

# BRIEFING PAPER for SUPERANNUATION FUNDS APRIL 2021



## CONTROVERSIAL WEAPONS

The United Nations Treaty on the Prohibition of Nuclear Weapons (TPNW) entered into force in January 2021. The treaty makes nuclear weapons illegal, just like chemical and biological weapons, cluster munitions, and landmines.

Most Australian superannuation funds acknowledge the reputational, fiduciary and regulatory risks of exposure to controversial weapons, but many funds are yet to update their policies to avoid exposure to companies associated with the production or maintenance of illegal nuclear weapons (nuclear weapons companies).

Australian superannuation funds should update their controversial weapons policies to reflect developments in international law, evolving investment norms, and public expectations. Funds should adopt comprehensive policies to exclude investments in illegal nuclear weapons.

## BACKGROUND

- As of January 2021, international law will prohibit states parties from assisting with the production of nuclear weapons under Article 1(e).
- As illustrated by COVID-19, predicted low frequency catastrophic events do occur. Nuclear war is an accident waiting to happen - be it by human or technical error, extremists, hackers or erratic leadership.
- Like tobacco, nuclear weapons kill millions of people. The subsequent "nuclear winter" would lead to a decade long global famine putting a further 2 billion lives at risk.

## CURRENT STATUS

Generally, controversial weapons are considered to be those that are:

- Prohibited under international conventions;
- Deemed controversial because of the disproportionate and indiscriminate effects of their use.

In Australia, super funds vary widely in their definition of controversial weapons, and in the application of exclusions.

Funds may exclude only some weapons that are prohibited under international conventions, whilst maintaining investments in other prohibited weapons; some funds exclude weapons not yet subject to prohibitions.

With notable exceptions, Australian funds generally apply out of date and non-standardised approaches to controversial weapons, and have low levels of transparency about material exposure to the companies involved in their development and use.

Funds with existing controversial weapons policies should add nuclear weapons to their exclusions. Funds without controversial weapons policies should review their ESG screens, and act to adopt a comprehensive policy that excludes nuclear weapons.

## ESG

ESG screens do not yet capture nuclear weapons companies. Investment offerings that claim to exclude armaments may in fact fail to screen out nuclear weapons, creating regulatory and reputational risk.

Given any use of nuclear weapons causes catastrophic harm, ESG criteria are irrelevant.

# KEY CONSIDERATIONS

## REPUTATIONAL RISK

- Investments in nuclear weapons companies do not meet community standards. In Australia 71% of people agree that the government should sign and ratify the UN nuclear ban treaty (Ipsos 7/20), while 69% agreed or strongly agreed that their superannuation fund should not invest in nuclear weapons companies, and only 7% disagreed. (Ipsos 8/19).
- PRI signatories claiming to 'avoid harm' may be misrepresenting exposure to nuclear weapons.
- Interests of members and beneficiaries in the future are a key responsibility of trustees.

## FIDUCIARY RISK

- Globally, major investors are limiting their exposure to nuclear weapons activities. Two of the top five pension funds in the world, the Norwegian Government Pension Fund and ABP, have divested from nuclear weapons. Deutsche Bank and KBC are also divesting. The overall number of divested funds has more than doubled since 2014.
- In Japan, 16 banks (including 3 mega banks MUFG Bank, Mizuho Bank and Sumitomo Mitsui Banking Corp) have flagged ceasing investment in nuclear weapons companies.
- Nuclear weapons-related investments have shown long-term under-performance and may further deteriorate as divestment gains momentum. Broader trends indicate sector downturn in the wake of prohibition by international treaty, even in non-signatory countries.

- The MSCI ESG Screened indices, which exclude nuclear weapons, have outperformed the comparable MSCI Indices since their inception in 2012 (see Appendix).
- Companies recommended for exclusion are international companies and represent a very small proportion of Australian fund portfolios, limiting material risk.

## REGULATORY RISK

- Since January 2021, international law comprehensively prohibits nuclear weapons and associated activities, including assistance for development, production and stockpiling.
- States parties to the Treaty will be required to divest any government money – such as superannuation – from nuclear weapons companies.
- APRA has expressed interest regarding stress testing for a nuclear event scenario (not unlike stress testing for a pandemic) as part of due diligence requirements.
- All portfolios are exposed to the negative impacts of a nuclear event while nuclear weapons continue to exist.
- Over 80 federal parliamentarians have pledged support for the treaty, and the federal Opposition has a policy to sign and ratify the treaty in government.
- A number of Australian funds have nuclear weapons company holdings despite their PDS claiming exclusion. Non-standardised application of controversial weapons definitions and exclusions, and low levels of transparency about material exposure to nuclear weapons, may also represent a regulatory risk.

# QUIT NUKES

Quit Nukes is an initiative of the Medical Association for Prevention of War in association with the 2017 Nobel Peace Prize Laureate, the International Campaign to Abolish Nuclear Weapons (Australia).

Quit Nukes applies definitions and criteria developed by Don't Bank on the Bomb, the only regularly published source of information on the private companies involved in the production of nuclear weapons and their financiers. Visit [dontbankonthebomb.com](http://dontbankonthebomb.com) for more information.



## RECOMMENDATIONS

Our recommendation is to adopt a policy that:

1. Excludes all nuclear weapon associated companies:
  - Whole companies, not only nuclear weapons related projects;
  - Companies associated with nuclear weapons including through joint ventures;
  - Companies regardless of their country of origin;
  - Companies regardless of their country of operation.
2. Excludes all nuclear weapon associated activities:
  - Development, testing, production, maintenance or trade of nuclear weapons related technology, parts, products or services;
  - Delivery systems such as missiles that are specifically developed for nuclear tasks. It does not include delivery platforms such as bombers and submarines.
3. Applies the policy to all the institution's products and services. The institution applies the policy:
  - For the entire group, including subsidiaries;
  - In all markets;
  - To all asset management classes – passive and active, internal and external;
  - To all existing and future investments.

