



# Muzinich Policy on Investments in Companies Involved in Controversial Weapons

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*Muzinich & Co*

## Introduction

Muzinich & Co<sup>1</sup> supports conventions which aim to ban or restrict the production and/or use of certain controversial weapons because of their legal status and/or because their normal use violates fundamental humanitarian principles. Through application of this policy, Muzinich will avoid investments in companies which it believes to be involved in the production of weapons referred to in the following conventions or treaties:

- Anti-Personnel Landmines Convention
- Biological Weapons Convention
- Chemical Weapons Convention
- Convention on Certain Conventional Weapons
- Convention on Cluster Munitions
- Treaty on the Prohibition of Nuclear Weapons

## Policy scope

This policy applies to investments made by Muzinich in direct public and private market instruments in the course of its investment management activities. The policy does not apply to indirect or incidental exposures via investments in banks or insurers (that may have exposure via their balance sheets or policies); Exchange Traded Funds (ETFs); derivatives which involve single or groups of assets; or companies affiliated with, but not controlled by, exposed companies. The policy does not apply to physical assets (or to instruments backed by physical assets or the leasing/financing of such assets) such as civilian aircraft, which may be manufactured by companies whose securities we may choose to exclude on the grounds of their involvement in the production of controversial weapons. The policy also does not apply to segregated accounts or to accounts where Muzinich is a sub-advisor); however, Muzinich clients can request that the Firm apply this policy to those accounts.

For the purpose of this policy, Muzinich defines ‘involvement’ in controversial weapons as the manufacture and assembly of weapons systems including components considered to be tailor-made and essential for the lethal use of the weapon; research and development work relating to a core weapons system; maintenance and service of a core weapons system; and the sales or trading of the core weapons system.

We consider the following types of weapons to fall under the scope of this policy:

**Anti-personnel mines:** as covered by the Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction. The Anti-Personnel Landmines Convention entered into force on September 18, 1997.

**Biological Weapons:** as covered by the Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction. The Biological Weapons Convention entered into force on March 26, 1975.

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<sup>1</sup> Muzinich & Co. Limited is owned by Muzinich & Co., Inc. which together with its global affiliates, except where specified, are referred to as “Muzinich”, “Muzinich & Co.” or the “Firm”

**Chemical Weapons:** as covered by the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction. The Chemical Weapons Convention entered into force on April 29, 1997.

**Cluster Munitions:** as covered by the Convention on Cluster Munitions. The Convention entered into force on August 1, 2010.

**Certain Conventional Weapons:** as covered by the Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons Which May Be Deemed to Be Excessively Injurious or to Have Indiscriminate Effects. The convention includes three initial annexed protocols and subsequent additions relating to non-detectable fragments, use of mines, booby-traps and other devices, use of incendiary weapons, blinding laser weapons and explosive remnants of war. The convention, also known as the Inhumane Weapons Convention, was initially adopted on October 10, 1980.

**Nuclear Weapons:** as covered by the Treaty on the Prohibition of Nuclear Weapons (TPNW) and the Treaty on the Non-Proliferation of Nuclear Weapons (NPT). We note that unlike other types of weapons referenced herein, there is no concluded United Nations convention relating to the prohibition of participation in nuclear weapons activities. The TPNW entered into force on January 22, 2021 and the NPT became effective in March 5, 1970 and was extended indefinitely on May 11, 1995.

## Application of Policy

Muzinich has engaged a reputable third-party research provider to identify public and private companies which derive revenues from the production of controversial weapons referred to in this policy. The Firm's investment and risk teams use this research to identify any involvement in controversial weapons and disqualify involved companies from eligibility for investment. Security or issuer identifiers of involved companies named by the Firm's research provider are coded into Muzinich's trade compliance systems by the Firm's risk team so that the investment team cannot include those companies in designated portfolios.

In considering whether to exclude a company, Muzinich will review each corporate entity structure in its own right and will apply its own judgement as to what level within a capital structure and which specific entity or entities should be excluded. The Firm's ESG Eligibility Committee may review certain cases where a determination is not immediately clear. The Firm's Portfolio Risk Analytics Committee (PRAC) conducts a quarterly review of applicable account holdings to determine whether specific exclusion policies have been breached either actively or passively, in the case of changes of circumstances of pre-existing holdings.

In instances where a portfolio company which has not previously been involved in controversial weapons becomes involved, Muzinich will divest from any liquid securities issued by that company within a reasonable timeframe which should generally last no more than 30 days from identification unless a qualified extension is granted by the PRAC which, in its view, is in the best interests of shareholders. Muzinich can report to its clients on the compliance status of this policy but is not permitted to share a full list of excluded company names under the Firm's agreement with its research provider.

## Further considerations

- This policy is subject to review by Muzinich's ESG Advisory Group on an annual basis.

Readers should note that requests for specific exclusions from individual investors in commingled public funds cannot be entertained.