



Policy on the exclusion of controversial weapons

LGT Group Foundation

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Background

Thinking and acting sustainably has been an important maxim of the Princely Family for generations. In keeping with the values of its owner, LGT also wants to fulfill its responsibilities and therefore places a strong focus on the social and environmental impact of its business activities. As an intermediary between investors and companies and organizations that are seeking capital, we are committed to helping ensure that capital is invested sustainably, both from an environmental and social perspective. At LGT, a clause on responsible investing has been an integral part of many investment programs since 2003. As a result of this clause, we systematically exclude investments that entail significant risks in the areas environment, social and good corporate governance. Since the beginning of 2012, companies that are involved in the manufacture and sale of controversial weapons are also excluded from our investment universe.

What are controversial weapons?

The term controversial weapons refers to military weapons that either cause combatants disproportionate suffering or that if used, result in a large number of innocent victims, especially civilian victims. The majority of these weapons is banned or prohibited under international treaties, meaning that manufacturing or using them is illegal in many countries.

Scope

The LGT Sustainability Board chaired by H.S.H. Prince Max von und zu Liechtenstein, CEO LGT, decided that the policy regarding the exclusion of controversial weapons applies to all LGT Group companies. The exclusion policy applies to all portfolios managed by LGT Group – including mandates managed by third parties on behalf of LGT. The policy also applies to employee transactions conducted via LGT as well as via third-party banks.

The exclusion policy does not apply to collective investment schemes, funds and ETFs that are not managed by LGT Group. It goes without saying that LGT also does not procure materials or use services provided by companies that are involved in manufacturing or sale of controversial weapons.

Handling

LGT receives a list of companies that are involved in manufacturing and the sale of controversial weapons from a specialized external data provider. The list serves as the basis for the exclusions and is updated on a quarterly basis.

For the companies concerned, we differentiate between:

- direct and indirect involvement; as well as
- instrumental (essential for the lethal use of the weapon) and tailor-made (specifically developed for the weapon in question).

Direct involvement of the company

- The company is involved in in the core weapon system or in components for/services of the core weapon system that are tailor-made for or instrumental in the lethal use of the weapon.
- The company provides components for/services relating to controversial weapons that:
 - are not tailor-made but essential in the lethal use of the weapon, or
 - tailor-made but not essential in the lethal use of the weapon.

Indirect involvement of the company

- The company holds more than 10 percent of the voting rights of the business that is involved in manufacturing or sale of controversial weapons, or in components for/services relating to controversial weapons that are tailor-made or instrumental in the lethal use of the weapon.
- The company holds more than 10 percent of the voting rights of the business that provides components for/services relating to a core weapon system that:
 - are not tailor-made but instrumental in the lethal use of the weapons, or
 - are tailor-made but not instrumental in the lethal use of the weapons.
- The parent company directly involved in manufacturing the weapon, or its components/related services, that are instrumental and tailor-made for the lethal use of the weapon, holds more than 10 percent of the company's voting rights.
- The parent company directly involved in manufacturing the weapon, or its components/related services, that are either not instrumental but tailor-made or instrumental but not tailor-made for the lethal use of the weapon, holds more than 10 percent of the company's voting rights.

Specific information on excluded weapons

Nuclear weapons

Nuclear weapons use nuclear fission or fusion to produce an explosion. Due to this kind of explosion's very high potential for destruction, these are considered weapons of mass destruction whose use can be expected to result in a large number of fatalities, especially civilian.

The proliferation of nuclear weapons is prohibited by the Treaty on the Non-Proliferation of Nuclear Weapons (NPT), which entered into force in 1970.¹ The NPT prohibits their proliferation and requires the disarmament of nuclear weapons by signatories and provides for the right to the peaceful use of nuclear energy. The NPT was initiated by the five nuclear powers at the time; the US, Russia, the People's Republic of China, France and the UK, and has to date been ratified by 190 states.² The nuclear powers were convinced that the proliferation of nuclear weapons would significantly increase the risk of nuclear war. The NPT only obliges the five nuclear powers to conduct negotiations on an agreement on general and complete disarmament. According to the treaty, every member state also has the "inalienable right" to a civilian nuclear program. This is subject to the condition that signatory states do not seek access to nuclear weapons.³

Another international nuclear weapons treaty is the Comprehensive Nuclear-Test-Ban Treaty (CTBT).⁴ This treaty bans all nuclear explosions for civilian or military purposes. It was adopted by the UN General Assembly in 1996 and has since been signed by 183 states. It enters into force when it has been signed and ratified by all states named in the treaty that have nuclear technology.

Biological and chemical weapons

The "Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction", which entered into force in 1997, aims to completely eliminate these weapons of mass destruction. This is to be achieved by prohibiting the development, production, trafficking, stockpiling, transportation and use of chemical weapons by the signatory states. The "Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction" entered into force in 1975.⁵

The two conventions are follow-up agreements to the Geneva Protocol of 1925, which for the first time prohibited the use of toxic gases and bacteriological methods of warfare.⁶ They enjoy a high level of global acceptance. The convention on chemical weapons has 193 signatory states and the convention on biological weapons has 182 signatory states.