## INVOLVEMENT CATEGORIES RECOMMENDED FOR EXCLUSION

Weapons - Nuclear Dual-Use Components  
Weapons - Nuclear Intended-Use Components  
Weapons - Nuclear Warheads & Missiles  
Weapons - Nuclear Weapons Support Services

## COMPANIES RECOMMENDED FOR EXCLUSION

Aerojet Rocketdyne (USA)  
Airbus Group (The Netherlands)  
BAE Systems (United Kingdom)  
Bechtel (USA)  
Bharat Dynamics Limited (India)  
Boeing (USA)  
BWX Technologies (USA)  
Charles Stark Draper Laboratory (USA)  
China National Nuclear Corporation (China)  
Constructions Industrielles de la Méditerranée (CNIM) (France)  
Fluor (USA)  
General Dynamics (USA)  
Honeywell International (USA)

Huntington Ingalls Industries (USA)  
Jacobs Engineering (USA)  
Larsen & Toubro (India)  
Leidos (USA)  
Leonardo (Italy)  
Lockheed Martin (USA)  
Northrop Grumman (USA)  
Raytheon (USA)  
Safran (France)  
Textron (USA)  
Thales (France)  
Walchandnagar Industries (India)

## HONOUR ROLL

Quit Nukes maintains an Honour Roll of Australian financial institutions with comprehensive policies to exclude nuclear weapons. These funds demonstrate that comprehensive policies on nuclear weapons are compatible with fiduciary obligations. Visit [quitnukes.org/honour-roll](http://quitnukes.org/honour-roll) for more information.



*"We take a long-term view on managing social and environmental risks, including the potential for catastrophic nuclear fallout."*  
**SIMON SHEIKH**



*We are proud to offer nuclear weapon free investments and support this important campaign."*  
**STEVE GIBBS**  
**Australian Ethical**



*"We explicitly exclude all investments in the entire weapons industry, that includes companies that manufacture weapons or their technology, buy/sell or finance the weapons industry. This has been our ethical investment position from day one and will never change. It is our obligation to create and contribute to a world free of such destructive harms."*  
**TALAL YASSINE OAM**  
**Crescent Wealth Super**

# APPENDIX 1

Research from Pace University (2019) shows indexes of stocks that screen out nuclear weapons largely track the overall economy, sometimes outperforming it. The MSCI World ESG Screened Index, which excludes nuclear weapons, has largely tracked the MSCI World Index, marginally outperforming it since 2015. Data from several other investments that screen out companies with environmental, social and governance (ESG) concerns (including those associated with nuclear weapons) generally perform better in terms of risk and return, over various time periods (see Tables 1, 2 and 3).

**TABLE 1**

**Performance of MSCI World and USA Indices Compared to the Same Indices Screened for Companies with Environment, Social and Governance (ESG) Concerns (including those Associated with Nuclear Weapons)**

	THREE YEARS			FIVE YEARS			SINCE 31 MAY 2012		
	RISK		SHARPE RATIO	RISK		SHARPE RATIO	RISK		SHARPE RATIO
	NET ANNUALISED RETURN	ANNUALISED STANDARD DEVIATION		RETURN (%)	STD DEV		RETURN (%)	STD DEV	
MSCI WORLD INDEX*	9.00	10.88	0.71	5.62	11.40	0.45	10.38	no data	0.90
MSCI WORLD ESG SCREENED INDEX*	9.03	11.10	0.70	5.84	11.53	0.47	10.67	no data	0.92
MSCI USA INDEX*	11.10	11.73	0.83	8.91	11.77	0.70	12.78	no data	1.09
MSCI USA SCREENED INDEX*	11.23	11.91	0.83	9.16	11.94	0.71	13.04	no data	1.10

\* As of 31 May 2019

**TABLE 2**

**Performance of S&P500 Index Compared with S&P500 ESG Index (Screening Out Companies with ESG Concerns, including Nuclear Weapons)**

	ONE YEAR		THREE YEARS		FIVE YEARS
	ANNUALISED RETURN (%)	ANNUALISED RISK	ANNUALISED RETURN (%)	ANNUALISED RISK	ANNUALISED RETURN (%)
S&P500	-4.38	17.00	9.26	13.00	8.49
S&P500 ESG	-3.95	17.09	9.44	13.02	8.47

**TABLE 3**

**Risk and Reward Performance of Nuclear Weapons Producers Compared with Index of 59 Peer Industrial Firms, as of 31 May 2019**

	THREE YEARS		FIVE YEARS		TEN YEARS	
	RISK (STD DEVIATION)	REWARD (MEAN)	RISK (STD DEVIATION)	REWARD (MEAN)	RISK (STD DEVIATION)	REWARD (MEAN)
BENCHMARK OF PEER INDUSTRIAL FIRMS	16.58	13.21	15.36	10.49	17.00	20.30
NUCLEAR WEAPONS PRODUCERS	16.90	12.05	16.03	9.39	16.84	15.20

# APPENDIX 2

## HISTORICAL PERFORMANCE - AUSTRALIA

This graph compares the recent performance of the following indices:

- MSCI World Index (ex Australia), which has no exclusions.
- FTSE Developed (ex Australia) Choice Index, which excludes companies with significant business activities involving nuclear weapons.
- Nasdaq Future Global Sustainability Leaders, which excludes manufacturers of armaments and weapons.

