

## Controversial Weapons Research

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ISS STOXX's Controversial Weapons Research is based on a well-established, internally developed methodology that helps users make decisions regarding companies involved in any of nine categories of weapons that are seen under international humanitarian law as being particularly controversial because of their indiscriminate effects and the disproportionate harm, superfluous injury or unnecessary suffering they cause and/or because they are prohibited by specific national legislation or international arms control instruments. Involvement in controversial weapons can constitute a material sustainability risk.

International humanitarian law and specific arms control instruments constitute the basis for this research. Technical definitions of weapons as given in relevant conventions are used where available, such as for anti-personnel mines and cluster munitions in the Mine Ban Treaty and in the Convention on Cluster Munitions. The following weapon categories are currently covered: anti-personnel mines, biological weapons, chemical weapons, cluster munitions, depleted uranium ammunition and armor, incendiary weapons, nuclear weapons (inside and outside the Treaty on the Non-Proliferation of Nuclear Weapons, NPT), and white phosphorus weapons.

### Outputs

Involvement in relevant weapons programs is analyzed for companies involved, directly or indirectly, in the development, production, acquisition, stockpiling, retention, transfer – or assistance, encouragement or inducement of any such activity – of complete weapon systems. Involvement in relevant weapons programs is also analyzed for companies involved, directly or indirectly, in the development, production, acquisition, stockpiling, retention, transfer – or assistance, encouragement or inducement of any such activity – of components of these weapon systems, differentiating between key components and non-key components, and establishing whether such components are specifically designed/modified for controversial weapons or “off-the-shelf”. Furthermore, ISS STOXX's Controversial Weapons Research is designed to identify all companies in a corporate structure that have control over the relevant business activities, i.e., all immediate parent companies up to the ultimate parent. Bond issuers, joint venture partners and minority shareholders, as well as entities providing advisory and management services for private equity funds holding companies involved in controversial weapons are also covered to the extent that information is available.

The analysis process results in assessments on weapon program level per covered company, which are then aggregated per weapon category so that users have access to lists of companies (listed and non-listed globally) involved in different categories (e.g., anti-personnel mines or cluster munitions). Assessments are categorized using traffic light signals (RED, AMBER, GREEN) and a 10-1 score, which reflect both the degree of verification of a company's involvement in controversial weapons and the level of involvement (e.g., parent company vs. minority shareholder). These assessments further consist of descriptive text detailing business activities that comprise a company's involvement in an individual controversial weapon program, referencing sources used in the analysis, such as company

and government publications as well as ISS STOXX's dialogue with analyzed companies (to the extent that has taken place), and providing explanations regarding the evaluation of information from these sources in the context of ISS STOXX's assessment criteria. Conclusions are expressed in written text and additionally in the form of the above-mentioned signals and scores, which represent a simplified expression of conclusions resulting from the qualitative research and analysis.

## Research Process

ISS STOXX's Controversial Weapons Research team seeks to identify companies involved in relevant types of weapons following several research paths: identification of risk countries and relevant weapon programs, analysis and monitoring of such weapon programs, screening of companies in risk sectors, and targeted news source monitoring. Examples of sources monitored in this process include government publications such as procurement databases, corporate releases and filings, defense industry focused publications and databases, aerospace and defense exhibitions, media, and non-governmental organizations reports.

The typical Controversial Weapons Research analysis process consists of the following steps:

- Data collection of qualitative data to identify risk companies using the abovementioned sources
- (While sources include government contract data, sometimes including contract duration and descriptions of activities to be performed under such contracts, revenue derived from respective contracts is not relevant for company assessments in Controversial Weapons Research.)
- Research and dialogue with companies to understand details of involvement
- Quality assurance: Reports are peer reviewed to ensure they summarize information concerning the company's involvement accurately
- Final dialogue to give companies an opportunity to comment on the report draft and confirm/correct/add/clarify facts used in the analysis

These steps are repeated for regular and ad hoc updates.

## Use of Estimated Data

ISS STOXX's Controversial Weapons Research does not incorporate estimated data.

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