Anti-personnel mines

Anti-personnel mines are explosive weapons that are usually concealed beneath the earth's surface and are triggered by the victim stepping on them or through other forms of contact by the victim.⁷ One of the problems with these weapons is that it is impossible to distinguish between combatants and civilians and the fact that they pose a lethal threat even after a military conflict has ended. The 1997 Ottawa Convention, formally known as the "Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction", is an international treaty that prohibits all anti-personnel mines. The treaty defines "anti-personnel landmines" as mines intended to be detonated by the presence, proximity or contact of a person and which incapacitates, injures or kills one or more persons. Mines designed to be detonated by vehicles of all kinds, however, are not prohibited. The Convention also requires the destruction of stockpiles within four years, the destruction of all anti-personnel landmines in mined areas within ten years and the provision of financial assistance for mine victims.⁸ At present, the Ottawa Convention has been signed and ratified by 164 states.⁹

¹ UNITED NATIONS OFFICE FOR DISARMAMENT AFFAIRS (UNODA), Treaty Non-Proliferation

² cf. ATOMWAFFENSPERRVERTRAG [Treaty on the Non-Proliferation of Nuclear Weapons]. Wikipedia, The Free Encyclopedia. Page last edited on: 14 June 2019. URL: <http://de.wikipedia.org/wiki/Atomwaffensperrvertrag> (accessed on: 03.09.2019)

³ Oekom Position Paper Kontroverse Waffen [Oekom position paper on controversial weapons], June 2011

⁴ Website "Kernwaffenstopp-Vertrag" [Comprehensive Nuclear-Test-Ban Treaty]. Wikipedia, The Free Encyclopedia. Page last edited on: 20 December 2017. URL: <https://de.wikipedia.org/w/index.php?title=Kernwaffenstopp-Vertrag&oldid=172141485> (accessed on: 10.09.2019)

⁵ Oekom Position Paper Kontroverse Waffen [Oekom position paper on controversial weapons], June 2011

⁶ cf. "BIOWAFFENKONVENTION" [Biological Weapons Convention]. Wikipedia, The Free Encyclopedia. Page last edited on: 10 January 2019. URL: <https://de.wikipedia.org/wiki/Biowaffenkonvention> (accessed on: 03.09.2019)

⁷ Website "Landmine" [Land mine]. Wikipedia, The Free Encyclopedia. Page last edited on: 4 October 2019. URL: <https://de.wikipedia.org/w/index.php?title=Landmine&direction=next&oldid=192849998> (accessed on: 15.10.2019)

⁸ Oekom Position Paper Kontroverse Waffen [Oekom position paper on controversial weapons], June 2011

⁹ Website "Land mine" [Land mine]. Wikipedia, The Free Encyclopedia. Page last edited on: 4 October 2019. <https://de.wikipedia.org/w/index.php?title=Landmine&direction=next&oldid=192849998> (accessed on: 15.10.2019)

Cluster munitions

Cluster munitions are bombs, grenades or warheads that do not explode as a whole but release a large number of smaller so-called submunitions. Many of these submunitions do not explode but remain duds¹⁰ – this is the case for up to 20 percent of these submunitions, depending on the type. In addition to the large share of duds, they are also difficult to find due to their small size.¹¹ These characteristics make cluster munitions problematic because, as with anti-personnel mines, civilians often become victims thereof long after a conflict has ended.

Cluster munitions are banned under the international Convention on Cluster Munitions (Oslo Convention, CCM).¹² The Convention prohibits the use, stockpiling, production and transfer of cluster munitions and came into force in 2010. Currently, 106 states have ratified this agreement.

Depleted uranium (uranium munitions)

Uranium munitions are armor-piercing munitions whose projectiles contain depleted uranium. The high density of the uranium results in a strong penetration force when the projectiles hit the target.¹³ The problem with uranium munitions is the toxicity of the uranium dust produced when it hits a target. The dust can damage the internal organs of the body. Depleted uranium also has a low level of radioactivity.

Currently, there is no international treaty prohibiting the use of uranium munitions. However, since the uranium dust produced when deployed is highly toxic, uranium munitions break the 1925 Geneva Protocol, which prohibits the use of toxic substances in conflicts.

White phosphorus munitions

White phosphorus munitions are incendiary bombs that contain a mixture of white phosphorus and rubber. The strong burns caused by their use and the high toxicity of the phosphorus used as well as its vapors are problematic. The use of incendiary weapons can easily lead to collateral damage and deploying them against civilians is therefore prohibited under the ban of all attacks on civilians in the Additional Protocols (1977) to the Geneva Conventions of 1949. However, their use in general is not prohibited. White phosphorus munitions cannot only be regarded as incendiary weapons, but also as chemical weapons due to their toxicity.¹⁴

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¹⁰ Oekom Position Paper Kontroverse Waffen [Oekom position paper on controversial weapons], June 2011

¹¹ cf. "Übereinkommen über Streumunition" [Convention on Cluster Munitions]. Wikipedia, The Free Encyclopedia. Page last edited on: 20 August 2019. URL: https://de.wikipedia.org/wiki/%C3%9Cbereinkommen_%C3%BCber_Streumunition (accessed on: 03.09.2019)

¹² cf. "Übereinkommen über Streumunition" [Convention on Cluster Munitions]. Wikipedia, The Free Encyclopedia. Page last edited on: 20 August 2019. URL: https://de.wikipedia.org/w/index.php?title=%C3%9Cbereinkommen_%C3%BCber_Streumunition&oldid=191515713 (accessed on: 11.09.2019)

¹³ cf. "URANMUNITION" [Uranium munitions]. Wikipedia, The Free Encyclopedia. Page last edited on: 10 October 2019. URL: <https://de.wikipedia.org/wiki/Uranmunition> (accessed on: 15.10.2019)

¹⁴ cf. "PHOSPHORBOMBE" [White phosphorus munitions]. Wikipedia, The Free Encyclopedia. Page last edited on: 25 September 2019. URL: <https://de.wikipedia.org/wiki/Phosphorbombe> (accessed on: 15.10.2019)