customised) to ensure their suitability for military applications.

The Responsible Investment team believes that the nature of these products and services should be carefully considered as part of the screening process and the exclusions policy has been revised to provide a degree of additional flexibility permitting investment in a company which derives less than 5% of its revenue from the manufacture of other weapons (not controversial/nuclear) components and/or support systems and services which are customised for strategic military use. This amendment to the exclusions policy enables investment in diversified technology and telecommunications companies (e.g.: Microsoft), which may derive a de minimus percentage of their revenue from products used by military organisations, and were previously not permitted to be held under the more stringent 0% revenue threshold.

Importantly, the implementation of the amended exclusions policy does not shift the Responsible Funds’ highly cautious approach to screening companies offering products or services for use in military activities. The Responsible Investment team will continue to screen companies individually and thoroughly investigate the nature of any products provided to military customers, liaising with the relevant investment team if required.

This change was effective on 20 August 2024 and does not result in any material change to the how the Responsible Funds are run, nor their risk profiles.

More information on the exclusion policy of these Responsible Funds, including this change, can be found in the ‘Responsible Investment Strategies - Summary Criteria’ document. This document is also available from the relevant Fund page or Documents Library on our website.