



Defence and responsible investing – reassessing priorities in a world at war

By Constance Johnson



At this recent and timely all-member event, the focus was on how this decade is being shaped by conflict, from war in Europe and devastation in the Middle East to rising tensions in the Pacific, marking a return to Cold War-level geopolitical uncertainty. Defence spending is surging, with European governments committing to major military investments despite fiscal constraints. Private capital is now seen as essential, yet institutional investors, especially those managing public funds, face complex challenges, including ethical concerns, stakeholder opposition and regulatory barriers. As defence gains renewed legitimacy, investors must confront these sensitive issues openly, acknowledging their profound human impact.



Richard Giles, Director at *Pensions for Purpose*, invited Merseyside Pension Fund, Impact Cubed, Varma and Karen Shackleton, Chair & Founder, *Pensions for Purpose* to discuss security as a pillar of responsible investment (RI), focusing on evolving definitions of responsibility, risks in politically sensitive regions like Israel-Palestine and the role of private capital in supporting Europe's defence.

Definition of defence investing



Aston Chan, CIO, Head of Investment Solutions, *Impact Cubed*, introduced the concept of defence investing by elaborating on its spectrum, which ranges from controversial weapons to conventional defence sectors. He explained that while certain weapons like chemical and biological arms are widely rejected by ethical investors, conventional military equipment plays a critical role in national security. The discussion highlighted a notable shift among investors towards accepting conventional defence investments,



Defence is emerging as a contentious but increasingly central issue in responsible investment, as global conflict reshapes ethical boundaries and fiduciary priorities

particularly following geopolitical tensions, illustrating that the landscape of defence investment is complex and ever-evolving.

Total defence: the Finnish perspective



Vesa Syrjäinen, Development Manager, Responsible Investment at *Varma*, provided insights into Varma's approach to total defence, which encompasses more than just military capabilities. He explained how Finnish legislation mandates bomb shelters in buildings and how the nation's infrastructure is designed to support defence strategies. Varma's recent updates to its responsible investment principles allow for investments in companies involved in controversial weapons if they are headquartered in NATO countries. This reflects a broader understanding of defence that includes economic growth and security in

Europe, demonstrating an evolving attitude towards responsible investing in defence-related sectors.

Conflicting pressures in decision making



Owen Thorne, Responsible Investment Manager, *Merseyside Pension Fund*, discussed the challenges for investment committees in balancing fiduciary duties with ethical considerations, particularly amid conflicting pressures to divest from companies linked to human rights concerns, while recognising the defence sector's role in national security. He stressed the need for nuanced policies that avoid blanket exclusions, instead assessing investments case-by-case considering today's complex geopolitical landscape. Transparent communication with members was highlighted as essential, with pension funds urged to listen to stakeholder concerns and to

clearly explain decisions. The discussion underscored the importance of trust, accountability and strategic communication in navigating the sensitive terrain of defence investing.

In summary



Karen Shackleton wrapped up the panel discussion, highlighting that investing in defence is a complex and emotive topic, especially for trustees with strong RI policies. While defence includes weapons, it also spans cybersecurity, critical infrastructure and technological protection, areas vital to societal stability. Defence can support peace, protect economies and offer strong returns. However, concerns include reputational risks, ethical dilemmas around weapons of mass destruction and whether defence should remain solely a



Audience feedback

Group one: moderated by Anna Roberts, Director – Consultant Relations, *Federated Hermes Limited*

How can asset owners strengthen their approach to identifying and managing exposure to controversial weapons or high-risk defence firms?

- The group discussed how defence investment is not a binary issue, highlighting the need to unpack its complexity, and consider the respective responsibilities of both companies and the state.
- The group moved on to discuss the importance of asset owner engagement, not just with companies, but also through lobbying governments to ensure proper scrutiny over the flow of private capital into the defence sector.
- There was particular focus on the UK context, including initiatives like the Mansion House Compact, and the need for clear government safeguards when directing pension scheme capital toward sensitive sectors like defence.

Group two: moderated by Maria Claudia Sanchez, Sales & Client Relations Manager, *AXA Investment Managers*

Where do you see opportunities to support national or global security through investments that also align with RI principles?

- The group discussed how defence can be approached within a responsible investment framework, emphasising the importance of integrating it thoughtfully rather than excluding it outright.
- A key conclusion was the need for pension schemes to develop clear and specific investment beliefs, particularly in today's complex environment, to guide providers and support consistent decision-making.
- The group noted a shift from broad ESG thinking to a more granular, line-by-line assessment, using frameworks like the UN sustainable development goals to evaluate holdings, while acknowledging that these issues remain nuanced and are rarely black and white.

Group three: moderated by Simon Coomber, Partner, *LCP*

What steps can trustees and investment committees take to ensure their investment policies reflect a clear and balanced approach to defence-related investments?

- The group discussed the importance of trustees approaching the topic with a clear, unemotional mindset, supported by a deeper understanding of the issues to enable well-informed policy decisions.
- They emphasised while pension scheme members may hold diverse views, trustees have access to more detailed information and must make justified decisions.

such as choosing engagement over divestment, and communicate those decisions carefully.

- The group reflected on the challenge of avoiding unintended consequences, such as products ending up in the wrong hands, concluding that while important to consider, this is almost impossible to fully account for in practice.

Group four: moderated by Caitriona Dickinson, Global Head of Consultant Relations, *Tikehau Capital*

What practical ways can investors communicate complex decisions about defence investments to members and other stakeholders?

- The group discussed the challenges of communicating about defence investment with pension scheme members, stressing the need for clear, purposeful engagement to avoid misunderstandings and assumptions.
- Concerns were raised about the composition of decision-making boards, including potential political biases, highlighting the complexity of ensuring transparency and trust.
- The conversation also touched on long-term investment returns in defence and their potential impact on the broader economy, acknowledging the topic's wider economic significance.



government responsibility. Three steps for trustees to consider are:

- 1 Assess investment case: evaluate expected returns, diversification, income generation and whether defence aligns with your fiduciary goals.
- 2 Understand the impact: consider the social, environmental and reputational risks. Align investments with the scheme's RI policy.
- 3 Define boundaries and monitor: decide which areas of defence are acceptable, for example cyber versus weapons; establish engagement expectations; and set criteria for monitoring and potential divestment.

Questions and answers

Should weapons be funded through private investment, given the risk profit motives could incentivise prolonged conflict, or is this better left to public funding?

Aston acknowledged concerns but emphasised that defence investment must balance risk, return and sustainability. Public funding often lacks efficiency and innovation, while private firms face ethical challenges tied to profit motives. A balanced approach, with strong stewardship and engagement, was suggested as the most effective path forward.

What are the governance implications and reputational risks for investors in defence?

The discussion covered various governance issues, including corruption and the difficulties in controlling the distribution of weapons once sold to governments. It also mentioned the evolving nature of reputational risks, particularly the risks associated with both investing in and divesting from defence companies.

[Watch the video of the event.](#)

Constance Johnson is an Intern at Pensions for Purpose

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