

A photograph of a rugged mountain range with significant snow cover under a clear blue sky. The text "keep climbing" is overlaid in white on the left side of the image.

keep climbing

Algebris Investments

Controversial Weapons Policy

2020



Algebris Investments (the “Firm” or “Algebris”) has a commitment to responsible investing and an important part of this commitment is to ensure that the Firm is not involved in the financing of controversial weapons. Not only does investing in such weapons bring reputational risk and damage, it has irreversible effects on the environment and the lives of many.

Algebris will not knowingly invest in debt or equity issued by companies we believe to be involved in manufacturing controversial weapons (as defined below). This exclusion policy applies across all Algebris branded funds where Algebris controls the investment policy of the entire fund in its capacity as sole investment manager (the “Algebris Funds”).

The Firm will at all times maintain an exclusion list of companies that are connected to controversial weapons, as defined below. This list is compiled by the Algebris ESG Working Group, combining data published by NGOs that focus on the defence sector¹, as well as our own internal research. The exclusion list currently applied is available at the end of this policy as Appendix 1 (the “Exclusion List”). The Algebris ESG Working Group will review the Exclusion List at least once a year and we reserve the right to update the list at any point in time to respond to relevant developments.

Definition of Controversial Weapons

Certain weapons are internationally recognised as controversial and/or are regulated by international conventions. While the scope of the definition will likely broaden over time, at the date of publication of this policy we consider the following weapons to be controversial:

- **Anti-Personnel Landmines:** because they are not aimed at specific targets, landmines can indiscriminately kill or injure civilians, including children, soldiers, peacekeepers, and aid workers. The use, stockpiling, production and transfer of anti-personnel mines is prohibited under the Ottawa Treaty (1997).
- **Cluster Munitions:** a cluster munitions are air-dropped or ground-launched “conventional munition that is designed to disperse or release explosive submunitions each weighing less than 20 kilograms, and includes those explosive submunitions²”. They are indiscriminate weapons that pose a serious threat to civilian populations during and long after an attack. The use, stockpiling, production and transfer is prohibited under the Convention on Cluster Munitions (2008).
- **Chemical and Biological Weapons:** Biological weapons are complex systems that disseminate disease-causing organisms or toxins to harm or kill humans, animals or

¹ More specifically PAX (<https://www.paxforpeace.nl/>); ICAN (<https://www.icanw.org/>);

² As defined in the text of the Convention on Cluster Munitions: <https://www.clusterconvention.org/>

plants³. The modern use of chemical weapons began with World War I when Chlorine, phosgene (a choking agent) and mustard gas (which inflicts painful burns on the skin) were among the chemicals used indiscriminately⁴. The use, stockpiling, production and transfer is prohibited under the Biological Weapons Convention (1975) and the Chemical Weapons Convention (1997).

- **Nuclear Weapons:** Nuclear weapons are the most dangerous weapons on earth, with the potential to kill millions and jeopardize the natural environment and lives of future generations through long-term catastrophic effects. The United Nations has sought to eliminate such weapons ever since its establishment⁵. A number of multilateral treaties have since been established with the aim of preventing nuclear proliferation and testing, while promoting progress in nuclear disarmament, including the Treaty on the Non-Proliferation of Nuclear Weapons (1968).
- **Non-Detectable fragments, incendiary, blinding laser weapons:** covered by Protocols I, III, and IV of the United Nations Convention on Certain Conventional Weapons (1980) which seeks to prohibit or restrict the use of certain conventional weapons considered excessively injurious or with effects that are indiscriminate.

Financers of Controversial Weapons

Although there is evidence to suggest that the financing of controversial weapons producers has significantly decreased in recent years, research by the NGOs PAX and ICAN shows that financial institutions are still involved in this industry⁶. As a global investment manager with a historical focus on the financial sector, Algebris will thus also engage with any financial entities that we invest in to establish what controversial weapons policies they have implemented and how the policies work in practice.

Implementation

The Exclusion List is coded into the Algebris Order Management System (“OMS”) . The OMS has fully integrated pre and post-trade controls which include the relevant investment guidelines for a particular fund, and restricted/black lists and any additional risk limits that may be required. Breaches of such pre and post-trade controls are communicated systematically to the Risk,

³ See more information at:

[https://www.unog.ch/80256EE600585943/\(httpPages\)/29B727532FECBE96C12571860035A6DB?OpenDocument](https://www.unog.ch/80256EE600585943/(httpPages)/29B727532FECBE96C12571860035A6DB?OpenDocument)

⁴ See more information at: <https://www.un.org/disarmament/wmd/chemical/>

⁵ See the UN Office for Disarmament Affairs work at: <https://www.un.org/disarmament/wmd/nuclear/>

⁶ See the 2019 report “[Shorting our Security: Financing the companies that make nuclear weapons](#)” by ICAN and PAX, and the 2018 report “[Worldwide investments in cluster munitions – a shared responsibility](#)” PAX.

Trading and Compliance departments of the Firm via automated e-mail notification. Any breaches of this policy will be disclosed to the Algebris ESG Working Group and to the Operational Risk Committee and such breaches will be rectified as soon as reasonably practicable. If an Algebris Fund holds positions in a company that has recently been added to the Exclusion List, the fund will exit such positions as soon as reasonably practicable and, in any event, no later than thirty (30) days after the most recent Exclusion List update.

APPENDIX 1: THE EXCLUSION LIST

EXCLUDED COMPANIES (as of July 2020)

- Aerojet Rocketdyne
- Airbus
- Avibras
- Babcock International Group PLC
- BAE Systems
- BEML
- Bharat Dynamics Limited
- Boeing
- BWX Technologies
- CACI International Inc
- China Aerospace Science & Technology Corp.
- Elbit Systems Ltd.
- Fluor
- General Dynamics Corporation
- Hanwha Corp.
- Harris Corp.
- Honeywell International
- Huntington Ingalls Industries
- Jacobs Engineering
- L-3 Technologies
- Larsen & Toubro
- Leonardo⁷

⁷ Algebris Core Italy Fund – which is restricted to investing in Italian securities – reserves the right to have the option to invest in Leonardo SPA. This exception is justified on two grounds: (i) the size and economic importance of Leonardo SPA within the Italian investment landscape; (ii) the fact that the involvement of Leonardo SPA in nuclear weapons occurs through the MBDA joint venture with Airbus and BAE, in which Leonardo SPA has a minority participation (with 25%). However, the Firm will keep Leonardo SPA under close observation, with the understanding that a change in the size or nature of its involvement in nuclear weapons could result in the Firm withdrawing this exception.

- LigNex1
- Lockheed Martin
- Moog
- Norinco
- Northrop Grumman
- Premier Explosives Ltd.
- Poongsan Holdings Corp.
- Raytheon
- Rolls-Royce Holdings PLC
- S&T DYNAMICS Co. Ltd.
- Safran
- Serco
- Solar Industries
- Tata Power Co. Ltd
- Textron Inc.
- Thales
- Ultra Electronics Holdings Plc.
- United Technologies Corporation
- Walchandnagar Industries